

# **PROSPECT OF NORTHEAST ASIAN DEVELOPMENT: EXECUTIVE SUMMARY**

## **Chapter 1 Northeast Asian Development in the Context of Asia Pacific Cooperation**

### **Ippei Yamazawa**

Economic development of Northeast Asia has come late behind other regions and started only in the 1990s. Nevertheless there are indications that its political constraint has eased off recently and the momentum has increased for discussing the cooperation for its promotion.

While it used to be discussed as a proposal for the Japan Sea Economic Zone, it was never a proposal but reality. In the early 20<sup>th</sup> century international trade actually flourished in the Japan Sea. There was a big catch of sardine in the Japan Sea and its fish oil was exported to Europe through Siberian Railroad while its fishmeal was imported to Japan. There was a big harvest of soybean in Manchuria (Northeast of China) and its soybean oil was sent to European consumers while its strained lees was sold to Japanese farmers as fertilizer. The prosperous business of sardine and soybean has been conveyed to port cities along the Japan Sea and they wish their revival. It led to the Japan Sea Economic Zone proposal, which has now expanded to a broader version covering the whole Northeast Asia.

On the other hand, the momentum for regional cooperation was conveyed to Asia Pacific region in the late 1960s and gave birth to a semi-official Pacific Economic Cooperation Conference (PECC) in 1980, and inter-governmental Asia Pacific Economic Cooperation (APEC) forum in 1989. While APEC still remains at much lower level of institutionalization, apart from European Community and European Union, it has gone beyond a mere annual ministerial meeting and become a permanent cooperative activity incorporating trade and investment liberalization and facilitation, and a wide variety of economic and technical cooperation.

Six participating countries in Northeast Asian Development all participate in APEC and PECC except for North Korea. However, Northeast Asia, as well as Greater Mekong Delta, have still remained under-developed in the Asia Pacific and have never been on the agenda of APEC and PECC activities. Nevertheless, many development issues of Northeast

Asia identified in the following chapters of this Report fit to their agenda of liberalization, facilitation and economic and technical cooperation. It is more pragmatic to take advantage the existing cooperation networks such as APEC and PECC than to formulate a new set of regional organization. It is a way to go beyond the current stage focusing on research and conferences.

## **Chapter 2 Prospects for development in Northeast Asia and cooperation with other frameworks**

### **Susumu Yoshida**

Birth and history of the Northeast Asia Economic Sub-region concept.

Two approaches to the formation of the Northeast Asia Economic Sub-region: the Tumen River Area Development Program, in which such countries as China, Russia, the DPRK, Mongolia and the ROK are involved, and regional economic cooperation-oriented activities focusing on conferences, including the Northeast Asia Economic Conference and the Northeast Asia Economic Forum. The former takes regional development as its theme and implements its activities primarily through inter-governmental committees, while the latter focuses on a Track Two approach to cooperation in such region-wide sectors as energy, transportation, the environment, trade and investment, and finance, involving the public and private sectors, academia and economic groups. These two approaches complement each other.

Multilateral economic cooperation in Northeast Asia has borne fruit to a certain extent; however, it has not achieved as much as was first expected of it. Why is this?

What issues must be addressed in future regarding the development of the Northeast Asian region? This section analyzes the problem from various viewpoints, such as coordination between organizations, problems in major sectors and solutions to these, and the need for a grand design to tackle these issues comprehensively and reconcile them.

## **Chapter 3 –Current status of Northeast Asia and development strategy**

### **Hirofumi Arai**

In Northeast Asia, the region encompassing Japan, the ROK, the DPRK, (the northeastern part of) the PRC, Mongolia and (Far Eastern) Russia, there are now unique

opportunities for the development of mutual cooperation. A combination of production factors, i.e. advanced technologies and capital from Japan and the ROK, a well-trained inexpensive labor force from the PRC and the DPRK, and natural resources from Russia and Mongolia could form a base for the further economic development of the region. At the same time, these countries have in common certain domestic challenges, such as the transition to the market economy, structural reforms and achieving a balance between the regions of each country in terms of economic development.

