

## Executive Summary

On 16 and 17 February 1995, some 570 bankers, policymakers, diplomats, UN officials, business leaders, and internationally known academics met in Niigata City for historic discussions on cooperation for Northeast Asia economic development. The occasion was the Fifth Meeting of the Northeast Asia Economic Forum. This round of talks was hosted by the Niigata Prefectural Government and cosponsored by the East-West Center and Niigata's Economic Research Institute for Northeast Asia. The meeting was chaired by Dr. Lee-Jay Cho, Chairman of the Northeast Asia Economic Forum and Vice President of the East-West Center in Hawaii.

The end of the Cold War and the increasing openness of North Korea have set the stage for a new era of regional cooperation. The purpose of this high-level meeting was to lay the foundation for enhanced economic cooperation in Northeast Asia. The discussions were focused on cooperative development strategies, financial mechanisms to support such cooperative development, enterprise-to-enterprise cooperation, and the most advanced example of official regional cooperation to date—the Tumen River Area Development Programme.

Participants came from China, Japan, Mongolia, South Korea, and Russia as well as Europe and the United States. Although the North Koreans were absent, their Ministry of External Economic Affairs sent a videotape message wishing the conference well and emphasizing their interest in attracting investors to the Rajin-Sonbong Special Economic Zone. Japan's Ambassador Tatsuya Endo—in charge of Asia-Pacific economic cooperation as well as normalization of relations between Japan and North Korea—and Dr. Duck Woo Nam, former Prime Minister of the Republic of Korea, gave keynote addresses.

A dominant theme of this fifth meeting on Northeast Asian economic development was that it is time to begin action to implement proposals. The conference recommended specific steps for cooperation such as the establishment of a Northeast Asia Development Bank, as initiated in the 1993 Yongpyeong Conference, a Northeast Asia Development Center, a Northeast Asia Association of Chambers of Commerce, and a Coordinating Group under the auspices of the Northeast Asia Economic Forum to identify, evaluate, and publicize commercially viable projects for investment and to identify and allocate research projects to appropriate institutions. Other proposals included an information pooling center to provide market information and advice on technology and finance and a commercial financial institution to expand private commercial and investment banking services in the developing region.

This spirit of implementation was, however, moderated. Conference participants were cautioned to make haste slowly to avoid disappointment and mistakes and were advised that regional cooperation should take a middle road between gradualism and rapid multilateralism. On this conceptual level, several discussions were focused on

the various approaches to economic integration. It was generally agreed that a European-style, comprehensive union would be an unrealistic goal for Northeast Asia. More reasonable is an "open regionalism" primarily driven by market forces but also encouraged by central governments through visionary infrastructure development and trade legislation. Consistent with this approach was the observation that private-sector joint ventures have already begun de facto integration, and a great many of the conference's specific proposals for action recognized the growing significance of small and medium-size enterprises as the concrete agents of economic cooperation throughout the region.

A corollary to the prominence of smaller business enterprises was the prominence of local governments, rather than central governments, as initiators of regional integration. Niigata is an excellent example of this approach. Niigata Prefecture trains capable people through educational, cultural, and sport exchanges. It has secured direct sea and air connections with its neighbors. The Economic Research Institute for Northeast Asia is located here. And the Prefecture plans to establish a center where enterprises can exchange views, clarify issues to be resolved, and recommend specific measures to improve enterprise-to-enterprise cooperation. It also plans to establish an international research unit that will focus on marine resources in the Sea of Japan and a Northeast Asia regional economic information exchange system.

What is needed, it was suggested, is a new breed of intermediate organizations—something between APEC and local governments. In this view, Northeast Asian economic development would proceed most naturally according to a geographically flexible, "modular" multilateral concept. Local governments could establish communities of common interest which would influence their national governments to be more open and interdependent. This subregional economic cooperation would be led by small and medium-size businesses and would be more of a people-to-people regionalism. To succeed, these subregional efforts would have to be guided by several agreed principles: a concept of neighborliness; harmonization of relevant national institutions; stronger economies helping the weaker ones; central government support for the process; flexibility and openness; and cooperation between central governments, local authorities, and the private sector. Those guiding the process could learn from the experiences of forming and building PECC and APEC.

