

Opening Ceremony

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Hirayama Ikuo

*Governor
Niigata Prefecture*

As we hold this Fifth Meeting of the Northeast Asia Economic Forum in Niigata, it is most gratifying that we are able to hold a conference of this scale with such a large turnout from countries such as the People's Republic of China, Mongolia, the Republic of Korea, the Russian Federation, the United States, as well as from other countries and also from Japan.

The world today is becoming increasingly borderless and interdependent, with progress in the development of information and communication infrastructure and transportation infrastructure as well as progress in deregulation. The respective countries and regions cannot exist on their own without close contact and collaboration with countries around the world. As you are aware, about one month ago we experienced a major earthquake centered in Hyogo Prefecture. At that occasion and after the disaster, members of the international community offered us various kinds of support and collaboration. The Japanese citizens were extremely impressed and moved by such warm offers. A while back I had the opportunity to visit Hyogo Prefecture. I was able to talk with the victims of the disaster, and these residents of Hyogo Prefecture were greatly moved by the kindness of various friends from abroad. I would like to take this occasion to express my sincere gratitude as a Japanese citizen. I would also like to invite other participants to join me to pay our respects and condolences to the victims of the earthquake.

In the Northeast Asian region, the East-West Cold War structure has been terminated and the Japan Sea is now about to go through a major transformation from a sea of confrontation, conflict, and tension to a sea of exchange which will bring about peace and prosperity. Within this new flow of events, a new international order is being established, and multifaceted exchanges are being developed over extensive areas such as culture, academia, technology, economy, and environment. The Northeast Asia Economic Forum, chaired by Dr. Lee-Jay Cho, has been instrumental in these changes. The Forum's first conference was held in Changchun in 1991, and then meetings took place subsequently in Pyongyang, Vladivostok, and Yongpyeong. The Fifth Economic Forum is being held today in Japan for the first time, here in Niigata City. During this time, this Forum has been consistent in aiming at the promotion of development and economic exchange in Northeast Asia, and it has attracted very enthusiastic discussions and brought concrete results such as the proposal for the Tumen River Area Development Programme. I would like to take this opportunity to express my profound and highest tribute to Dr. Cho and other members who exerted their maximum efforts to foster these developments.

It is an immense honor for us to be able to convene this conference right here in Niigata. The significance and prospects of regional development and economic exchange in Northeast Asia have been chosen as the main theme for this conference, and I am convinced that we will be able to come up with spectacular achievements. Furthermore, I have very high expectations that this meeting will provide an opportunity for those of us who are gathered here today to expand the circles of exchange and also deepen friendships. I would also like to take this occasion to express our thanks to the various domestic ministries and agencies concerned such

as the Ministry of Foreign Affairs, the Embassy of the Russian Federation in Japan, as well as the consulate-generals for their cooperation in preparing for this meeting.

I would like to conclude my remarks with my sincere prayers for the success of this conference. Thank you very much.

Lee-Jay Cho

*Chairman, Northeast Asia Economic Forum
and
Vice President, East-West Center*

Governor Hirayama, Mayor Hasegawa, Ambassador Endo, Dr. Nam, distinguished participants and guests, ladies and gentlemen:

On behalf of the East-West Center and the Northeast Asia Economic Forum, I would like to take a few moments to underscore the historic significance of cosponsoring the Fifth Meeting of the Northeast Asia Economic Forum in Niigata, where we have gathered with leaders of government, business, and research from throughout this region and in some cases beyond the region to investigate the "Significance and Prospects of Regional Development and Economic Cooperation in Northeast Asia."

It was in the city of Niigata that, in 1988, we planted the seed of Northeast Asian regional economic cooperation and development. In the Niigata Conference on the Sea of Japan (East Sea), cochaired by Dr. Okita Saburo and me, participants first outlined a vision of peaceful use of the ocean's resources, extensive transportation and communication infrastructures, and regional coastal development. Around this same time, the chairman of the State Science and Technology Commission of the People's Republic of China, Dr. Song Jian, and I were carrying on dialogue about the new economic potential of the Tumen River Basin brought on by the fading of Cold War obstacles. Our discussions led to the 1990 Changchun Conference on Northeast Asia Economic Development, from which grew the idea of Tumen River Basin development, and later to the establishment of the Northeast Asia Economic Forum to continue the dialogue aimed at cooperative regional development.

The Forum subsequently sponsored meetings in Pyongyang, Vladivostok, and Yongpyeong. Now, we have returned to Niigata—to begin a new cycle of collaborative efforts. We have already taken several steps in our "thousand-mile journey." In 1988 we barely knew what was beyond the cold waters of Niigata. But since that time, we have seen much progress and done much to expand this horizon. We have made the historic visit to the proposed special economic zone in the Tumen area of North Korea, and we have also made field site visits to important industrial centers throughout our economic neighborhood.

In this meeting, we will review what has been done so far to promote regional cooperation and development so that we can consider what to do next. As well as considering the overall prospects for economic development, we will focus our attention on the specific themes of Tumen River Basin development, development financing and banking, and international technology transfer. In past years and conferences, we have sketched a vision of the future and established some guidelines that will take us to a new regional economic sphere. Let us now reaffirm our goals and move on to more concrete action to accomplish them. Let us make this Niigata meeting the next hallmark in promoting economic cooperation, peace, and prosperity throughout Northeast Asia.

