Closing Remarks

NISHIMURA, Yoshiaki
Chairperson, Northeast Asia International Conference for Economic Development Executive Committee, and Representative Director, ERINA

I would like to give my thanks for the participation of a great many people at the 2014 Northeast Asia International Conference for Economic Development (NICE) in Niigata. In addition we have received gracious cooperation and support for the staging of the conference from the embassies and consulates of each nation and the concerned institutions in Japan. I would like to express my profound gratitude also as the representative of the Executive Committee for this conference.

I myself listened to the discussions throughout these two days, and the tension was non-stop with high-level content. As there is also a constraint on the time for these closing remarks, I shall avoid repetition, and without being bound by the divisions into keynote reports and sessions, and limiting myself to the important points that are to be the message of this conference, please permit me to talk on my own impressions in the order of international economics, the Chinese and Russian economies, and corporate level. Please also permit me to omit the names of individual persons.

The conference held in March of last year had no other option but to place emphasis on several issues of international tension, with the profound impact of such matters as the testing in the development of nuclear missiles by the DPRK and the confrontation between Japan and China concerning the Senkaku Islands. We of the Executive Committee considered that such a situation has unfortunately not changed at the present time, but for the conference this time around we have made the attempt to concentrate on the economic issues which are the original subjects for investigation of the conference.

Taking a look at the area of international economics to begin with, just from what was reported at this conference it was realized that there have been various changes over the last couple of years. I shall summarize them in four points.

First, regarding the Northeast Asian international financial cooperation which has been discussed at NICE over many years, it was reported that a Northeast Asian Export-Import Banks Association was established within the framework of the UNDP Greater Tumen Initiative (GTI), and also that a Japan-Russia direct investment platform was established by JBIC (Japan Bank for International Cooperation) and the Russian Direct Investment Fund (Vnesheconombank). At the same time as this being very cheering news, I would like to express respect for the efforts of the people who achieved the establishment of both. For the GTI wide-ranging activities were introduced, but issues remain, such as the non-participation of the Japanese government and the re-participation of the DPRK. In the future, however, expectations have been swelling for the Tumen River area to thrive as a north-south and east-west crossroads for distribution. It is hoped that financing for substantive projects will be commenced soon.

Second, there have been developments in TPP negotiations. Again this is a topic which has been brought up here for several years, but new moves have been seen such as Japan's full-fledged participation in negotiations commencing, the ROK also beginning investigation of participation, and China also is showing interest; in addition, inspired by the TPP negotiations, Japan-China-ROK FTA negotiations have also commenced. Consequently we requested the appearance of many experts from within and without Japan at NICE this time around, including specialists in agricultural issues. The awareness of issues has deepened further, and in addition the opinions from the viewpoints of China and the ROK were revealed, and our field of vision has widened also.

Regarding the necessity of Japan's participation in the TPP, it was pointed out, amongst other things, that trade liberalization and the creation of new international rules is essential at the stage of production development where the production flow within factories straddles many countries, with the production process of manufactured goods being divided into multiple stages, and that in agriculture also in Japan with its ongoing decline in population the very export of agricultural products is connected to food security. In addition, the protection of agriculture by means of tariffs is a task left over from the last century, and the harsh main point was made that there is the appearance of adherence to conventions. I think that promoting Japan's TPP participation was the basic tone for Japan, taking as a condition the finding of appropriate support measures regarding the transitional phase liberalization shock, and related to the problems in the agricultural sector, carrying out direct payments to replace the tariffs in support of agriculture. Regarding the TPP negotiations themselves, depending on the political will of the countries concerned, a cooperative mood has also emerged among the nations participating in negotiations regarding sensitive items, and a prediction has also appeared that it may be settled in the first half of this year. Regarding the ROK's TPP participation, the completion of FTA negotiations with Australia, FTA negotiations with Canada and New Zealand, and with the prospect of FTA or other negotiations with China going ahead first, for TPP participation aspects which depend on the content are strong, and moreover, if in TPP negotiations the United States requests the opening of the
rice and meat markets, the judgment was shown that the ROK’s participation in negotiations will be politically impossible. In China’s case, along with hoping for participation in creating rules for international cooperation on the one hand, there is the aspect of furthering domestic reform, using the power of international agreements, but on the other hand with the distance being too great for the high-level of liberalization and rules which the TPP demands as seen from China’s perspective, it takes a stance of observing cautiously. The Japan-China-ROK FTA, etc., will perhaps come first, and it seems it will be necessary to watch its subsequent transition.

