

Summary and Conclusion

The Vladivostok Conference: A Synthesis¹

Burnham Campbell, Mark J. Valencia, Won Bae Kim and Lee—Jay Cho

THE SOCIAL, ECONOMIC AND POLITICAL ENVIRONMENT FOR REGIONAL COOPERATION IN NORTHEAST ASIA²

Economic growth has become the primary goal of all nation states (Scalapino, Ch. 2). This has led to the burgeoning phenomena of NETS (Natural Economic Territories), and to growing social and economic diversity and subnational disparities in development. It has also brought about urbanization and thus more complex socio—economic organizational networks, requiring the opening not only of trade but of all aspects of society to international competition and flexibility in economic decisions. Together these changes have decreased the ability of highly centralized bureaucracies to manage the state effectively and have increased pressure for decentralized and more open decisionmaking. The result is that Leninism seems to be giving way to an authoritarian—pluralist approach, along the lines of South Korea and Japan. At the same time the latter approach is rapidly evolving into a democratic system in those two countries. There is continuing unresolved stress between national sovereignty and the supra—national institutions that support growth. All of these trends, including the stress, exist in the emerging Northeast Asian NET, as well as the proposed Tumen River project.

Nevertheless, the economic basis for Northeast Asian regional cooperation is very strong. The problems will come from the many unresolved political/strategic issues, including those created by the divided states, Korea and China, and the many territorial disputes such as that between Russia and Japan. Long existing regional

resentments may resurface. For example, does China really accept Russian control over Siberia? Many in the Russian Far East do not think so, and this issue retards sentiment for "independence" in Primorye and other Russian Far East provinces. Also what is the possibility for nuclear blackmail disrupting the region and increasing the already expanding military budgets? In the current world *milieu*, economic development may accommodate the potentially divisive forces in Northeast Asia and lead to successful and growing economic cooperation in that region.

Assuming such cooperation does evolve, what is the "optimal" or likely economic structure of this cooperation? Is it possible to go beyond broad generalities to specific recommendations for joint ventures and regional support? Certainly it will be necessary for the private sector or any government or regional organization trying to attract outside capital to research and identify more closely specific products or product groups with a likely comparative advantage (Campbell, Ch. 3).

If a Northeast Asian NET is to be successful, it must be determined who will speak for Northeast China and the Russian Far East—Beijing and Moscow, or local authorities? Also a critical issue is how macroeconomic and exchange rate policies tailored for national goals will affect the ability of the above regions to participate successfully in a Northeast Asian regional economic group.

There has already been considerable progress in cooperation around the Yellow Sea. There are also prospects for similar cooperation around the Sea of Japan, but the movement there has stagnated, perhaps because discussions have been mostly at the governmental level. Considering the complementarity of factor endowments, the structure of existing trade and the direct foreign investment between the four countries, China, North Korea, South Korea, and Japan, there is a strong basis for economic cooperation. In fact, on a bilateral basis, economic interchange reflecting their factor endowments is already underway. China and North Korea have overlapping regional comparative advantages with South Korea in steel, shipbuilding and home appliances, and unique comparative advantages in petrochemicals, coal, cement, textiles, and other labor-intensive manufactures. Where overlap exists with South Korea, there is a strong case to be made for intra-industry specialization across the Yellow Sea.

Obstacles to successful cooperation include the long-run political animosities among all four countries, the differences in economic systems between Japan/South Korea and China/North Korea, and the infrastructure deficits in China/North Korea (Hwang, Ch. 21). The necessary conditions for overcoming these obstacles are (1) Japan's taking a leadership role in opening its markets and giving financial aid, (2) market-oriented economic reform in China/North Korea, and (3) an acceptable political settlement between North and South Korea. To move the process forward, a permanent discussion committee on the Yellow Sea Region should be established, including academics, government officials, and businessmen as well as a series of sub-committees to deal with specific issues.

Regional ideological differences are eroding and nearing the level where they can be mutually accommodated (Ivanov, Ch. 22). Security problems can be met by regional security arrangements, either "stand alone" or with outside powers. The effectiveness of such arrangements may be in direct proportion to the economic success of their members, which thus places considerable emphasis on successful

regional economic cooperation. However, no such regional security arrangements exist in Northeast Asia. Instead, there are all sorts of perceived threats, with every country in the region apprehensive about at least one other country in the region. Results include a military build—up, the destabilizing potential of military haves and have—nots, and the fear that Japan will one day emerge as a nuclear power. Successful removal of these stresses depends on moving beyond the U.S./Japan bilateral arrangements to a more broadly based multilateral scheme. Where a common security foundation does not exist, economic pragmatism alone cannot succeed in achieving mutually supportive growth.

