

# Japan Sea Rim: Catalyst for Growth

By Kazuo Ogawa

Soviet President Mikhail Gorbachev's visit to Japan in mid-April heralded the advent of a new relationship between Japan and the Soviet Union. The progress is expected to accelerate new forms of economic exchange also involving China and other Socialist economies. And while concern about a conservative backlash in Moscow clouds future prospects, East-West detente still seems likely to ensure greater economic activity throughout the region.

Japan's economic development has been firmly buttressed by its economic and trade relations with the countries of the Pacific Rim, and the concept of a "Pacific Rim Economic Sphere" is a hot topic for debate. In sharp contrast to the boundless Pacific, however, the Japan Sea has carried a set of negative connotations. The Soviet Union and China, two major powers with systems radically different from Japan's own, lie on the other side of the Japan Sea. To the West, it washes against the Korean Peninsula, a tinderbox of potential conflict between North and South Korea.

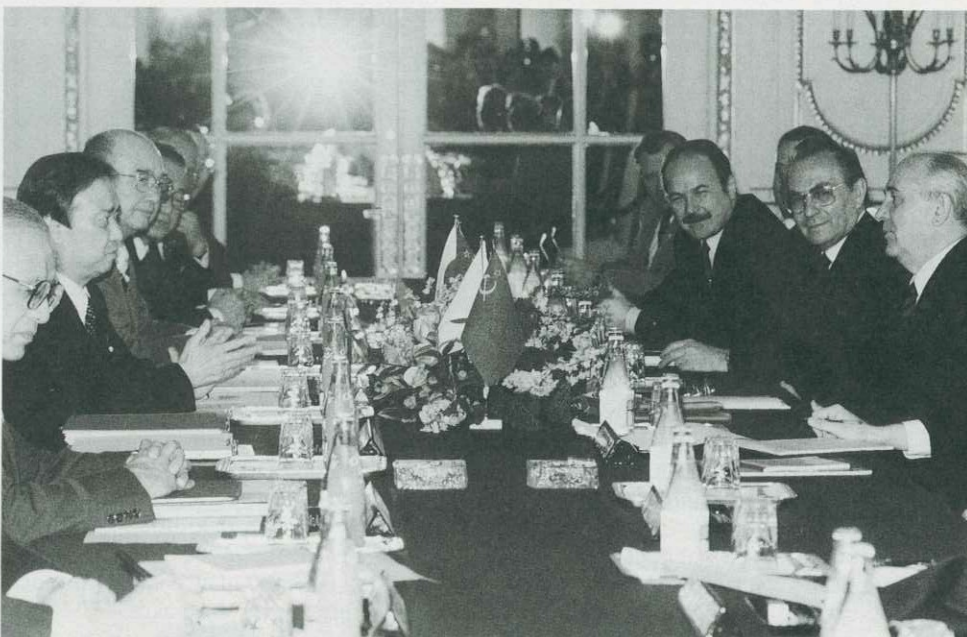
## With a gigantic potential

The ongoing East-West detente is now transforming the Japan Sea from an ocean of tension to an ocean of exchange. The rapprochement has brought into the limelight a new concept: an economic sphere embracing all the lands bordering on the Japan Sea—Japan, the Soviet Far East, the northeastern provinces of China and both Koreas, in short, a "Japan Sea Rim or Northeast Asian Economic Sphere."

Such a gathering would account for 20% of the land mass of Asia and 10% (290 million) of its population. Economically, its GNP would total an imposing \$3 trillion. The potential is there for economic relations on a gigantic scale.

The most important factor making the formation of a Japan Sea Rim Economic

Photo: Kyodo News Service



President Gorbachev in April became the first Soviet head of state to make an official visit to Japan, heralding the advent of a new relationship between the two countries.

Sphere feasible at last is the changes in the international environment. The birth of Mikhail Gorbachev's regime in the Soviet Union has shifted the superpower relationship from one of confrontation to one of dialogue, and has ended the postwar division of Europe.

Regarding Asia as well, Gorbachev, in his famous July 1986 speech in Vladivostok, declared the Soviet Union a Pacific power, and expressed his desire to link the economic development of the Soviet Far East to the formidable economic power of the Pacific nations.

Given the Soviet Union's geographical position, it is certain that the countries of the Japan Sea dominate Gorbachev's perception of the Pacific power balance. In a follow-up speech in Krasnoyarsk in September 1988, the Soviet leader expressed his desire to expand economic ties with South Korea. That paved the way for the rapid establishment of diplomatic relations between the two countries in September 1990, followed by South Korean

President Roh Tae Woo's visit to Moscow in December.