Although local government and business were seen as the natural and most effective forces in market-driven change, it was also acknowledged that the central governments must support these efforts both politically and financially. They must create an enabling business and social climate, which means demonstrating their commitment to a sound and sustainable development strategy; they must facilitate infrastructure development through direct funding and by cooperating on regionwide infrastructure systems with neighboring national governments; and they must facilitate trade by removing protectionist trade and investment regulations.

Also in the context of support by national governments, it was suggested that developed Northeast Asian governments might take more positive steps to help their developing neighbors make a healthy economic transition. Japan, in particular, was called upon to supply more leadership in the region. It was suggested, for example, that Japanese support of a Northeast Asia Development Bank could counter its chronic trade surplus and its image as an economic egoist. At the same time, development of Japan's west coast would enhance its own national economic vitality as well as that of the region.

The conference also recognized that international organizations will continue to be important in the process of regional economic integration, by nurturing the intergovernmental mechanisms necessary for economic cooperation. They can be catalysts for change by helping to overcome historical constraints, advising governments on suitable policies, ensuring that projects are environmentally sound and sustainable, and helping to build confidence. They can also facilitate information exchange. UNDP, UNIDO, and ESCAP are some of the organizations that have provided the region this sort of assistance in the past, and their presentations in this conference document in some detail their willingness to continue this kind of support.

Whether viewed from the local, national, regional, or international perspective, there are several natural areas for primary focus: international infrastructure, for example, roads, shipping, telecommunications; a regional system for the distribution of goods; regional energy systems; and a regional financial mechanism for the funding of this infrastructure. Most of all, there is a need for a clear vision—a strategic plan to guide this cooperative development of regional infrastructure. In this context, an on-line data base for macroeconomic statistics could help generate targets and alternative scenarios for the development of the region.

Each nation is presently developing its national infrastructure more or less in isolation from, and even in competition with, its neighbors. In part this is due to the momentum originating in the Cold War when borders were closed and under military control. But now the political situation is different, and this momentum must be slowed and then reversed. A critical step toward the formation of a coordinated transportation and telecommunication system in Northeast Asia would be the establishment of an international consultative committee to promote cooperation in this sector. The committee could have subcommittees for specific subsectors, such as shipping, air, road, rail, and communications.

Development of regional energy sources is important for both economic development and regional security, because it can prevent an increasing reliance on nuclear power and thus the danger of nuclear proliferation. It would also reduce reliance on Middle East energy supplies and thus dampen the need for indigenous blue-water naval power to protect sealanes. Thus, it was suggested that U.S. government and industry should be involved in public sector projects in the energy, as well as transportation, sectors. In this context, the U.S.-DPRK nuclear reactor agreement could be viewed as a prototype. It addresses the DPRK's vulnerabilities and makes them a priority. It involves the provision of assistance from the United States, South Korea, and Japan. And it moves in the direction of nonproliferation.

A futuristic proposal envisions a Northeast Asia gas grid based on Siberia's enormous gas resources. Such a grid would inextricably link all of Northeast Asia. But what would be realistic supply and demand schedules and patterns? And what would be the most logical complementarity of related industry sites and types? Most important, what would be the implications of such a grid on national development plans? There are obviously many questions that would need to be addressed. A Northeast Asia Energy Consortium similar to the ASEAN Council on Petroleum might be formed to discuss and analyze these questions as well as other cooperative aspects of energy resource development and use—including supply and demand agreements.