DEVELOPMENT PLANS AND REGIONAL COOPERATION

There is a sequential pattern of growth in Asia, which occurs at various stages (Oshima, Ch. 1). Developing Northeast Asia has advantages in attracting capital from the East Asian NIEs but it also has problems arising from its past command economies. It is particularly problematic to have the “wrong” institutions ingrained, especially in bringing off the transition to an allocation process and motivational system based on price signals and opportunity costs rather than on a central plan. In many ways Japan successfully went through a similar transition, and the Japanese experience, as well as, in some sectors, the Korean experience, provide useful lessons for developing countries in Northeast Asia.

DEVELOPMENT PLANS

For the Russian Far East there is a dream and a reality of economic development (Minakir, Ch. 4). Several programs or policies have been put forth, beginning in the 1930s, for the socio—economic development of the Russian Far East. All have failed, almost always as a result of the failure of the Center (Moscow) to follow through on promises made. This includes the latest agreement that the Far East could have greater autonomy to move toward a regional market economy and toward greater economic cooperation with its Asian and Pacific neighbors. There have been many reforms developed to implement this policy, including incentives for foreign capital and the reform of the financial system under the proposed Far Eastern Bank of Economic Development. The radical reforms undertaken by the Center beginning in January 1992 ensured the demise of this dream. These reforms included liberalization of the price system without enterprise reforms and left out any incentives for regional development. Heavily dependent on capital allocations from the Center, without an independent tax base and thus revenues to maintain social services and infrastructure, and having to import many necessities and productive inputs from the rest of Russia where production of these goods are falling sharply, the Russian Far East reached a crisis situation in early 1992. The effect of the radical reforms undertaken by Moscow and of sharply reduced military expenditures in the Far East without the development of a substitute economic base has been a 10 to 30 percent lower output in many key sectors, e.g., timber harvesting, coal output, and fish harvesting. Because most production is in quasi—monopolistic state enterprises, this reduced output has been accompanied by large price increases, made even greater by the rapidly increasing cost of inputs from the rest of Russia as non—competitive price liberalization led to

escalating inflation. Because of the inflation coming from these reforms, the Central Bank has had an extremely tight money policy and will not clear balances except by mail, taking 2 to 3 months. The outcome has been a deluge of mutual non—payments, leaving most firms with huge and non—serviceable outstanding debts and collectibles.

Beginning in July 1992, countermeasures were taken to relieve these many problems in the Far East. Incentives now exist for international cooperation in raising capital, finding new markets for traditional exports and newly developed products, and substituting non—Russian sources of consumer goods and productive inputs. But the role of the outside world is less important now than in the past. Moscow has no clear approach to, or guidelines for, foreign investment and no system for informing potential investors about the opportunities. In addition there are problems caused by piecemeal and sporadic currency reform. Uncertainty reigns and ruble transactions are highly risky.

Policies that might help stabilize the economy, if not turn the corner, include the breaking up of big state enterprises, special credits for the reconstituted firms, wage increase ceilings, sharply reduced production and sales taxes, a moratorium for one year on changes in the business “rules of the game,” opening up to foreign banking, allowing the ruble to depreciate once—and—for—all, and allowing foreigners to buy, sell, and own property on Russian soil. Unfortunately at this point there is still no recognition of the uniqueness of the Far East among Russian regions, and all decisions and attitudes are even more centralized than in the past. As long as this situation continues, there will be no development and thus no chance for successful regional economic cooperation involving the Russian Far East.

In sharp contrast, Northeast China is ahead of much of the rest of China in terms of natural resources, human capital, industrial diversification, port facilities, and trade with the outside world, and is thus a natural partner for regional joint ventures (Li Bing, Ch. 5). On the negative side there is a relatively high proportion of old and outmoded state enterprises, a low level of technological progress, and a shortage of capital to upgrade production facilities and to promote structural adjustment.