With Soviet-Chinese relations normalized once again after Gorbachev's visit to Beijing in May 1989, the relaxation of tension in Asia has gained momentum. Now, talks between Japan and North Korea on establishing bilateral relations are keeping the ball rolling, further laying the foundations for a new era of exchange among the countries of the Japan Sea.

The second-biggest factor behind the formation of this new economic sphere is internal change in the countries concerned, in particular their economic liberalization and the division of power. These have been encouraged by the rapid move toward market-oriented economies and the rise of regionalism in the Soviet Union and China.

For the moment, China is well ahead of the Soviet Union in this transition. It has moved aggressively to establish ventures with foreign capital and organize special economic zones. Beijing has already



granted considerable autonomy in economic matters to the northeastern provinces, which in turn are expanding their economic ties with the Soviet Far East, the Japan Sea coast of Japan, and South Korea.

Similarly, the decentralization of power in the Soviet Union that lies at the core of *perestroika* has been giving the Far East region more and more latitude. Joint ventures with foreign companies have increased sharply since the 1987 liberalization of trade, which broke what had been a state monopoly. Plans for a special economic zone are well beyond the planning stage.

As political conditions improve, the different production elements in the countries surrounding the Japan Sea are becoming the key factors that will shape the future economic sphere. Japan's capital and sophisticated technology, South Korea's capital and intermediate technology, the Soviet Far East's rich natural resources, China's agriculture and work force, and North Korea's mineral resources and work force could all complement one another in a mutually beneficial horizontal division of labor and trade among partners.

All the other countries of the Japan Sea look to Japan's outstanding capabilities in finance, industrial technology, information gathering, corporate management and market cultivation. Japan will find itself forced to play a leading role in multilateral economic cooperation within the sphere.

South Korea is also well positioned to contribute with its intermediate technology and substantial capital. At the same time, it stands to benefit immensely by exporting its products made using intermediate technologies and light industrial products and importing raw materials. Some sectors in the Soviet Union are leaning toward South Korean intermediate technology rather than that of Japan, because Japan's highly sophisticated technology in many cases would make a poor match with the Soviet Union's current technological level.

Rich in coal, natural gas, nonferrous metals, lumber, fishery products and other natural resources, the Soviet Far



Trucks on the iced up Amur River near Khabarovsk. Rich in natural resources, the Soviet Far East has vast economic potential.

East harbors vast economic potential. Yet most of this potential remains untapped, due to lagging infrastructure, constant labor shortages in the vast underpopulated region, and the low priority given to development and investment in this remote corner of the country. The Soviets well know that Japan could easily help overcome these handicaps. They see great merit in attracting Japan's technology and capital, as well as tapping the work forces of China and North Korea.

Nor is it a one-way street. The development of the Soviet Far East region could also benefit Japan, both Koreas and China. Once the infrastructure is in place and the export system becomes available, the region could become a treasure trove of natural resources. Development could even become a multinational venture embracing China's northeastern provinces as well.

## Resource treasure

China's northeast, unlike the Soviet Far East, is already one of the country's industrial centers. However, its industrial facilities are largely obsolete and urgently need to be replaced. This, too, necessitates the introduction of technology and capital from Japan and South Korea, some of which could be paid for with agricultural goods. The region is already an exporter, and gigantic new agricultural projects are planned.

North Korea could be yet another party

to the Japan Sea Economic Sphere. Its workers already participate in Soviet lumber development projects. Rich in mineral resources, North Korea should also be interested in bilateral and multilateral cooperation within the sphere.

The Japan Sea Rim Economic Sphere will be characterized by its openness. Indeed, as currently envisaged, it would be open wider to the outside world than virtually any economic zone. Linked with Taiwan and Hong Kong through the East China Sea and with all of Southeast Asia, Oceania, the United States and Canada across the Pacific, the Japan Sea Rim could easily plug into economic cooperation and trade with the Pacific Rim Economic Sphere, which embraces the industrialized powerhouses of Japan and the U.S. Pacific coast, the rapidly growing Asian NIEs (newly industrializing economies) and the potential economic giant, Australia.

Both China and the Soviet Union are increasingly focusing attention on the promotion of exchange with this region, whose trade in value terms accounts for a third of all trade among the world's free market countries. And for the Soviet Union in particular, the Japan Sea Rim Economic Sphere is the inevitable gateway to its advance into the Pacific Rim. In September this year, for example, a Pacific Rim consumer goods fair will be held in Vladivostok, drawing exhibitors from as far afield as Thailand, Hong Kong and Australia.