Although various leaders and experts have made great efforts, there is still scope for further coordination in order to increase the efficiency of their activities and/or avoid the duplication of initiatives. Therefore, a comprehensive regional development plan or ‘Grand Design’ would serve as a firm foundation for enhanced development, both in its preparatory and implementation stages.

#### **Chapter 4 Current Status of Traffic infrastructure and prospects for development**

##### **Hideo Kayahara**

The free and efficient movement of people and transportation of goods is the most basic requirement for development through mutual cooperation and collaboration in the Northeast Asian region. The railways are dominant for cargo transportation in this region and road traffic follows it. As for the ports, enhancing ability of container handling is most essential.

The Transportation Subcommittee of the Northeast Asia Economic Conference Organizing Committee has identified nine routes as Northeast Asian transportation corridors so as to concentrate investment and human resources. They are

- 1) Vanino-Taishet, 2) Siberian Land Bridge (SLB), 3) Suifenhe, 4) Tumen River,
- 5) Dalian, 6) Tianjin-Mongolia, 7) China Land Bridge (CLB), 8) Korean Peninsula West
- 9) Korean Peninsula East

The costs of the development of the main infrastructures are estimated about 19 billion US dollars.

#### **Chapter 5 –Cooperation on Energy**

## **Susumu Abe**

The energy-environment dilemma appears particularly important for Northeast Asia where energy consumption continues to increase rapidly, reliance on coal remains high and fossil fuel imports from distant sources are growing. In general, in Northeast Asia, energy and environmental issues have been regarded as restraints to economic growth. Moreover, there is growing recognition that the ability of an individual country to deal with these issues is limited; therefore, the regional cooperative approaches are required.

On the other hand, in Northeast Asia, mutually complementary relations can be established concerning the elements necessary for cooperation in the energy and environment fields, including resources, capital, technologies, labor force, markets and so on. Therefore, there are few conflicts of interest in this field, and it can be said that international cooperation could be initiated easily. In Northeast Asia, there have been few concrete examples of cooperation thus far, and the energy and environment field could play a leading role in developing close regional ties.

Currently, natural gas is coming to the forefront as an alternative to oil and coal, in order to meet such demand. Given these trends, an international pipeline network will become essential basic infrastructure for sustainable development in Northeast Asia in the 21st century. Not only would the international pipeline network transport natural gas from producer countries to consumer countries, but also it would also strengthen socio-economic ties and contribute to the energy security in the Northeast Asian region.

## **Chapter 6 –Environmental problems and intra-regional cooperation**

### **Yoshinori Suzuki**

North East Asia is a sub-region where environmental pollution problems became serious in the past decades due to high population density, rapid economic growth and industrialization etc. Major sub-regional environmental problems include: impacts of climate change, acid deposition, dust and sand storm (so-called yellow sand), international river and marine pollution, deforestation and land degradation.

Sub-regional cooperation was inactive until mid-1980s due to various reasons, but many cooperative frameworks were established in 1990s, including the Northeast Asian

Conference on Environmental Cooperation, (NEAC), North East Asian Sub-regional Program on Environmental Cooperation (NEASPEC) and so on.

However, they are different with each other in terms of subject matters, participating countries and in many cases lack adequate communication and coordination. Many of them do not have solid financial basis. More comprehensive, systematic framework and sub-regional programs with clear priority of activities are expected to be developed in the future.

## **Chapter 7 –Current status of Tumen river development area and its facing problems**

**Chan Woo Lee**

The development of the Tumen River area has been conducted by means of a multilateral framework. Although this framework was constructed, various problems have been encountered in trying to make progress with it. TO be more specific, these problems include i) differences of opinion; ii) a dearth of experience of international cooperation on the part of the participating countries; iii) the lack of an institutional base; iv) the absence of a country that can provide leadership; v) limits on the supply of development finance; and vi) the lack of information exchange between participating countries. The background to these problems includes a drop in investment as a result of the 1997/98 economic stagnation in East Asia, just at the time when the Tumen River Area Development Programme began to be promoted in earnest, the passive policies for the development of the Rajin-Sonbong Zone adopted by the DPRK government from 1998, and the lack of participation by the Japanese government. Although the Tumen River Area Development Programme is a framework for multilateral cooperation, development has actually focused mainly on bilateral cooperation between the three countries of the area.