Third, the development of Japan-Russia economic cooperation in East Siberia and the Far East is highly evident. It was pointed out that multitriggered cooperative relations at the national, Far East, and regional levels have been formed. The establishment of a Japan-Russia direct investment platform is also one among these; and another is the “Japan-Russia Association to Promote Interregional Business”, which was proposed at NICE several years ago, which has actually also been established and is up and running. The Putin administration, from its strategy of pursuing economic development via its new entry into the Asia-Pacific market, is tackling that development, formulating a program for the opening-up of East Siberia and the Far East. This itself is a good thing, but the achievement rate of the program at the end of last year was said to be 37%, and in a survey by the All-Russia Public Opinion Research Center there was also the information that 40% of the residents of East Siberia and the Far East hope to move elsewhere. For my part, I consider that the orders from Moscow alone are insufficient, and a locally based regional development program is necessary, and the fostering of Japan-Russia business collaboration to that end will also be advantageous for the economic development of East Siberia and the Far East.

Incidentally, there are six objectives raised in the development program for East Siberia and the Far East of Russia: 1) the stabilizing and increasing of the population; 2) the attaining of the national average economic growth rate; 3) escaping from resource dependence and the diversification of industry, and the raising of the competitiveness of manufacturing; 4) the development of pleasant living conditions and urban development, and the solving of environmental problems; 5) the development of transportation and energy infrastructure, and; 6) the core urbanization of Vladivostok. A greatly interesting point is that if you reword the sixth objective by replacing Vladivostok with the core urbanization of Sapporo, then the six are the same as the tasks in the post-war development plan for Hokkaido. At the same time as forming a regional society which people can consider easy to live in, with a vast cold region, low population density, distant from the central cities, and with underdeveloped infrastructure, and being the basic challenge for East Siberia and the Russian Far East, it was also the challenge for Hokkaido, and now Hokkaido has become an advanced regional society with production and living in harmony. The development of Hokkaido has a breadth where it wasn’t a point development, but a line development and an area development, and that was also due to the direct participation of the residents. I think that this method of approach should be examined for the development of the Russian Far East, and referring to Japan’s experience in regional development, beginning with Hokkaido, may be meaningful for Russia at that time. There are expectations for the promotion of Japan-Russia interregional cooperation in such an area.

Fourth, there was a focus of interest among experts on energy issues: this was the China-Russia gas pipeline issue, the negotiations for which have been developing, and information was obtained that they may be concluded in the first half of this year. A compromise point has been found between the proposal of a low price from the Gazprom side and prepayment from the Chinese side, and if they conclude the negotiations, and gas pipeline supply to China is begun, then there will be the possibility of it leading to a price reduction in the Asia LNG market. As shown by Russia’s economic growth rate for last year being a mere 1.3%, however, when you consider that the topping out of energy prices has had a profoundly negative effect on the Russian economy, and if it is taken that an agreement between China and Russia will lead to a reduction in the Asian LNG price, it would appear that this would not be desirable for Russia and it would be of great interest as to what would happen to Russia’s strategy and also how the subsequent negotiations would turn out.

Next, regarding the economies by country, as the Executive Committee we focused on China and Russia. Regarding both countries, the report of the beginning of October 2003 titled "Dreaming with BRICs: The Path to 2050" by the US investment bank Goldman Sachs forecast that the BRICs would make use of their advantage as developing countries, and grow dynamically. China would overtake Japan in GDP in 2016, and Russia also would overtake Italy, France, Britain and Germany between 2024 and 2028. Actual growth, however, has been faster: China overtook Japan in GDP in 2010, and Russia too has already overtaken Italy, Britain and France in GDP, and from 2003 has been achieving rapid growth. However, China’s GDP growth rate, from once being around 10% has slowed to around 7.5%, and Russia’s GDP growth rate also has fallen from a 7-8% level in the 2000s to some 4%, and then last year to 1.3%. The economic growth of both countries appears to be reaching a turning point. At NICE this time around we discussed this point in depth.