The major goal of the present development plan is to increase the degree of processing of regional resources in the region and, in complementary fashion, to acquire and employ much more advanced technology than is presently in place. In addition, the plan calls for strengthening the industrial belt running north from Dalian to Harbin, developing supportive production east and west of this belt, and giving the resulting development an ever stronger export orientation. This is all summed up in the target of 8 percent real growth over the next several years, with at least 40 percent of this growth coming from progress in “science and technology.” The plan also calls for a focus on chemical and petroleum derivative products (man—made textiles), mechanical and electrical industries, iron and steel industries, and building materials. Light and textile industries are also intended to expand, but, since they are less developed country industries, they are not planned to grow as much as the more “developed” industries.

Implementation of this plan must overcome many current infrastructure bottlenecks, especially in energy and transportation. The lack of development of production

support services is another major constraint in Northeast China—actually for all of China. Finally, it will be necessary to diversify the still dominant agricultural sector. It is not clear how these planning goals might be aided or held back by greater regional cooperation, especially the proposed Tumen River project. There is clearly a desire in Northeast China to increase the role of heavy enterprises, and by implication, a highly technologically upgraded state sector. But how these plans will be affected by economic reform of price or enterprise systems is not clear.

In contrast to China, North Korea's position on regional cooperation is that initially each country should develop its own free trade zone and then analyze how these zones can be linked up in a stage—by—stage process (Choi and Cho, Ch. 6). In the beginning, linkage could be accomplished most efficiently through infrastructure projects and arrangements, especially in transportation and communications. By having individual countries move first, the rules and responsibilities could be clearly defined, and the contentious issues arising from joint international management would be less likely to subvert achievement of the main goal—economic development of the lower Tumen Basin. In North Korea's view, the Rajin—Sonbong area could serve as a conduit for Northeast China and Mongolian trade through the Korean East Sea. North Korea is developing rules for the North Korean free trade zone and plans for railway development that would help develop the inter—country or free trade zone links mentioned.

However it can be argued that to establish linked free trade zones, cooperation from the start between the countries of the region is necessary—especially so for North Korea (Aliev, Ch. 17). Whether the best approach to regional development involves a joint effort similar to the UNDP proposals, and the establishment of an international free trade zone, or the development by each country first of a free trade zone within its own boundaries, is still a contentious issue. Indeed, the prospective participants are "sleeping in the same bed but having different dreams."

In Mongolia the old feudal society has been replaced by a developing modern state (Olzvoy, Ch. 7). But the command system of the state planners, despite achieving considerable industrialization, has led this modern state into a cul—de—sac, characterized by an ever—increasing trade deficit with other COMECON countries—Mongolia's only trade partners, until recently. With population growth more rapid than economic growth, stagnant agricultural production, highly insufficient domestic infrastructure and a growing domestic deficit, Mongolia seemed headed for economic disaster in the late 1980s. However, the other COMECON countries experienced extreme economic difficulties first, triggering a crisis situation in Mongolia that is not yet resolved.

There are shortages of consumer goods and necessary production inputs, caused by the present necessity of paying hard currency for imports and expecting payment in hard currency for exports, and by Mongolia's landlocked position. It is not surprising under the circumstances that the contemporary move toward a market economy has been blamed for many of these difficulties and is therefore not popular. The new government, however, is quietly continuing the privatization and introduction of market mechanisms. Mongolia's hope is that it will receive the outside support needed for several years to make the desired transition possible.

For Mongolia, international cooperation means mainly opening up to foreign investment and broadening the market for Mongolian products beyond the old COMECON bloc and China. A major step forward was China's opening of Tianjin port to Mongolian exports and imports. Mongolia is therefore interested in participation in many projects, including the Tumen River project, that will open up other ports and a conduit for Asian—European rail traffic.

The major current approach to regional cooperation in Northeast Asia involves the establishment of an international free trade zone. There are several types of free trade zones so far established in Asia (Kobayashi, Ch. 8). They range from the completely open port of Hong Kong to zones intended to process exports only and thus provide "free trade" only for imports which are incorporated into exports in the zone.

Regarding the proposed Greater Vladivostok free trade zone, there are many infrastructure and institutional constraints at present, the most important being Moscow's inaction on approving the formal establishment of the zone. However there is an even more compelling set of opportunities. Any zone established should be full—ranging and not a simple export processing zone because the requirements are vast and maximum linkages with areas outside the zone are necessary for general economic development. The North Korean model is pertinent here—linkages between zones through good transportation and communications systems and exchange of ideas on laws and regulations to keep them as similar as possible, thus providing the basis for possible "marriage" in the long—run.

