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## Prospects for Regional Economic Cooperation

Georgi Toloraya

The atmosphere is still not ripe enough for deep, fruitful, and sustainable industrial interaction and integration in Northeast Asia, for several reasons:

- security threats, conflicts, and contradictions in the area—Korean Peninsula, Taiwan, the Russian-Japanese territorial issue, suspicion over U.S.-Japan increased military cooperation, including the Theatre Missile Defense (TMD) issue
- an increasing gap in the level of economic development between high-growth areas (Japan, South Korea, the coastal areas of China) and problem areas (DPRK, the Russian Far East, Mongolia, some parts of China), which hinders a “horizontal” division of labor
- system barriers (difficulties in the development of full-scale microeconomic ties between the developed market economies and the centralized and transitional economies).

Positive signs, on the other hand, include:

- the start (though slow) of creating regional infrastructure (pipelines, electric power lines, railroads, port facilities, and the like)
- pilot investment projects, including free economic and other special zones
- certain improvements in the political atmosphere, resulting in new possibilities for economic cooperation (inter-Korean economic contacts, Russian-Japanese cooperation)
- the emerging ideas of the need for multilateral economic and financial mechanisms.

Historically, industrial and investment cooperation, including technology transfer in the region, developed in parallel on each side of the “iron curtain”: Russia-North-Korea, China, Mongolia; China-North Korea; Japan-South Korea. Recently new bilateral “avenues of integration” were added: Japan-China, Mongolia; South Korea-China, Mongolia. The Russian Far East and North Korea, however, are lagging behind in attracting new capital and technology inputs. More active involvement of these areas is an important factor in utilizing the extensive growth potential for regional integration. Japanese and South Korean investment there could significantly upgrade the state of regional economic integration.

Overall trade investment liberalization in the Northeast Asia area is a thing of the future, since not all the countries are even members of the WTO, and the

development gap is too great to allow for uncontrolled transborder material flows. However it is necessary to create conditions for easier exchanges by improving business infrastructure and creating easier market access.

“Enclaves” and “model areas” of technological and industrial cooperation could be important catalysts for the development of a “horizontal” interregional division of labor. Along with existing free economic zones in China, the Nakhodka Russian-Korean Industrial Complex, the Russian-Chinese Yantai Experimental Model Base for Cooperation in High-Tech, and the Rajin-Sonbong FEZ in North Korea could become important factors in regional integration and transborder capital and technology flows.

Russia is interested in promoting regional industrial and technological cooperation for many reasons:

- From the point of view of internal politics, the industrial and technological development of the Russian Far East is necessary to prevent its further degradation. The lack of internal investment resources means that the development of this area can only be achieved through industrial and technological cooperation with developed countries.
- In the twenty-first century the Russian Far East and Siberia—some scientists have introduced the term the “Russian Oriental Passage”—can become an engine of growth for Russia as a whole. However, this can be achieved only by creating a competitive industrial structure there.
- Economic integration in Northeast Asia means increased stability, which is Russia’s priority in the region.
- Geopolitically, increased economic cooperation and trade with the countries of Northeast Asia (especially China, Japan, and South Korea) are important for preserving a balance in Russia’s foreign policy.

The idea of a multiparty dialogue mechanism for Northeast Asia has been promoted and discussed by several countries, including Russia, South Korea, and Japan. Security and political issues seem to be too sensitive at the moment to be discussed in such a format, and they are mostly dealt with in bilateral formats. However, such a multiparty format could be quite proper for discussions of broad problems of economic cooperation and overall interaction in nonpolitical areas. The Northeast Asia Economic Forum is an important venue for the exchange of ideas, but sooner or later the need to take decisions will come. Therefore, a government-related mechanism is needed, although it is too early at this point to propose any concrete form for it.