As we open this historic conference, I wish to express the great appreciation of the Forum to our gracious hosts—the Niigata Prefectural Government, the City of Niigata, and many local businesses, organizations, and citizens. Through your efforts, we can continue to cultivate the Northeast Asia economic community, and one day we

will see a hundredfold return of beneficial results to the city of Niigata, to the prefecture, to Japan, and to all its neighbors. Thank you.

Endo Tetsuya

*Ambassador Extraordinary and Plenipotentiary
Ministry of Foreign Affairs, Japan*

KEYNOTE ADDRESS

"ASIA-PACIFIC COOPERATION: A JAPANESE PERSPECTIVE"

It is a great honor and pleasure for me to have been given this opportunity to make a presentation at the outset of the Fifth Northeast Asia Economic Forum in Niigata in front of such a large and distinguished audience. However, I feel that I do not carry enough weight to be the keynote speaker of such a grand setting. It has been three years since I returned to Japan. After the collapse of the Soviet Union, I was in charge of giving assistance to the former Soviet Union republics for a year, and I was also the representative of the Japanese government vis-à-vis normalization with North Korea. Now I am the Japanese representative at APEC. The United States, South Korea, and Japan are now joining hands to try to give assistance for transformation of nuclear power reactors in the DPRK. Through my various responsibilities in the offices I have filled so far, I have been closely involved with developments within Northeast Asia, and therefore I would like to share with you my personal views on how Japan should be contributing to the development of this region.

As far as my presentation is concerned, I hope that I will be able first to provide you with some of the characteristics of the Asia-Pacific region from a broad perspective. I'll move on to the historical background of the development of international cooperation in the Asia-Pacific region and its current status. Then I'll go on to the main agenda for today's forum, that is, Northeast Asia as a subregion of the Asia-Pacific region, and how we will be able to foster cooperation in this subregion, especially from the political perspective. Toward the end of my presentation I would like to enumerate some points which I consider merit attention and discussion during this meeting.

The Asia-Pacific region, especially Asia over its history, has been characterized with such expressions as "Asian backwardness" and "Asian poverty." In the past, such terms as "backwardness" and "poverty" were used synonymously with the Asian region. And this was not so long in the past, because when I was young Asia was characterized as a backward and poor region. However, over the recent few years there has been a complete transformation of this characterization. The Asia-Pacific region has become the "region of growth," with the very rapid economic growth in Asia attracting a lot of international attention at the moment. From the United States and especially from Europe, we can sense admonition and caution, maybe, as well as envy.

I will now go to the first part of my presentation, the characteristics of the Asia-Pacific region in its broad sense, and I would like to share with you four particular features of this region.

First of all, I feel that the Asia-Pacific region is very high in terms of diversity. Diversity is actually the number one characteristic of the region. Diversity covers various aspects: first, the economic developmental stages of the respective member countries of the Asia-Pacific region are quite different. At the very forefront of economic development there are countries such as the United States and Japan, which could be considered to be advanced industrialized countries; following these

two countries we have Canada, New Zealand, Australia; and behind them we have Korea, Singapore, Taiwan, and Hong Kong, the so-called newly industrialized economies, or NIEs. Right behind the NIEs there are such areas as Malaysia, Thailand, the coastal regions of China, and also other members of ASEAN which I have not mentioned. That is probably the order of economic development of the member countries. The per-capita income of the industrialized countries may be near \$30,000, whereas some countries' per-capita incomes may be less than \$1,000. The size of the economy is also quite different from country to country.

Not only their economic systems but political systems as well are entirely different. Cultures, religions, and senses of values are also entirely separate and different. In the case of European society, Christianity seems to be a commonality, and in the Middle East we have Islam as the common religion. In the case of Latin America we have other similarities. However, in the case of the Asia-Pacific region we do not have such a central backbone type of religion or sense of values.

Moving on to the second feature of the Asia-Pacific region, I briefly mentioned the very remarkable rate of economic growth achieved. Looking at the world economy at large, in recent years the economy has not done that well, and under the circumstances the Asia-Pacific region was able to achieve an economic growth rate ranging between 5 and 10 percent. In the case of mainland China, this rate has exceeded 10 percent, and as we move on from the end of the twentieth century to the beginning of the twenty-first century many economists are forecasting that this level of economic growth rate will be maintained in the region.

The third characteristic of the Asia-Pacific region carries us to the political domain. In terms of politics and security, in the case of Europe the East-West confrontations used to be a sort of black and white demarcation in terms of the security situation. In contrast, the Asia-Pacific region was in the shadow of the East-West Cold War confrontation. Moreover, there was also confrontation within the East in the sense that there was Sino-Soviet conflict. Since the Cold War has been wrapped up, perhaps the political and security structure has become fuzzier and even more ambiguous.

Fourth, despite the instability that is persisting within the region, it seems that the political situation has been relatively stable. Of course, with Cambodia, the Korean peninsula, and the South China Sea, we do still have problems and therefore we cannot generalize that the political situation within the region is especially stable. But, generally speaking, I do say that the political situation within the region has been rather steady, and that this has exerted a positive influence on the economic situation; it seems that there is a very close interaction between the political and economic situations, and the cycle is virtuous in the sense that the two factors have been able to have positive impacts on each other.

I would now like to move on to the next part of my presentation, to look at the historical background of the development of regional cooperation in the Asia-Pacific region from my own perspective. In terms of the organization of the region's economic cooperation forum, APEC, there were three different historical stages involved.