However, it is necessary to rebuild the Tumen River Area Development Programme to be a model for multilateral cooperation in Northeast Asia. If we realize that promoting domestic economic reforms in the DPRK and international economic cooperation in Northeast Asia will bring peace and security to the region, the necessity of multilateral economic cooperation becomes even clearer.

## **Chapter 8: Formation of Northeast Asian tourism exchange area: Current status and**

## **Prospects**

### **Ryan Tsun Shan**

Although countries in the North-East Asia faced different political and economical problems, these countries are concerned in common with the development of tourism, because of its economic and social benefits. The Northeast Asian countries have many favorable conditions to be integrated as one area of "North-East Asian International Tourism Exchange". These conditions involve the nearness of the countries in geographical location, a great variety of tourism resources, and large populations. In addition, the continuous and stable enlargement of the world tourism market and the supportive attitudes held by the country governments encourage the formation of the area of "North-East Asian International Tourism Exchange". The World Tourism Organization statistics predict that the visitors to the North-East Asian area would be double every ten years by 2020. If this prediction is correct, the numbers of visitors to the Northeast Asian countries could compare with those of the Europe and North America in the 21 century.

The author identifies three blocks as the core of the formation of the area of "North-East Asian International Tourism Exchange". The three blocks are a Japan-China-Korea block which plays a central role of the formation of the tourism exchange areas, and a other in Russia-China-Mongolia block, which is still developing, and a Tomen tourism exchange block which bridges between the two blocks. Finally, are discussed some difficulties to overcome for the North-East Asian countries to form an integrated area of international tourism exchange.

## **Chapter 9 Fund Need and Sources for Northeast Asia Development: Is New Regional Development Viable?**

### **Shun'ichi Hiraki**

The countries and areas, which are targeted for sustainable development in Northeast Asia are Democratic People's Republic of Korea, Mongolia, the Three northern provinces of People's Republic of China and the far eastern provinces of Russia in the context of this chapter.

The categories of social infrastructures, which are needed in these countries and areas are assessed in accordance with priority of the need. These categories are as follows; 1)

Transportation (Airport, Harbor, Railway, Road), 2) Energy (Power Plant, Oil & Gas pipeline) and 3) Environmentally Sustainable Facility (Potable Water Supply, Waste Water Disposal, Wastes Management, Pollution Prevention Apparatus).

Chart I shows the assessment of the need by each country and by category of infrastructure based on the present capacity and its planning which fills the gap between the present capacity and the need.

Based on the assessment, the amount of money needed for 2011~2020, by which South Korean level of infrastructure (GDP per capita US \$8000) shall be attained, are estimated together with such various basic yardstick as road km/1000 km<sup>2</sup> in relation with GDP per capita and numbers of passengers and amounts of cargo in relation with GDP.

The amount of money estimated at US\$160 billion for ten years are shown in Chart II by each country and category, i.e. US\$16 billion per annum.

US\$16 billion shall be financed by such various sources as 1) own government revenue, 2) ODA from the advanced countries, 3) Multilateral Development Finance Institution (MDFI) and 4) Private sector fund (foreign direct investment, private bank loan). Out of US\$16 billion, US \$4~5 billion (i.e. 25~30%) shall be borne by such MDFI as World Bank, I.F.C., Asian Development Bank and European Bank for Reconstruction and Development since these four MDFI extended both loans and equity at US\$10~11 billion per annum to Asia in 1999 fiscal year.

Additionally, US\$4~5 billion per annual may be attainable with MDFI's enhanced operation of procurement and disbursement ability. Financing capacity is equipped with these MDFI. Moreover these MDFI are efficiently and competitively operated.

Even if a new MDFI is created with reasonable time framework for reaching consensus and targeted for only the Northeast Asian countries and areas, the new MDFI's market segment shall be different from the existing MDFI, i.e. targeted for small & medium sized projects.