For the Tumen River project, some advocate the establishment of three separate cities within the greater zone, one for each country involved and separately administered by the government of the country involved (Ding, Ch. 9). Free movement of goods would be welcomed between the separate cities in the zone but not between the zone cities and the rest of their countries. However smuggling could become a problem. Similar problems might arise with the zone currency and the exchange rates with country currencies, and with the provision that international financial intermediaries can operate freely in the zone but not in the countries managing the zone cities. Other issues exist concerning land tenure, immigration policy, tariff and tax setting and drawbacks, and each raises further questions about coordination and/or potential arbitrage.

To supervise the Tumen River zone, implement its general plan, and help to resolve the many problems noted, a coordinating institution might be established consisting of members from the three nations involved. The strong possibility is that conflict resolution could become the major business of the governing institution. There is clearly a need, perhaps being met by the UNDP, for lengthy and detailed analysis of each area of operation of an international economic zone. There is also a need for a detailed analysis of what could be produced in such a zone and of the costs and benefits compared to the established and later linking of country economic zones.

REGIONAL COOPERATION: SECTORAL POSSIBILITIES

Telecommunications

There is a close relationship between telecommunications development and

economic growth, and there are numerous ways telecommunications can contribute to growth (Lee, Ch. 11). Effective telecommunications are a necessary step in successful marketing and procurement, in the operation of an efficient financial system, in business management, in affording disaster protection and response, in the efficiency of transport networks and flexibility of industrial location, and in scientific interchange. It is also necessary for, and tends to bring about participatory government, which may explain their slow introduction in some developing areas.

Telecommunications in Northeast Asia is wanting. For example, there are no fiber optic networks now in place in Northeast Asia, although terrestrial links between Europe and Nakhodka, and submarine links between Nakhodka and Japan and South Korea are scheduled for completion in 1995. The main means of international communication at present are via satellite link—ups (the Intelsat Indian Ocean satellite is the major one), although at present neither the Russian Far East nor Mongolia has one. Lack of data makes it impossible to say much about local communications networks, although evidence that suggests outside Japan and South Korea, they are underdeveloped in the region.

Regarding the Tumen River Project, three levels of linkages must be considered—international, national and local. For efficient international communication, the center (perhaps a teleport) should be in the zone and not linked up for this purpose to present overused or inefficient centers in the capitals of the involved countries. A fiber optic network would be best for linkage with national systems, but it is important that some linkage be established immediately if the Tumen zone is to have the expected positive impacts on the participating countries outside the zone. Finally, at the local level, calls from, e.g., Sonbong to Hunchun must be direct and not through their respective capitals, as is now the case. Initial constraints of start—up and continuing capital, of inadequate human resources, and of standardization of equipment and operations procedures also will have to be discussed and resolved.

Transportation

Regional development depends on adequate transport infrastructure. The transport system in Northeast Asia is both lacking and distorted (Choe, Ch. 13). Roads are particularly deficient, and both roads and railroads follow "colonial" needs for bringing natural resources to key ports rather than of servicing the needs and potential of the general population. There are few if any coast—to—coast connections. There are sufficient frequencies of air flights, but most of the routes and facilities service only Japan and South Korea. Vladivostok has no international connections, and those out of Khabarovsk are sparse. There are no international air connections into Northeast China and very few into North Korea. Lack of air connections is thus a major constraint to Northeast Asian economic cooperation and development. These problems have only belatedly been recognized and given priority in development planning. Developing the needed airport facilities and rail and road feeder lines to underserved areas is probably the first step that needs to be taken for regional development.

The port and container facilities in Japan along the Japan Sea, in South Korea and in the Greater Vladivostok area are adequate. There is some degree of overlap in

present port development with nationalism overriding economic efficiency. The problem of getting goods to and from the ports still remains, however. There are gross inefficiencies hampering the Trans—Siberian System. Because of the great distances involved and the large inland areas, transportation infrastructure will play a larger than usual role in Northeast Asia. This is a subject area that deserves in—depth study and the priority concern of all those interested in greater regional economic cooperation.