Stage number one is what I call the "planning stage." The planning stage began in the 1960s and continued into the 1970s. This was a period in which many regional cooperative schemes were envisaged, by such men as Professor Kyoshi Kojima and Dr. Okita Saburo. From the political circle, Mr. Takeo Miki and the prime minister shared ideas, and they came up with various regional cooperation schemes in the Asia-Pacific region. Therefore, from the decade of the 1960s to the decade of the

1970s, the Japanese academic circle as well as the political circle were responsible for various ideas for regional collaboration.

Stage number two is what I call the "implementation stage." This is the period in which such concepts and ideas for regional collaboration were developed further into concrete forums. This came to fruition when Dr. Duck Woo Nam chaired PECC, and this was one of the fruits of the initial stage. PECC was composed of representatives from industry, academia, and the government. Also, the industry members established PABEC, the Pacific Basin Economic Council; thus, the private sector had taken the initiative to promote regional cooperation.

Stage number three is the stage we are presently in, and it is what I call the "settlement stage." Of course, during this settlement stage we were able to establish APEC. Governmental organizations should be established, and based on this idea APEC was formed in 1989.

From two years ago up to last year I was profoundly involved in the activities of APEC. The Asia-Pacific regional cooperation activities have all been consolidated into the single organization of APEC. The idea of APEC was developed and accumulated throughout the planning and implementation stages, and over this period, whether it be trade, investment, or technology transfer, the degree of interdependence within the Asia-Pacific region has seen a quantum leap. The formation of APEC actually reflects this expansion of interdependence; from the end of the 1980s to the beginning of 1990s we have seen the development of the European Union in Europe; in North America, NAFTA was formed among the United States, Canada, and Mexico. So APEC was a response to the European Union and NAFTA. There was a strong feeling that we should establish an equivalent regional organization based on such internal and external factors, and that is why APEC was established. APEC is, of course, emphasizing regional cooperation currently for Japan, and in the autumn of this year the APEC informal leaders' meeting will be convened in Osaka.

In the economic arena we have seen very rapid development of cooperation. And what about collaboration in the political domain? In a nutshell, the degree of political cooperation within the region is still at a very rudimentary, very initial stage. Of course, it has been difficult to try to join hands in terms of political cooperation within the region, but in the form of the ASEAN Post-Ministerial Conference, ASEAN countries and surrounding countries were able to gather together to discuss political issues. Just after the ASEAN Post-Ministerial Conference, we were also able to establish the ASEAN Regional Forum in which security matters of the region are being discussed. However, the ASEAN Regional Forum is still in its infancy, and therefore, rather than having a profound discussion, we are trying to have a very preliminary dialogue on security questions.

The central focus of Asia-Pacific cooperation at the moment for Japan is APEC, and I would now like to try to delve into Japan's role in international cooperation within the Asia-Pacific region. I guess there are two different schools of thought, two different approaches for Japan in terms of regional cooperation in the Asia-Pacific region, and perhaps one school of thought has invited a lot of misunderstanding in the past. The first approach is a sort of American type of approach: Asia-Pacific cooperation should be developed to a stage of the European Union, sometime in the future, and for this purpose we have to establish a firm organizational background, a firm, perhaps rigid, and solid organization in order to pursue cooperation within the Asia-Pacific region.

At the other extreme, according to a second school of thought, many people believe that the Asia-Pacific region is so diverse that it will be impossible to develop

the stage of cooperation to that of the European Union; therefore, maybe I should call this the Asian approach, or the Asian school of thought. They propose that the form of cooperation of APEC should be looser. Prime Minister Mahathir of Malaysia is sometimes very explicit in presenting his arguments; this is not because Malaysia is the front-runner. However, even in countries other than Malaysia, many feel that gradualism should be the basic principle in growth to enhance cooperation. So this is a very Asian style of trying to expand cooperation. And perhaps APEC is trying to position itself in the middle of these two extreme approaches; we are trying to approach regional cooperation according to this middle road between the two extremes.

In Japan, we are of course also in favor of the middle road, and perhaps we sound a bit mediocre in taking this position. But we can sympathize with the U.S. point of view, and we can also sympathize with the Asian point of view. So we are trying to take the road down the middle of the two separate approaches. Japan hopes to place APEC at the center of regional economic cooperation.

Next on my agenda is Northeast Asia—because Northeast Asia happens to be one of the most important subregions of the Asia-Pacific region—and how we should approach regional cooperation within Northeast Asia. Northeast Asia includes the Russian Far East, Mongolia, North Korea, South Korea, and Japan. Of course, it is difficult to place the United States in this context; maybe I should skip over the United States for the time being.

Within Northeast Asia, or the Japan Sea Rim area, quite unlike the so-called Pacific Basin countries, the stage, or the degree, of regional cooperation is still lagging behind and there are a lot of discrepancies and gaps. There are two major reasons why there are such large gaps. In the economic domain, deficiency in infrastructure development is a major factor. Of course, not being an economist, I would like to ask experts in the economic aspects to further discuss this area. We also have the question of Russia and also the Korean peninsula, and especially DPRK, which happen to have very serious problems, particularly from the political viewpoint. If my perspective is correct, whether it be the Russian Federation or the DPRK, these countries' domestic political problems are quite serious. In terms of domestic politics after the dissolution of the Soviet Union, the Russian political situation is still in flux, and I still cannot see light at the end of a very dark tunnel that Russia is placed in at the moment. In trying to step up cooperation in the future, of course, the present stage of the Russian domestic economy is a serious obstacle. Coming to the DPRK, North Korea, the domestic political situation is quite opaque, and the DPRK is quite a laggard and very much behind in terms of opening up its economy.