Today economic exchange among the Japan Sea Rim countries is still limited. But the concept of a new economic sphere is drawing increased international attention because of the region's enormous potential. There are already signs of current bilateral trade evolving into multilateral trade, encouraging prospects that the concept will come to fruition.

So far, however, the most conspicuous progress has been in exchanges. The Japan Sea Symposium, held in Niigata on the Japan Sea coast in September 1988, brought together specialists from Japan, China and the Soviet Union for enthusiastic discussions on economic exchange in the region. This was followed in April 1990 by a working-level conference on economic development held in Vladivostok attended by Japanese, Soviet and South Korean representatives.

An international conference on economic development in Northeast Asia, held in Changchun in Jilin Province, northeastern China in July 1990, drew participants from all five Japan Sea countries as well as the United States and Mongolia. Significantly, the East-West Center in Hawaii was among the sponsors of the conference, which heard an intriguing report on initiatives for developing the "Golden Delta" stretching from Vladivostok to China's Tumen River and North Korea's Chongjin. Such tripartite cooperation could bring inestimable benefits to China, giving it direct access to the Japan Sea via the Tumen River, the mouth of which forms the Soviet-North Korean border. The Soviet Union and North Korea would also gain from regional development.

On the trade front, it is traffic between South Korea and the Soviet Union that has been increasing most sharply in the Japan Sea region in recent years. Bilateral trade between the two countries went from \$150 million in 1987 to top \$900 million in 1990. Border trade between China's northeastern provinces and the Soviet Far East has also been growing, and is now running at some \$300 million a year.

In response to the decentralization of power in the Soviet Union, Japanese local governments have been promoting their

own independent economic exchanges with the Soviet Far East. The Japanese private sector is not far behind, with more than 10 companies having opened branch offices in Khabarovsk since 1990 in anticipation of an expansion in bilateral trade.

## Lingering problems

For all of its promise, the Japan Sea Rim is not without its problems. Backpedaling on *perestroika* in the Soviet Union and the crackdown on the pro-democracy movement in China could serve as a damper for the economic sphere concept, as does the legacy of Japan's prewar and wartime colonial rule.

On the economic side, the Soviet Far East and China's northeastern provinces hardly present an attractive environment for foreign private capital. The Soviet Union must hasten its transition to a market economy, nurture personnel knowledgeable in the ways of business, and improve such basic infrastructure as port and communications facilities.

For the time being, at least, it will be more effective to focus on a number of small, easily achievable short-term projects than to gamble on mega projects. It will take time for the loans from foreign countries, so essential for large undertakings, to become available. The private sector alone has neither the funds nor the ability to absorb the risks of large development projects. Ultimately, their success will hinge on whether Japan and other fund-supplying countries can offer the loans needed to lubricate development. Forestry is a good example of the sort of multinational cooperation necessary to develop the region.

Japan is the most experienced country in the development of lumber resources in the region, and is fully capable of supplying the needed funds and equipment. However, its own declining lumber demand has made it reluctant to purchase as much lumber as in the past. On the other hand, China and South Korea have vast demand for lumber, while Chinese workers could take the place of the North Korean, Vietnamese and Cuban workers who have been employed so far in the labor-short region. Under the circum-

stances, Japan, the Soviet Union, China and South Korea could find it more advisable to band together in developing Soviet lumber resources than to each try to go it alone.

Over the long term, such active economic exchanges will no doubt intensify international competition. Japan is already seeing its dominant position in the Soviet Far East market erode under the impact of Soviet-Chinese trade. Barter trade between the Japan Sea coasts of Japan and the Soviet Union stagnated throughout the 1980s as Sino-Soviet rapprochement resulted in the resumption of border trade. With the Soviet Far East supplying lumber, farming machinery and chemical fertilizer to China's northeastern provinces in exchange for farming and livestock products and light industrial goods, a complementary relationship is already well under way. Similarly, a sharp increase in Soviet-North Korean border trade poses yet another threat to Japan's business interests.

Nor is international competition in the Soviet Far East limited to the countries forming the Japan Sea Rim economic sphere. At present, Japan is naturally more active than any other country in joint ventures in the region, being involved in 14 so far. But companies not only from China and North Korea but from the United States, Canada, Vietnam, New Zealand, Singapore, Brazil, Sweden, Switzerland and Britain already have a stake in such ventures. The U.S. is involved in seven already.

International competition in the Soviet Far East and China's northeast is expected to intensify further in the future, with the United States and South Korea jockeying for position to cash in on future growth. In time, international coordination may be needed to adjust economic competition. But for the time being, any progress in unlocking the promise of the Japan Sea Rim should bring gains for all. ■

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