Labor

One of the areas in which there is considerable *de facto* interchange in Northeast Asia is in the movement of labor resources between regions and countries (Kim, Ch. 16). The reduction in political barriers has led to a growing movement of labor about Northeast Asia in response to regional labor surpluses and deficits. Mostly, the surpluses arise in rural Northeast China, where despite continued economic growth, rural underemployment is pervasive. Although information is difficult to come by, North Korea also probably has a rural labor surplus, but one that could disappear fairly rapidly if the economy's potential is achieved. Mongolia is in a similar position. The major deficit is found in Japan where growth remains high and the population is rapidly aging. More recently, similar problems have arisen in South Korea. The Russian Far East would also be a labor—deficit region if satisfactory economic growth is achieved.

The relative prices of labor and capital in the different parts of Northeast Asia reflect these labor market conditions, creating economic incentives for capital to move to the surplus areas and labor to move to the deficit areas, and for labor force participation rates to increase. Except for the last, these incentives are not given full play for political and social reasons, especially in terms of labor migration. North Korea, for example, restricts exit, and so does China, although this is being relaxed, and has already been relaxed in Russia. On the other hand, ethnic homogeneity blocks the acceptance of migrants in Japan, South Korea, and Russia. These constraints apply primarily to permanent migrants. There is considerable movement of contract workers, students, and "tourists" from China into Japan and Russia, where the numbers involved remain small. Labor is also moving from North Korea into Russia and is expected to contribute to the Tumen River Project. Northeast Asia has a major stake in smooth political/economic transitions in China and North Korea, and there is potential for disruptive labor movements if the economic transition becomes chaotic. These circumstances call for establishing regional "rules of the game" for supervising movement of temporary workers.

Fisheries

Russian—Japanese fisheries joint ventures in the Sea of Okhotsk are an example of sectoral cooperation in Northeast Asia (Akaha, Ch. 14). Existing agreements between Japan and Russia, following the institution of the 200 nautical mile exclusive economic zone off Russia's shores in 1982 are basically for trading fishing rights for hard currency and seeking to prevent the depletion of fish stocks. However the latter objective seems secondary to the Russian desire to extract as much economic rent as

possible from Japan. With economic reform in Russia, joint ventures covering all aspects of bringing fish and fish products to market have increasingly become a vehicle for cooperation. The incentives for these ventures differ little from the previous government to government agreements, although more interest in the Russian market is displayed by the joint ventures.

Recently, as the quality of its fishing fleet has deteriorated, Russia has made new fishing rights or joint venture agreements with South Korea and Taiwan. With investment funds and fuel supplies dwindling, the Russian fish catch is much lower. Fishing and market rights are being traded for badly needed hard currency, and there is less concern with maintaining the marine environment or obtaining more advanced technology—the original justification for joint ventures. Effectively, Russia is placing its marine assets at risk to meet pressing short-term needs for hard currency, with little concern for the long-run implications. And Japan is utilizing these resources to keep its increasingly internationally restricted fishing fleets in profitable operation. Since their fishing privileges in Russian waters may disappear at any time, the Japanese fishermen have an incentive to overfish rather than maintain the stocks in these coastal areas.

Unfortunately, most of the revenue from foreign fishers is not used for improving the Russian fishing fleet or maintaining local social infrastructure, but is instead absorbed by the private operators or, directly and indirectly, by Moscow. And Moscow is highly confused about fishing industry goals and has not returned capital from its fishing revenues to the local fishing industry. Topping off these difficulties, at least for the joint ventures involved, are the numerous valuation issues arising from the interface of a market economy (Japan) with a command economy (Russia). Regional cooperation, led by Japan, could help to upgrade the Russian Far East fishing industry and its processing equipment as well as protect the marine environment, but this will probably not happen unless Japanese/Russian political problems can be resolved.

Energy

Shortage of energy or fuel is a problem for the fishing industry and almost every other industry in the Russian Far East. For Primorye, the shortage of capital, which must come from Moscow, made it impossible to maintain the coal mines at prior operating levels, much less expand their output to accommodate growth in energy demand (Basharov, Ch. 12). In fact, coal production fell by 30 percent in the last four years. Lack of capital has also delayed the expansion of generating capacity to levels anywhere near forecast demand levels, although at present this situation is eased somewhat by other non-energy factors reducing regional production. Energy supplies are insufficient for even the present reduced production in Primorye and certainly will be insufficient for the greater production that would be stimulated by free trade zones or international cooperation. Wind generation and/or underground (or undersea) nuclear plants may be possible in the long-run, but for the foreseeable future, coal will remain by far the major energy source. The coal and the generators are there, but the coal remains in the ground and the generators go unutilized. Unless Moscow acts to provide the needed capital, the mines will not recover and there will

be no progress in Primorye (or Khabarovsk).