If I may touch upon the subject of diplomacy very briefly in the remaining time, regarding Russia, Russo-Japanese relations are a major issue. Unfortunately, we have yet to conclude a treaty of peace. Against this background, for the Japanese government's part, providing assistance or cooperation to Russia is very difficult. Japan is a member of the G-7, a very influential member of the world community. We should assist Russia economically so that Russia can bring itself out of the economic chaos that it is in now. However, we have issues surrounding the Territories and we have not reached a conclusive peace treaty, so when it comes to whether we can provide economic assistance to any large degree, it is very difficult. What we expect is balanced expansion in all aspects. With balanced expansion we can work little by little so that we can expand our relationship with Russia, even though gradually.

Next, with regard to North Korea, I think there are three aspects: North Korea and the United States, North Korea and Japan, and North Korea and South Korea. I

myself am involved in the negotiations for diplomatic normalization between North Korea and Japan. About two years and several months ago, negotiations for normalization were suspended, and unfortunately we do not see any sign of these being resumed. On our part, without any condition, we wish to resume negotiations for normalization of diplomatic relations with North Korea, but there has been no response from North Korea. The ball is in the North Koreans' court, so it is our wish that the talks be resumed as soon as possible so that we can achieve diplomatic normalization between the two countries as quickly as possible. A Japan-Russia peace treaty and normalization with North Korea are the two most important issues that face Japan. Our relationships with North Korea and Russia leave big difficulties ahead of us.

With regard to relations between the United States and North Korea, fortunately, on October 21 there was an agreement reached between the United States and North Korea. Thus far, on both the U.S. side and the North Korean side, the agreements have been faithfully observed. For the central part of the agreement—assistance for a light water reactor—the Korean Energy Development Organization will be established quite soon. So I hope that this North Korea-U.S. agreement will proceed smoothly and work as a catalyst for a better relationship between Japan and North Korea and between North and South Korea.

With regard to the North and South Korea issue, since we have many representatives from South Korea, rather than discussing this matter myself I leave it to these people. But I am hopeful that as quickly as possible things will move smoothly between the United States, Japan, North Korea, and South Korea, so that North Korea will return to the international community as a constructive member.

As I said earlier, when we talk about the Northeast Asian economic sphere, there are of course political problems that remain unresolved. But as I said at the outset regarding the Pan-Pacific scheme, it's been thirty years since the concept was launched; therefore, when it comes to the concept of a Northeast Asian economic sphere, as Dr. Cho mentioned, we are now witnessing smooth progress, I believe. When you think in terms of ten years or five years, it has a very great potential, and I hope that there is going to be smooth development in the region.

Finally, I would like participants to discuss the following points. One, how to link the Northeast Asian economic sphere with APEC, which is a larger scheme. The relationship between APEC and the Northeast Asia economic sphere has to be addressed. And this is tantamount to an issue regarding how the Northeast Asia economic sphere can relate to the United States. This is the first point I would like to see discussed in this meeting.

Second, I have already mentioned the Russo-Japanese relationship and the issue surrounding North Korea. There are three aspects to the North Korean issue: the relationships between Japan and North Korea, between North Korea and South Korea, and between North Korea and the United States. The political aspects have a very great bearing upon this, so we have to resolve the issues surrounding the political aspects.

The third point: The European Union has been in the process of integration with policies, but APEC emerged spontaneously. When we facilitate the Northeast Asia economic sphere, spontaneity is also welcome, but policy efforts should also be exerted. Central governments have to take initiatives, particularly in connection with the development of infrastructure—that is my view. But how do you in this conference view the various governments being involved in these efforts for development of the Northeast Asian economic sphere? Another point may be included in this third

question. The political aspects and involvement of government all need time. At present, though, we have to start with whatever is available. What we are doing now should be enhanced. This kind of accumulation method has to be pursued.

In connection with APEC, as I said earlier, the proper form for the relationship with the United States and how you view the political aspects and policy-driven integration are very important issues. In the meeting that will start this afternoon, I hope you will give ample consideration to this, and please share with us your insights on these matters.

With regard to the Northeast Asian economic sphere, we in the government would like to tackle this issue head on. We seek your cooperation to this end. Thank you very much for your kind attention.

Nam Duck-Woo

Chairman, Korea Sanhak Foundation

and

Former Prime Minister of the Republic of Korea

KEYNOTE ADDRESS

"MULTILATERAL ECONOMIC COOPERATION IN NORTHEAST ASIA: A KOREAN PERSPECTIVE"

This is the fifth meeting of the Northeast Asia Economic Forum; it follows the Yongpyeong conference held in Korea in September 1993. Many participants in previous meetings pointed out that the close complementarity that exists among countries in the region provides a strong basis for regional economic cooperation and development. In the words of Chairman Kanamori, "Economic cooperation between regional states is very important because of a very high complementarity between their natural resources, labor force, technology and capital. Every country of the region faces limits for its development, but cooperation will open great possibilities for growth."¹ I may add that regional economic cooperation is the prime condition for preserving peace in the region.