An important factor in regional economic cooperation is Korean unification. Indeed, a successful economic opening to its neighbors by North Korea was considered critical, and North Korea's participation in the Tumen River project could enhance the prospects of such an opening. The Tumen River Area Development

Programme is the *only* multilateral intergovernmental initiative for economic cooperation to date in Northeast Asia. This program belongs to the nations involved; UNDP is only a facilitator. There has been incremental growth in the area, and the program has made considerable progress. The Phase II agreement has been signed and the emphasis has been changed to a regional development strategy—the Tumen River Economic Development Area (TREDA)—a rough parabola from Chongjin through Jilin Province to the RFE ports of Vladivostok, Vostochny, and Nakhodka. Trade and investment missions to the area are being sponsored by UNIDO. There is progressive harmonization of regulations among the three riparian countries and some degree of joint planning. Confidence has been built.

But much more needs to be done, particularly to remove impediments to border crossing and trade. Indeed, the implementation stage has become difficult for some governments because of their reluctance to yield control over their territory to a multilateral entity. Moreover, the current economic situation in Russia is not favorable for the project. Although the change in emphasis away from the UNDP-sponsored project toward the broader TREDA has helped, there is still opposition from the local business and government communities who are afraid that the Tumen River port will compete with existing Russian sea ports and ground transportation facilities, stimulate large-scale Chinese and North Korean immigration to the Russian Far East, and further degrade the region's environment. Moreover, the Russian central government is generally reluctant to grant special rights and incentives to local areas. In this context, the ongoing construction of the rail link between Hunchun and Kraskino is a very positive step forward.

Clearly, one way around the sticky questions of national sovereignty would be for each of the nations to establish Tumen River Development Authorities. At the same time, a Tumen River International Commercial Bank could be an innovative interim solution to short-term needs for liquidity as well as a lubricant in day-to-day exchanges of goods and services, imports, and exports.

The predominate view expressed in the conference was that the short-term future of the Tumen project will see the separate development of individual national free trade zones, in each case backed by small-scale, private joint ventures. But as these pilot ventures succeed, confidence from both international investors and state governments will grow, and thus market-driven demand for even more regional cooperation and integration will grow as well. Ultimately, then, the involved national governments will find a natural and productive path to the needed intergovernmental administration of the area. In the meantime, the Northeast Asia Economic Forum can continue to provide a neutral nongovernmental locus of discussions to bridge the gap between concept and official intergovernmental implementation.

All countries and regions that have succeeded in achieving rapid, self-sustaining economic development have been supported by comprehensive and effective financial and banking institutions and systems. In developing Northeast Asia, however, the savings and investment gap will be huge and the rate of return in general not sufficiently high to attract substantial amounts of private financing. Thus strong efforts must be made to attract direct foreign private investment in the region.

Although it is the private sector that will create jobs, income, and technology transfer, private investors will need infrastructure. Some infrastructure can be provided by private investors—where there is a commercial dimension such as in telecommunications, some toll roads, and the like. But the role of the private sector in financing heavy infrastructure will be limited and most projects will require large amounts of long-term capital, which will involve the public sector. Limited

infrastructure financing might be provided by the Asian Development Bank and the European Bank for Reconstruction and Development. But these banks have problems with regional projects and also cannot lend to non-members. Moreover, they prefer to cofinance with other financial institutions. In light of the huge amounts of financing and technical assistance the region will require and the limited volume of financing that can be provided by private investors and the existing international financial institutions, the need for a new development bank especially focused on Northeast Asia is inescapable. Such a regional development bank would be a key factor in mobilizing overseas savings for regional and national projects in Northeast Asia.

Given the great number and variety of national and local government offices, NGOs, business organizations, and research institutions interested in and necessary to the economic development and integration of Northeast Asia, the need for a central coordinating agency has become obvious. This conference's recommended next step—to continue the move from concept to action—is the establishment of a Coordinating Group to serve as that focal point. To that end, the Northeast Asia Economic Forum will expand and formalize its membership to institutions interested in evaluating and implementing proposals such as those made at this conference and organize a meeting of these institutions in which a detailed research agenda is formulated and research projects allocated to the appropriate task forces. The organizers of the Fifth Meeting of the Northeast Asia Economic Forum believe that action, hope, and optimism will eventually lead to the realization of the dream of peace and prosperity throughout Northeast Asia.