It would not be surprising to find similar systemic dysfunctioning in the energy sectors of the other regional command economies attempting to make the leap to a market economy. If the problem is in fact general, then regional exchange of information and cooperation can be of help, whether in dissemination of technology, in arranging the cross—border transmission of energy, or in providing the basis for capital transfers to reduce energy shortages.

Environment

Projected development of the region, in particular the Tumen River Project, raises environmental and ecological issues (Alekseev and Ilyichev, Ch. 15). The opening and dredging of the Tumen River may interfere with shoreward drift of sand and pebbles, affecting both the coastline and the generation of coastal iron deposits. The impact of extractive industries and food production in Primorye on air, land, and water quality and ecological structure are likely to be significant. The proper response is to incorporate internationally sponsored ecological studies and monitoring from the beginning in the Tumen Project or any other regional projects with potentially intensive changes in the local environment.

PRESENT STATUS AND FUTURE REGIONAL ECONOMIC COOPERATION IN NORTHEAST ASIA

From the Chinese perspective, implementation of the Tumen River Basin Project can be realized through a stage—by—stage transformation of the present open fields around Hunchun to a bristling international city of several million (Kong and Zhou, Ch. 18). The present constraints in institutions, resource endowments, and economic structure can be weighted at each stage in terms of their relative importance as obstacles to moving to the next higher stage. The stages are "two—nation cooperation," "three—nation cooperation," a "minor triangle," and a "major triangle." In the final stage, each constraint would be reduced to zero.

The major initial constraints are likely to be disputes over sovereignty and lack of capital and infrastructure. From the Chinese perspective, in the "two—nation" stage, loose cooperation on communications and transportation and the improvement of infrastructure will have top priority. The next stage will involve three—way cooperation and require a major breakthrough on the constraints of sovereignty, law, and common policies. Capital and infrastructure shortages will remain major at this stage, but less of a constraint than sovereignty issues. By the third or "minor triangle" stage the participating countries will be contributing land to an international limited—liability joint stock company in which they will be the major but not only the shareholders. Management of the zone will be carried out by the company. At this stage sovereignty issues will have been mitigated, and policy coordination and the development of leading industries will mainly stand in the way of further growth. When these constraints are removed, the Tumen Zone will evolve to its steady state size of 10,000 square kilometers and rapidly reach the status of a regional growth pole.

The key is the removal of the constraints at each stage. Most progress and

momentum would flow naturally from confidence—building, resulting from removal of the sovereignty and “rules of the game” barriers, and the common emphasis on market—driven economic and business decisions. In the first stage, joint development of transportation and communications lines by two countries might decrease sovereignty tensions and ameliorate the infrastructure constraint. The experience gained may open the door for further steps in shared sovereignty. Later on, the use of a limited liability company to manage the project based on international law and the market mechanism may overcome the difficulties posed by participant countries’ very different legal environments. Removing these constraints would give confidence to foreign investors and begin the process of attracting capital. Remaining problems include the many arbitrage issues raised by existence of a free economic zone in the midst of three highly distorted planned economies. This fact, and the complex steps to be taken and constraints to be overcome, makes clear just how daunting will be the task of creating a successful jointly managed international economic zone.

MODELS AND NEEDS FOR REGIONAL COOPERATION

There are various models for regional cooperation, ranging from mainly politically focused to mainly economic development—focused and covering failed (COMECON), partially successful (SAARC, APEC/PECC) as well as more successful (South Pacific Forum, ASEAN, EC) examples (Ivanov, Ch. 22). The EC is the best role model in terms of ability to deal with both security and economic issues. Regarding the possibilities for industrial complementation in Northeast Asia, the ASEAN approach—in which different parts of a production process, such as an automobile, are allocated to different countries—would not work (Sekiguchi, Ch. 10).

There are, of course, several other constraints to successful cooperation in this region, including conflicting security perceptions, political immaturity and bilateralism, differences in culture, ideals and views of history, lack of infrastructure, and the debilitating economic crises in Mongolia, Russia, and North Korea. Despite all these, before the present crises there was both economic and political progress in the region, and there is hope for the future. Initial conditions for trade to develop include the existence of necessary transportation and communications infrastructure. There is already a positive effect of “border trade” and the anticipated role and potential for factor movements between the parts of Northeast Asia. Such movements of capital and labor would impact the structure of comparative advantage. Generally, such movements tend to equalize factor proportions and with development, to increase greatly the possibilities for intra—industry trade.