The reality, however, is that there are a host of political and economic barriers standing in the way of regional economic cooperation, impeding realization of such potential. For this reason, opinion is divided as to the ways and means of promoting regional economic cooperation in the context of existing reality. One question relates to the efficacy of the multilateral, as opposed to the bilateral, approach to regional economic cooperation. I propose to focus on this question on this occasion.

To begin with, there is an argument that the bilateral approach is the only means available for economic cooperation in Northeast Asia until market forces prevail in all the economies in the region to such an extent that market integration naturally calls for institutionalizing regional economic cooperation. In reference to PECC and APEC, skeptics maintain that market integration preceded institutionalization of Pacific economic cooperation, and that no governments in the Asia-Pacific region deliberately pursued regional integration; they merely refrained from interfering with the working of market forces across borders. Moreover, under the present political environment in which mutual trust is weak, the skeptics say, multilateral decision-making is a remote possibility.²

Although I agree for the most part with this observation, I have lingering doubts as to whether we should rule out any possibility of a multilateral approach to economic cooperation in any form in our region. We all know that even socialist countries used to have a multilateral framework, referred to as COMECON,³ without market orientation prior to the disintegration of the Soviet Union. To be sure, market integration is important, yet it is not the sole precondition for multilateral economic cooperation.⁴ We can even think of multilateral cooperation itself advancing market integration, with the conscious efforts of all parties concerned. It should be noted that we need not view bilateral and multilateral approaches as mutually exclusive. My own professional experience has convinced me that the two approaches can play mutually complementary roles. Discussions in PECC and APEC on trade issues, for example, influenced bilateral trade talks between the United States and South Korea.

The views expressed herein do not necessarily represent views of the government of the Republic of Korea or any other institution with which the author is affiliated.

Conversely, as we all know, the U.S. government often starts with bilateral negotiations on trade matters and then brings them to the multilateral table to elevate them to a general agreement.

Admittedly, the multilateral approach has been severely constrained by political rivalries between countries in the region. Yet situations are changing, and in a more favorable direction. I wonder to what extent the Northern Territories issue is really impeding economic exchanges between Russia and Japan, even though many Japanese are saying they are. North Korea is also changing. Although the political outlook remains uncertain after the death of President Kim Il-sung, Pyongyang seems to be determined to pursue normal relations with the United States, Japan, and eventually South Korea. The Geneva agreement on nuclear issues between the United States and North Korea is significant, not only in terms of the prevention of nuclear proliferation, but also in terms of its economic impact on North Korea. Construction of light water reactors in North Korea in compliance with the agreement will call for a massive movement of people and materials from the South and its allies, which will in turn make it more difficult for Pyongyang to seal the country off from the outside world. In fact, Pyongyang has started to take cautious steps to open up the Rajin-Sonbong area for free trade and investment, while the United States has opted to partially lift economic sanctions against North Korea. All told, it appears to be a matter of time until North Korea follows the Chinese example of economic reform and gradually opens up its economy, participating in the multilateral institutions.

Skepticism about the multilateral approach may have some sort of regional grouping in mind such as ASEAN. Incidentally, Northeast Asia is the only area in the Asia-Pacific community which is not covered by a subregional grouping. I personally happen to believe that such a subregional grouping for Northeast Asia is not necessary at the present time because it is difficult to visualize any real gains that can be derived from such a grouping. Rather, we may try to invite Russia, Mongolia, and North Korea into APEC as soon as possible.

Yet there are other forms of multilateral approach to economic cooperation in the region. The Tumen River project is such an example. This project is the first multilateral approach of its kind to regional economic cooperation. As was expected from the beginning, the multilateral negotiations under the aegis of UNDP have been dragging on for years, and the final result is yet to be seen. Skeptics of the multilateral approach may find justification for their views in this situation. However, in my opinion, this kind of multilateral approach should be continued with patience until it finally reaches a successful conclusion. The learning process takes time but is important in Northeast Asia because of the lack of experience in multilateral dealings.

We can think of other types of multilateral approach to economic cooperation in our region. There have been some discussions in the Forum about the idea of establishing a Northeast Asian Development Bank (NEADB). This is not a regional grouping as such, but it is a way of institutionalizing regional cooperation in Northeast Asia. It is not an institution for rhetoric, but an organization for action and results. It will serve to tap a greater amount of financial resources from international sources for Northeast Asia than the amount that would be forthcoming without such a bank. The NEADB will help Northeast Asian developing countries finance transportation, communication, and energy infrastructures and start up new business ventures. It will facilitate the exchange and dissemination of reliable information for investors and policymakers in the region. It will become a catalyst for transferring knowledge, experience, and institutions from the developed market economies to the old command economies in transition. It will be able to assist

institution building in developing economies by providing or arranging for professional training in such areas as banking, insurance, and telecommunications. Above all, it will help promote mutual understanding and foster conditions for multilateral cooperation for mutual benefit.