# Niigata Resolution

17 February 1995

The participants,

— recognizing the momentum created by the Forum's efforts which began in Niigata and which have progressed chronologically and geographically through Changchun, Pyongyang, Vladivostok, Yongpyeong, and now back to Niigata,

— realizing that concrete steps are needed to maintain momentum toward regional economic integration and development, including cooperation regarding development of the Tumen River area,

welcome the conclusions of the Niigata meeting.

The major recommendation is for the establishment of a Coordinating Group under the auspices of the Northeast Asia Economic Forum. This Coordinating Group will focus most of its initial efforts on coordinating the research activities suggested and stimulated by the Forum's meetings. Subsequently it will assist in identifying, evaluating, and promoting specific, commercially viable projects in countries/regions in the Northeast Asian area. It could also become a nongovernmental mechanism for keeping discussion alive on regional projects and bridging the gap between concept and formal intergovernmental approval. A separate initiative will continue work on development financing and banking, including local commercial financing, trade financing, infrastructure financing, and social overhead financing.

The next steps include (1) expanding and formalizing participation in the Forum to include, in particular, the business community and central, provincial, and municipal governments as well as research institutions; and (2) convening a coordination meeting of bodies interested in research on economic cooperation in Northeast Asia. The purpose of the meeting will be to formulate a detailed research agenda and to allocate research projects to national task forces.

# **Yongpyeong Statement**

**28 September 1993**

Recognizing the need for more effective cooperation in financing economic development in Northeast Asia, the participants at the September 26–28, 1993, Northeast Asia Economic Forum's Fourth Meeting on Regional Cooperation in Northeast Asia in Yongpyeong, South Korea, recommend that the Forum take the steps necessary to initiate consideration by the concerned governments of the Forum's study of the feasibility of a Northeast Asian Development Bank. They further recommend that international organizations such as UNDP and ESCAP be asked to aid in initiating consideration of the proposed Bank.

The participants also recommend that, at future meetings of the Forum on Regional Cooperation in Northeast Asia, invited participation be expanded to include representatives of business from the concerned countries and of the central and local governments of these countries as participants/observers.

## **Vladivostok Statement**

**27 August 1992**

The Vladivostok Conference recognizes the considerable progress and achievement in promoting dialogue, interaction, and research aimed at regional cooperation in Northeast Asia.

Reconfirming the vision and goals of the Northeast Asia Economic Forum, the Conference calls for increased efforts and activities in this regard, including those focused on the larger Tumen River development region. Through the Northeast Asia Economic Forum with Dr. Lee-Jay Cho as Chairman, the Conference agrees that the countries concerned should undertake to generate resources to continue and enhance international dialogue, research, and exchange of information concerning economic cooperation in Northeast Asia, including the institutionalization of an annual conference and publication of a regional newsletter in the near future.



## **Changchun Initiative**

**18 July 1990**

Based on the two successful international conferences held in Changchun, and whereas economic trends and potential in Northeast Asia make desirable and necessary a continuation of interaction and coordination of research on economic development and cooperation in Northeast Asia,

And whereas coordination requires an institutional network and a coordinating mechanism,

It is hereby resolved that a nongovernmental organization entitled "Northeast Asia Economic Forum" (including technology) be established for the purpose of organizing discussions and coordinating research and promoting exchange of information on economic development and cooperation in Northeast Asia.

The coordinating mechanism for the Northeast Asia Economic Forum will be located in Hawaii and assigned to Dr. Lee-Jay Cho. The Forum will be open to membership by institutions, organizations in private capacity, and individuals concerned with economic development and cooperation in Northeast Asia.