To make this hope a reality, a trans—regional organization is required to support the free trade zones and other joint economic endeavors, taking advantage of the large unrealized potential of the region. Second, governmental interchange needs to be developed at the level of government most directly concerned with a particular international project, not just between the country capitals, where the stake in the outcome is much less. Third, not as an immediate replacement of the existing U.S. security blanket, but to supplement it and ultimately become a partner to it, a regional

security agreement needs to be forged. Fourth, innovative approaches to conflict resolution, especially to the Russia/Japanese territorial dispute, are needed. Resolution of this dispute is necessary for any real advances in Northeast Asian economic cooperation. Finally, it is the responsibility of all nuclear powers significant to the region to see that Japan is not pushed into a corner where developing its own nuclear power is the only way out.

There are several models being suggested for the transition from a command economy. The market—led “big bang” approach contrasts sharply with the market—oriented but government—guided or government—supported approach suggested by Japan. A third approach is “neoclassical interventionism” which strongly favors government intervention, as in South Korea, to “pick and subsidize” winners. One must be chosen. It will also be important to create “soft” infrastructure and develop human resources through mutual tourism advancement, understanding of each other’s language, academic interchanges of all kinds, comparative analysis of law, immigration and consular systems, and exchange of business infrastructure. A system of regional institutions should be designed to facilitate exchange of information, collection of regional statistics, and promotion of research on cooperation possibilities and conferences, seminars and meetings. A regional banking training center, a clearing union, a reserve pool, and a regional development bank—a Northeast Asian Development Bank—would greatly assist cooperative economic development in this region (Park, Ch. 23).

APPENDIX

RECOMMENDATIONS

Another annual meeting should be held in 1993, and the work of the Northeast Asian Economic Forum should be continued. To do so, each country must contribute. The need now is for specialized discussions of key topics by small groups of experts representing, but not limited to, all the Northeast Asian regions, with the reports of these discussions published after presentation at the annual “plenary” session.

The following steps that need to be taken by the Northeast Asian Economic Forum (NEAEF)—the informal secretariat for the groups/countries represented at the Changchung/Vladivostok conferences.

I. Mailing Lists

1. Prepare a preliminary NEAEF mailing list, covering all participants at the first three annual conferences and at the Pyongyang sub—conference.
2. Complete the mailing list by soliciting names of others possibly interested in Northeast Asian regional cooperation from the first group.

II. Small Group Research Topics and Organization.

1. Prepare a list of possible topics for the small group research teams.
2. Poll those included in the completed NEAEF mailing list to determine their priority ranking of the topics suggested. Request that each respondent suggest names of possible participants in the small group topics they gave highest priority.

3. Select the small group topics and organize the small groups. This includes either selecting a chair and the members of each group or selecting a chair and letting him or her select the members from a list of suggested names. Some decision will have to be made about whether a topic requires ongoing consideration or is best treated as a one—shot research effort.

III. 1993 Conference

1. Select the theme, site, and dates for next year's conference. The theme may be the presentation of progress or completion reports on the small group research topics along with discussions led by the small groups of the possibilities uncovered by each group for regional agreements or cooperation, based on those projects. The title of the conference could be Key Topics in Northeast Asian Economic Cooperation: Possibilities, Problems, and Suggested Regional Arrangements.
2. Organize the conference agenda, coordinate the small group paper writing, and investigate travel logistics. Select and negotiate contracts for a few theme—setting general papers.

IV. 1993 Funding

1. Arrange for NEAEF secretariat funding, and funding for 1993 Conference and for small groups. This would involve the following activities:
 - a. Following up on the funding promises agreed upon in the Conference concluding statement. It is important that each country involved give at least some token amount to support NEAEF.
 - b. Apply for a grant, increasing the sum requested to cover the small group meetings and research as well as the annual conference.
 - c. Request continued substantive support from South Korea.
 - d. Determine whether any of the large total of UNDP funds devoted to the Tumen project can be attracted to our more general concerns.

V. Newsletter

Periodically disseminate in a newsletter information about NEAEF's activities and events in Northeast Asia or elsewhere relevant to regional groupings.

NOTES

1. This synthesis is based on the papers and discussions at the Conference, as indicated in the text.
2. Northeast China, Mongolia, the Russian Far East, North Korea, South Korea, and Japan.