The rationale for and attendant problems in establishing an NEADB were well discussed in the papers and report prepared by the late Dr. Burnham O. Campbell and Professor Hiroshi Kakazu, and their summary⁵ was presented at the previous meeting of the Forum at Yongpyeong and later again in a seminar held in August 1994 at the Sejong Institute in Seoul. There is, therefore, no need for me to go into the detail of that discussion on this occasion. However, as an exponent of the NEADB,⁶ I may make a few comments on the skeptical views expressed by some authors in Japan and elsewhere.⁷

The first and the fundamental question raised by the skeptics is why there is need for a regional bank in Northeast Asia while all countries except North Korea are already covered by the World Bank, Asia Development Bank, or European Bank for Reconstruction and Development. Would it not merely overlap in membership and duplicate the function of the existing banks? This view, however, immediately forces the question of why there are so many multilateral development banks established on a regional basis in addition to the World Bank, such as the Inter-American Development Bank, the African Development Bank, the Middle East Development Bank, the EBRD, as well as the ADB. There must be some valid reason for those banks coming into being in spite of the global coverage of the World Bank. The major reason is that regionally specialized banks are needed to better serve the specific needs of the unique environments of the regions under consideration. Along this line, Professor Campbell gave us a good account of the reason why we need a regional bank in Northeast Asia, which I rephrase in a somewhat different vein as follows.

First, Northeast Asia is unique in that two developed market economies (Japan and South Korea) and four old command economies in transition to market economies coexist adjacent to each other, and the mode of economic exchange and cooperation is markedly different from the rest of the regions of the world. And the two market economies, Japan and South Korea, have many means of helping their neighbors' developing economies transform their economic systems and promote economic development as speedily as possible. What is needed most now in the former command economies is to learn from the experience of the market economies and at the same time to build up transportation and communication infrastructures to link their production of primary resources to markets at home and abroad. However, "given the very different economic system involved and the transition problems being faced, it does not seem likely that any but a regionally specialized lending institution will be sensitive enough to the region's requirements and political realities."⁸

Second, we have to consider the problem of Northeast Asia's access to financial resources from the World Bank, ADB, and other international sources. In allocating loanable funds among various development projects, the existing banks seek to maintain a reasonable historic balance in distribution to various countries competing for funds. Otherwise it would raise the political problem of inequity for the board of directors of these banks. This constraint has two implications for Northeast Asia. One is that it makes it difficult for the banks to take into account the disproportionately large size of the Chinese economy—and its correspondingly large demands for funds—with a result that Northeast China has to face fierce competition in Beijing for access to bank funds. It is also likely that the interests of the Russian Far East may not be

well served by the EBRD, which has limited resources and is closer to and places greater emphasis on Eastern Europe and western Russia. "The existing banks may not pay enough attention to regional complementarities and cross-border requirements in making loans and giving advice. Being a new and relatively small member, Mongolia is likely to be on the periphery of ADB/World Bank concerns," while North Korea is not covered by the existing banks for political reasons. Another implication following from this situation is that Northeast Asia may have to take recourse to self-help efforts to maximize tapping of financial resources from international sources in addition to funds available from the existing banks. This is, I believe, a strong case for establishing an NEADB.

Third, Professor Campbell pointed out that "infrastructure projects in [Northeast Asia] will be better planned and carried out as multinational projects than on a country by country basis, as required by the charters or self-imposed lending criteria of the existing banks." This is particularly important in Northeast Asia to minimize political suspicion of economic domination by one country or another.

Additional skepticism relates to the mobilization of the financial and managerial resources needed for establishing and operating the NEADB. According to these views, financial resources available from South Korea will be very limited while Japan will be forced to readjust the geographic distribution of its aid funds. Moreover, Japan's weakness in the management of external cooperation—due, it is said, to inadequate qualified manpower—is well known, while Korea has even less experience in this area. Since the NEADB is bound to be smaller than the ADB, its efficiency may be doubtful in terms of economy of scale.⁹ However, this observation, in my view, significantly underestimates the economic and intellectual strength of the regional countries, including Japan and South Korea. As for the financial requirement, Professor Kakazu's paper provides us with a rough estimate of the magnitude of funds involved. According to him, the initial subscribed capital of the ADB was \$650 million, which was figured out on the basis of 0.5 percent of the national income of regional members. If we apply this formula to the NEADB, the initial subscribed capital will be in the range of \$15 to \$20 billion, which is almost comparable to ADB's \$23 billion and the African Development Bank's \$21 billion capital subscription in 1992. He also noted that about one-half of the total subscribed capital would need to be paid within five years, the balance being callable capital. He reminded us that "with a paid-in capital of \$8 billion to \$10 billion within five years, \$2 to \$3 billion could be mobilized annually for loans and investments. This is a considerable sum, but it alone would fall far short of the region's legitimate capital requirements, unmet by private sector lenders."¹⁰ So Professors Kakazu and Campbell rightly point out that "other multilaterals will have to be tapped and the NEADB will have to act as the leader of the lending consortia, bringing in private sector lenders that would not be there without the NEADB's intervention." This last point reinforces the need for a regional bank in Northeast Asia.

The problem, then, is how to mobilize subscribed capital of the magnitude mentioned above. My candid observation in this regard is that it is more a matter of political will than of availability of funds involved. The amount of around \$10 billion for the total subscribed capital is less than 8 percent of the surplus in the current account balance of Japan in 1992 and a small fraction of the total surplus accumulated in the past ten years. Japan, of course, will be required to take up only a part of the \$10 billion—about \$7 billion if we apply the formula of 0.5 percent of national income. If we can persuade Taiwan and other countries such as the United

States¹¹ and the European countries to become members, the capital share for Japan and others will be further reduced.

South Korea will need to pay in \$500 million within five years. This is a sizable amount, considering the recurrent deficit in the current account balance of this country. However, there appears to be the political will in place for this country to accept such a financial obligation in the interest of regional economic cooperation, judging from its commitment to \$3 billion of economic aid to Russia and the commitment to another multibillion dollars for the construction of light water reactors in North Korea in keeping with multilateral efforts for the non-proliferation of nuclear arms.

