

Comments on the “New Evolution of Research on A Grand Design for Northeast Asia”

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First of all, Mr. Yasuo Sawai has done a very good job by depicting a great picture of deepening cooperation between Northeast Asian economies in an illustrative way. After briefly discussing “the Grand Design” with several colleagues of mine, we reached a consensus that the elaborations made by the author really shows a quite bright and feasible road leading to the sustainable development of Northeast Asia as a whole.

About eight years ago when a conference on the tripartite relationship between China, Japan and South Korea was held in Beijing, I became one of the supporters of the idea that the above three countries ought to endeavor to create an EU-like community. The belief underpinning my then proposal lay in the fact that Northeast Asia shared a great deal of common interests and had tremendous potentials to play a key role in a profoundly transforming world. Today, my belief remains unchanged, and I am happy to see that the number of countries involved in the process of strengthening cooperation in Northeast Asian region has been enlarged to six, although there is always a trade-off between scale and efficiency.

Some people say that mankind is entering a totally different era that marks the death of distance. But that is not. Distance is still alive and geography still. States that are geographically adjacent and economically complementary often can benefit a lot from integrating their economies. This doctrine well fits those countries in Northeast Asia.

The common interests shared by the countries in this region represent a solid foundation for the reexamination of the Grand Design.

One of the most important criteria to evaluate some design is whether the timing of its proposition is right or not. This is just the right time to re-evaluate the Grand Design proposal. We are in an era of economic globalization. With the scope of global governance becoming broader and broader and global markets more and more integrated, every step forward in economic globalization is increasingly based on regional integration. To some degree, the path to economic globalization is substantially paved by regional integration. Ten countries became new members of EU in 2004 and the EU has also drafted a Constitution. Negotiations for AFTA have also been intensely carried out and will come to a close before the end of 2004. However, it is a great pity that there isn't EU-like regional integration or cooperation in Northeast Asia. In an era of economic globalization when other regional organizations are continuously being consolidated and enlarged, it is very timely to initiate regional integration or cooperation in Northeast Asia since the common interest of Northeast Asian countries is becoming more and more obvious.

The shortage of energy resources in China is a fact. Moreover, in the foreseeable future, China's dependence on outside sources of crude oil and natural gas will only increase. The situation in China regarding oil demand of China can be summarized thus: 1) whether China will be able to afford the oil or not; 2) if it can afford it, whether China will be able to secure a sufficient supply or not; 3) whether China can safely transport the oil back or not. Thanks China's current economic growth, China is able to afford the oil though the cost to China is increasing more and more. However, the ability to afford does not necessarily lead to the willingness of others to sell oil to China. We have had examples in history of oil embargoes. Currently, China has adopted a strategy aimed at diversifying sources of energy supply, and at the same time, investing in oil production abroad. One of the most urgent task for China today is transportation security. China's oil imports depend excessively on sea routes. The

twists and turns of oil pipeline negotiations between China and Russia also demonstrate the inherent fragility of energy transportation. Thus it is natural to expect that China's foreign policy will be formulated so as to stabilize the supply of energy resources.

As the Grand Design makes clear, China, Japan and ROK are big oil-consumers, while Russia and Mongolia are big energy suppliers, especially in oil and coal. Meanwhile, the tradable goods of Japan, ROK, Russia, China, the DPRK and Mongolia not only exhibit great differences in technological and quality terms, but they also have specific absolute advantages as well as comparative advantages due to various endowments. It is those differences that are at the heart of complementarities among Northeast Asian countries. Thus, I would like to emphasize the importance of building a stable mechanism for demand and supply of energy resources in Northeast Asia and of efforts to reduce the cost of storage and transportation of energy resources. One reason why I value cooperation in energy resources is that I am optimistic of the profits this can generate. The clearer it becomes that both economic and strategic interests can be met, the easier it is to muster the necessary political will. In the short and medium term, what is most attractive to the parties involved is the building of a mechanism conducive to securing the demand and supply of oil in Northeast Asia. The integration process of Europe also took such a route, that is to say, it started from the ECSC (European Coal and Steel Community) and evolved into the European Community and then to a European Union.