For China, pointed out as factors for the growth-rate decrease there are the two traps of the "middle-income country trap" and the "systemic shift trap"; that is, the difficulty of a growth-pattern shift from growth dependent on low wages and a surplus labor force towards growth dependent on innovation, and the difficulty of economic reform including the reform of state-owned enterprises. In addition to this the "trap of relations between the center and the regions" was pointed out, but for this a cycle of centralization and decentralization of authority in the area of public finance is repeated, and I think this is similar in
content to the pointing-out of a vicious circle that through that process gives rise to a bubble. I would like to confirm that the significance of China approaching a turning point in economic development is the point that these three traps lie in store. By doing so, naturally this means that hopes are ignited for the reform efforts of the Xi Jinping administration, but, just from my point of view, when you take into consideration that the raison d'être of the communist regime and the raison d'être of state-owned enterprises actually have a contrary relationship, then it would appear that genuine reform is no simple matter.

For Russia, the economic growth achieved via oil and natural gas exports, the trade surplus, and the increase in the income of residents has lost its growth dynamism accompanying the stabilizing of resource prices, and it has been shown that a growth mechanism differing from that to date is required, including diversification of the economy, the strengthening of the competitiveness of manufacturing, and the promotion of innovation. The systems seen as necessary to that end, however, are lacking, and their putting in place has become an urgent task. To give an example, last year the percentage increase in investment on the previous year was a mere 0.2%, and the outflow of capital via private-sector foreign investment and misrepresented transactions rose to a huge amount. This fact shows that a systemic mechanism exists where entrepreneurs dislike the domestic environment and send funds overseas. It was pointed out that to overcome this mechanism a genuine reform of the overall institutional landscape was essential, including the Ministry of Justice, the Ministry of Internal Affairs, the system of state ownership, and the taxation authorities, and it could be said that it has been shown, at the same time as hitting the target, how Russia's reforms are in difficulty. To put it in my own words, it is the case that judicial and political reforms are necessary before economic reform, and the formation of a robust Russian business mentality is called for, and to that end because activities to appeal to Russian businesspersons themselves are also extremely important, I think such mutual confidence-building among businesspersons as via the "Japan-Russia Association to Promote Interregional Business" is a key initiative.

Next, having looked at the international economy and the economies of the various nations, lastly I would like to raise the issue of corporate level. Against a backdrop where free trade areas and agreements such as the TPP and FTAs are taken as necessary, there is of course a corporate presence creating movement among nations. Both Japanese and ROK firms are continuing shifting their specific gravity of activity, from efficiency-oriented direct investment into China focusing on exports to direct investment aimed at China's domestic market. By so doing, Japanese, Chinese and ROK firms have come to compete in the same market. Which country's firms among the three have what kind of advantages and whether they have a future are questions that are asked. The first keynote address focused on these questions, and extremely in-depth analysis was provided, based on an on-the-spot survey on what differences there are among Japanese, Chinese and ROK firms on such points as the design concepts in the development of manufactured goods, the structures for the development of manufactured goods, and management of personnel.

Although I can't give you the specifics, what have been detected are: the characteristic features, strengths and defects of the firms of the three countries from the perspective of the strategic selection by firms of either the modular-type design where functions and components have a one-to-one correspondence and with a functional sector development structure which matches this or of the integral-type structure where functional groups and component groups are intricately combined and with a functional sector-traversing project structure which matches this, and the approaches to human resource management corresponding to this selection. For Japanese firms the importance was also pointed out: for there being the strength of the two types of choice being carried out consistently; for the sectors where the efficiency is high for integral-type manufactured goods development and human resource management from the long-term viewpoint, and in addition; for carefully attending to "the concept creation work", or the shoots of innovation, intrinsic to the site of the manufactured goods development of the firms of developed countries after they have been caught up to. I think that these points are profoundly interesting in considering the future for the international competitiveness of Japanese firms. In the future also I would like to continue raising the corporate-level issue, including the approaches of firms in Northeast Asia.

With the above, I have made my closing remarks. I offer my heartfelt thanks to all of the report makers and everyone who came and listened intently. I would also like to thank the interpreters who have done a fantastic job over these two days. Thank you very much for your kind attention.

[Translated by ERINA]