Russia's and China's shares for paid-in capital are estimated at about \$900 million. In the case of China this is equal to about 2 percent of its international reserves at the end of 1991. China, one of the major beneficiaries of the proposed regional bank, is not likely to refuse this amount of financial obligation. As for Russia, data on its international reserves are not available. But relative to its economic size and in view of the great benefits that can be derived from a regional bank, Russia is likely to jump on the wagon.

I wonder why it has been suggested that the managerial resources needed to create and operate a regional bank are not available. There are many well-experienced and well-educated overseas Asians who could be tapped for the bank's operations. If that is not enough, the bank would be able to recruit talented professionals from Western countries. Professor Kakazu reports that in the ADB professionals from the developed countries within and outside the region outnumber professionals from the region's developing members.

Skeptics also argue that the World Bank and the ADB are better suited for taking politically neutral positions mainly focused on the economic rationality of the proposed projects from the borrowing countries. The advice of these banks on economic reform for the old command economies is less likely to be taken as interference into domestic affairs. But, in my view, there is no reason why the proposed NEADB cannot be made politically neutral to the same degree as the World Bank or the ADB. If a multilateral financial organization is involved openly in the political affairs of a country, that organization is doomed to fail in any event.

On balance, the real problem lies with the lack of political will and leadership in the region. It is reasonable to expect Japan to exercise its political will and play the leadership role in the region with aid from other countries. Japan's self-imposed inhibition from playing a leadership role in international affairs is well known. However, Japan needs to reappraise her position in Northeast Asia and in the world. How long will Japan be able to depend on the U.S. and European markets for its exports and pile up trade surpluses year after year, becoming a major target of economic criticism from the West? Situated in Northeast Asia, Japan, like South Korea, may realize how important this region will be as a potential market for Japanese products and how important it is to speed up the growth and development of this region for its own interests. Based on its experiences in trade relations with the United States and Europe, Japan may have come to realize that a chronic trade imbalance with the countries in the region and elsewhere is not desirable even if it is in part the result of faults on the part of the deficit countries themselves. Japan also may well consider whether or not economic penetration of the Northeast Asian developing countries solely on a bilateral and market basis will reinforce Japan's image as merely an economic giant in the international community, making it more

difficult for her to assume leadership responsibility in Northeast Asia and in the world.

In conclusion, there are many difficulties, to be sure, in multilateral approaches to economic cooperation in Northeast Asia, and Asians are generally weak in pursuing common interests by doing things together. It is, however, hasty and ill advised to conclude that market forces alone will take care of this weakness. By means of conscious efforts by the governments involved and through the process of learning by doing, we can foster multilateral approaches to regional problems. Relegating the problem to market forces contradicts in a sense the tradition of Japan, Korea, and others in the region in which the role of the government has been predominant not only in the economy but also in every facet of national life. The experience of ASEAN tells us that regional cooperation is a tedious and thorny process but one that can evolve into a free trade area in the long run. In the age of globalization, we are well advised to make a start on the long journey toward a free and prosperous Northeast Asian community, and the creation of the NEADB would be a first step in that direction. Thank you for your attention.

Notes

1. Hisao Kanamori, "The Future of the Northeast Asian Economy," in *Regional Economic Cooperation in Northeast Asia*, Proceedings of the Yongpyeong Conference, Hawaii Asia-Pacific Institute, Honolulu, 1993, p. 28.

2. See, for instance, Sumio Kuribayashi and Hiroshi Takahashi, eds., *Hokuto Kaihatzu Senryaku Saiko* (Reflections on the development strategy for Northeast Asia), Sasakawa Peace Foundation, Tokyo, 1993, pp. 35-38.

3. Council for Mutual Economic Assistance, Communist Economic Conference. Dissolved in June 1991.

4. One can argue that political factors as well as economic or market forces underlay the formation of regional bodies. Professor John Zysman, for instance, argues that NAFTA was "driven by a political logic of supporting Mexican economic reform," while in the EC "economic gravity has been politically amplified." See John Zysman, "National Roots of a 'Global' Economy," presented at the Conference on Globalization and Regionalization: Implications and Options for the Asian NIEs, August 15-17, 1994, East-West Center, Honolulu, Hawaii.

5. See Burnham O. Campbell, "Financial Cooperation in Northeast Asia: An Overview of the Case for a Northeast Asian Development Bank," in *Regional Economic Cooperation*, pp. 40-53. See also Hiroshi Kakazu, "The Possible Organizational Structure and Funding Sources of a Northeast Asian Development Bank, *ibid.*, pp. 52-68.

6. I first introduced this proposal at the international symposium "In Search of a New Order in East Asia," sponsored by the Institute of East Asian Studies, University of California, Berkeley, and the Dong-A Ilbo, Seoul, at Santa Barbara, California, February 1-3, 1990. I spoke of the proposal on various occasions thereafter. See, for example, D. W. Nam, "Changing Pattern of Economic Interaction," in Chong-Sik Lee, ed., *In Search of a New Order in East Asia*, Institute of East Asian Studies, University of California, Berkeley, 1991, pp. 109-21. See also D. W. Nam, "The Prospect of Economic Cooperation in Northeast Asia," presented at the Conference of the Northeast Asia Economic Forum at Tianjin, China, September 2-7, 1991.