The blueprint for establishing a stable energy supply-demand mechanism proposed in the Grand Design is both logical and practical. Infrastructure like railway and pipelines plays a major part in the creation of an energy supply-demand mechanism in Northeast Asia. The construction of energy transportation lines and the continental land bridge, on the one hand, contributes to providing further guarantees for energy security, and on the other hand, helps to lower transportation costs, triggers investments and strengthens the economic and trade ties among countries in this

region. All of these will surely serve the purposes of Chinese policy-makers and be positively responded to from the China side. The planned BESETO corridor, which links the three capital cities of China, Japan and the Republic of Korea, is not only strongly symbolic but also practically attractive. By the way, the term BESETO happens to remind me of a discussion among my colleagues on the tripartite cooperation involving China, Japan and Republic of Korea, which led to the birth of a new name for them—‘CHINPANEA’.

According to the Grand Design, the economic integration of Northeast Asia starts from energy cooperation and infrastructure construction. We already have a successful example of this process in the EU. But we also need to take into consideration that the European Coal and Steel Community came into being with the backdrop of the Cold War. Today the situation is very different. Therefore some changes may take place in regional integration policy-making. Northeast Asia probably needs to be more original in its approach than simply looking at the EU or NAFTA experiences. For instance, discussions over the necessities and possibilities of creating a free trade area and monetary union in Northeast Asia might be included in the ‘Grand design.’ All of the above factors are mutually supportive. I am inclined to think that the cooperation process in Northeast Asia could be sped up and the proposed Northeast Asian Community will eventually be established. I am optimistic that the day when the dream of a Northeast Asian Community comes true may arrive sooner than most of observers think.

One obstacle to the Grand Design that needs to be dealt with is related to technology transfer. One of the core elements of China’s strategy for attracting foreign investment is the exchange of market for technologies. For the time being, China’s economic development follows a resources-intensive pattern. Although China’s GDP accounts for merely 4% of the world’s total, its share of oil consumption amounts to 7.4%, steel and cement 27% and 40%, respectively. Advanced technology has a lot to do with upgrading China’s economy, which in turn will definitely benefit those who transfer

technology at reasonable prices. In view of geographic proximity, the promotion of technology diffusion in Northeast Asia and the reduction of negative externalities, for example, cross-boarder pollution, are mutually beneficial. I would like to note that the authors of the Grand Design make a link between energy and energy security issues and environmental sustainability measures such as the 'Clean Development Mechanism' (CDM). For the whole Northeast Asian region, 'clean development' is a kind of public good whose provision depends mainly on a set of sound and fair strategies.

The toughest tasks facing the Grand Design are political ones and are listed here. First, the national goals of the countries in Northeast Asia vary greatly. Apart from improvement of people's welfare, reunification of 'the motherland' is very important in the national goals of China, Republic of Korea and the DPRK (states with divided territory). Due to the above, many policy issues have become very complicated. Second, historical issues among China, Japan and Republic of Korea have had a negative influence on their political relations and communication. Here it is strongly suggested that a three-party summit meeting involving China and Japan and Republic of Korea be held in an effort to reach a consensus on a solution to the existing historical issues when necessary conditions are right. Third, because of the economic and technological differences between countries in Northeast Asia, disputes over leadership in this region may naturally arise. A 'Rule of Consensus' might be one way to solve problems of this kind, but reaching consensus often presents difficulties. Here the political will and far-sightedness of government officials are extremely important.

I would like to say a few words about the term: *Peacefully Rising China*. If China's economy could grow continuously at the average growth rate of the past 20 years, in 2020 its GDP per capita would amount to US\$3000, totalling nearly 5 trillion US dollars and roughly accounting for 8% of the world total output; and in 2050, China's GDP per capita would reach the world's average level with a share of over 15% in the world's total. The 'rising' here means a guarantee of sustainable development, the

improvement of welfare of the Chinese people, making China an indispensable and responsible player on the world stage, and respect for China's interests and rights. The 'peacefully' simply refers to China reaching these targets through peaceful means. In another words, China determines to develop its economy by actively participating in the international division of labour and observing existing international rules or principles instead of acting as a challenger or violator of them. The term *peacefully rising China* shows China's determination to stick to a cosmopolitan and open-minded nationalism as well.