7. See, for instance, Ken-ichi Imai, "NEA chiiki no boeki kozo" (Trade structure of Northeast Asia), in *Hokuto Kaihatzu*, pp. 223-24.

8. This and the following quotations from Campbell, *Regional Economic Cooperation*, p. 47.

9. Imai, "NEA chiki," p. 224.

10. This and the following quotation from Kakazu, *Regional Economic Cooperation*, p. 66.

11. Apart from the financial consideration, U.S. participation is highly desirable for many reasons, including its close relation with Japan and South Korea.

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Your Excellency, Governor Hirayama, distinguished delegates, ladies and gentlemen: It is an honor for me to address this prestigious forum on behalf of the United Nations Department of Development Support and Management Services. First, then, I would like to express my gratitude for the organizers who invited my department to this important meeting.

At the outset, please allow me to briefly dwell upon some global economic issues that are attracting the attention of the international community. The trend toward closer worldwide economic interdependence and globalization of markets along with *greater regional cooperation and integration are becoming fundamental features of the world economy.* The process of deepening globalization has accentuated the interdependence among nations and has presented both new challenges and opportunities for individual countries in the international community. Globalization involving technological transfer, trade and capital flows, and expanded multinational production is creating an integrated world, reinforcing the need for expanded international cooperation through partnerships. Indeed, the solution of global problems is making such cooperation even more imperative.

In this regard, I would like to note that the international community is currently paying particular attention to the recent report of the secretary-general of the United Nations. In his report on the agenda for development, the secretary-general notes that new, human-centered cultural development is needed in which peace, the economy, intellectual protection, social justice, and democracy are five major, interlinked dimensions of development. The emerging consensus on the priority and essential dimensions of development and growth calls for a new framework for international cooperation.

This is even more apparent when it comes to addressing the problems of how the United Nations system can build on the peace process to provide a solid foundation for sustainable development. Given the many instances of regional stability, we believe that the United Nations, indeed, has an important role to play in forging this so-called peaceful development continuance. The successful resolution of the member countries' situations throughout the world is indeed a global issue. The United Nations will commit to advancing global integration development under such circumstances. Also, on a global scale, the successful outcome of the multilateral trade negotiations of the GATT and the recent creation of the World Trade Organization hold out good prospects for significant benefits over time for expanded world trade and global economic development, including growth in the countries of the Northeast Asia region.

As I just mentioned, regional economic integration and cooperation arrangements are now a major force in global economic linkage. Attempts at forging new trade groupings are being met in almost all regions. These range from the largest groupings, such as the European Union and the North American Free Trade Agreement, to smaller but very significant cooperation arrangements in Asia, Africa, and South America. The trend toward building strong regional trading arrangements has been associated with outward-oriented economic strategies in conjunction with growth-related objectives. Strengthening of regional political security and cooperation

has always contributed to the impetus toward developing complex regional economic, trade, cultural, and political arrangements. The many examples of regional integration and growth provide a rich experience upon which new policy initiatives at the country, regional, and global levels can be usefully drawn. Innovative forms of more focused economic cooperation such as the subregional growth zones and rich growth triangles seem to have been most successfully implemented in the Asia-Pacific region. The success of those growth zones has encouraged others to emulate them.

Northeast Asia plays an increasingly important role in the world economy. The strengthening and broadening of economic cooperation among countries in this region need to be further enhanced. In the emerging global environment, drawing on the synergy generated through regional economic cooperation may be particularly useful. Innovative approaches to development cooperation will provide important opportunities for the exchange of information and expertise, transfer of technology and know-how, financial and technical cooperation, augmental management, and investment and trade promotion which could contribute to development in this region.

We believe that the successful implementation of full measures in the economies in transition in this region could also contribute to such cooperation. Currently those economies are undertaking efforts to move ahead with the development of market-oriented economies and achieve sustainable growth, and therefore to accelerate their integration into the rapidly evolving regional and world economic system. Such integration would support the transformation of these economies toward market-oriented policies, and it would have a positive impact on regional and world trade as well as global economic growth and development.

The United Nations system continues to provide technical support to the economies in transition to advance their transformation process. In its technical cooperation delivery activities, the UN Department for Development Support and Management Services gives particular attention to the areas of institution building, establishment of government structure, and regulatory procedures in human resource development. In addition, the Department provides technical support to member countries and to regional projects in diverse areas of economic and financial management, public sector management, infrastructure development, and augmental management, as well as support to private sector development. In this context, the Department has organized workshops and seminars on such topics as foreign direct investment, macroeconomic policies, and establishment of special economic zones. For example, in this region of the world, the Department and the government of Kazakhstan are planning to convene an international workshop on structural investment policy for transition to a market economy this coming May, in Kazakhstan, with generous support from the Japanese government. This forum will provide an opportunity to discuss the ways of strengthening international and regional cooperation in the investment efforts among the participating countries.

In the near term, the Department will concentrate its technical cooperation on long-term sustainable transformation and integration of the economies in transition into the global economic framework. We believe that those countries in the Northeast Asia region can benefit greatly from cooperation with the Department in the United Nations system in those areas of technical cooperation.

In conclusion, I would like to express the sincere hope that the exchange of views and ideas during this meeting will contribute to building a new consensus for regional economic cooperation and the development of Northeast Asia. We would like

also to congratulate the organizers of this forum for their farsighted initiatives, and we wish for a successful and a fruitful meeting. Thank you.