

NEW DYNAMICS IN NORTHEAST ASIA: THE RUSSIAN FACTOR^a

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Synopsis



Russian policy in Northeast Asia since 1991 reflects a new strategic engagement, with important implications for Russia's partners in the region and for U.S. policy. This paper sets out to address the underlying factors: Russia's objective of greater integration into the world economy as a means of economic and political transition, Russia's new diplomacy with emphasis on supporting national interests and multilateral approaches, a shift in Russia's strategic view of the Russian Far East and Pacific Russia, and the new dynamism in the government under President Putin to pursue a constructive course in support of national interests and stable political relationships.

This paper then seeks to position Russia within the region, and offers a new definition of *Pacific Russia*, a concept that covers both the Russian Far East and Eastern Siberia and discusses some of the most significant economic relationships in a Northeast Asia and Pacific context. A final section takes an overall policy perspective and identifies some of the policy implications

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that flow from the analysis, particularly in terms of Russia's new emphasis on multilateral processes and mechanisms.

Overall, the paper argues that to date the Russia factor has either been completely ignored or given insufficient attention in much of the analysis on Northeast Asia, and that this needs to be corrected, both in the collection of information for analysis and in the development of policy towards the region.

Introduction

Russia's role in Asia and the Pacific has been largely overlooked since the end of the cold war. Other countries have been preoccupied with other issues, and have not fully seen or appreciated the major changes in Russian policy and the new opportunities they present. In the past 10 years, Russia and Northeast Asia have undergone tremendous change. While Russia was passing through various stages of market reforms and democratization (with a re-assessment of its objectives and roles on both the regional and global stages), China's economy has grown rapidly, and Japan has struggled with a long recession. On the international front, the WTO has come into existence, APEC has passed through four incarnations,¹ the region was shaken by the 1997 Asian financial crisis, followed by Russia's 1998 crisis, and the recent world recession. All of this has brought along a new set of international conditions, and Russia has embarked on new policy directions for opening to the region.

role in Northeast Asia from a Washington perspective during a watershed year in the relationship between Russia and the United States from September 2001 to June 2002.

Strategic Engagement

The evolution of Russian policy towards Northeast Asia since the emergence of the Russian Federation in place of the former Soviet Union can be traced in terms of four major factors:

- The objective of greater integration into the world economy;
- New principles and approaches in Russian diplomacy, including an emphasis on multilateral approaches in dealing with issues and problems;
- Recognition of the distinct interests and orientation of Russia's regions facing the Pacific; and
- Most recently, a more integrated and dynamic pursuit of economic and strategic objectives.

Greater integration into the world economy

For Russia, achieving greater integration into the world economy is a principal means of transition to a market-based, democratic system. In Pacific Russia, this meant increased interaction, trade and investment with neighboring countries—China, Japan, the two Koreas and Mongolia. The defining concept was “from the system of security towards a system of economic cooperation in Northeast Asia.” On Russia's side this began with the opening of the previously closed city of Vladivostok,^b giving new attention to neighboring economies, allowing for freer movement for the factors of production, and raising expectations that products from the Russian Far East could find new markets abroad.

^b This was a significant symbol of the new era, and of the aspirations of the Russian Far East. Governor Vladimir Kuznetsov opened a city that had once been an important international trading and commercial entrepot and which was geographically close to China, Japan and Korea. Vladivostok was closed to almost all outsiders (including Russians) for security reasons as headquarters of the Pacific Fleet since the 1930s.

To some extent the expectations were impractical, and reality proved to be much more complicated. What took place was an extreme domestic transformation, accompanied by the severing of many economic links with European Russia and the newly independent countries in Eastern Europe (for which the Russian Far East historically provided component parts and raw materials). Concurrently the role of the state and the central government weakened without any corresponding degree of effective access to world markets and new investment.

Greater integration into the regional and world economies have nevertheless remained a guiding objective, although its effective pursuit requires the establishment of more preconditions for a functioning market economy and better market access, with a clearer domestic and international policy framework and stronger leadership from Moscow.

The ‘New Russian Diplomacy’

Russian policy in Northeast Asia has developed within the framework of Russia’s “New Diplomacy”, which has evolved to reflect the interests of the new state after December 1991, based on the acceptance of market principles for economic development, a pragmatic, non-ideological approach for formulating foreign policy, and a broad re-definition of national interests.² The new foreign policy lays emphasis on promoting the national economy—including Russia’s integration into the world economy—together with strengthening international and regional stability and security, which are essential for Russia to address internal political and economic issues. An important element in the new policy is the use of multilateral approaches to address issues and problems, with increased emphasis placed on membership and active participation in international organizations and other multilateral mechanisms (including international economic institutions and regional organizations).

In Northeast Asia, Russia has applied its New Diplomacy in several principal directions:

- Constructive support for stability and security, to provide a “steady state” external environment. For example, the new U.S. security guidelines with Japan have been viewed neutrally, Russia has joined with China and several central Asian countries in the “Shanghai Five” process of confidence-building, border demarcation and cooperation on border security, and constructive initiatives have been taken with respect to the Korean Peninsula in the interest of promoting improved stability in the region.
- Virtual non-involvement with the Asia-Pacific economy pre-1992 has been replaced by a wide-ranging policy of promoting international trade and investment in Northeast Asia and the Pacific.
- Russia has sought membership in all existing regional cooperative structures and forms of regional integration, ranging from APEC and the ASEAN Regional Forum (ARF) to the World Trade Organization (WTO) and the Asian Development Bank (ADB).
- The development of stronger, mutually beneficial bilateral relations with key countries in the region has been another major priority. Dialogue with China has been wide-ranging and intensive, with a number of important agreements which lay a basis for what is already emerging as a stronger trade and economic partnership. High-level attention has also been given to strengthen relations with Japan, although with less concrete results to date. And the dialogue with the two Korean states represent a historic watershed in restoring active Russian diplomacy with both strategic and economic objectives on the Korean Peninsula.

Recognition of the interests and role of Pacific Russia

From Moscow's (or St. Petersburg's) point of view Russia's Eastern regions have historically been viewed as an adjunct to European Russia—as a location for penal colonies, suppliers of strategic natural resources, providers of components for Europe-based industries, the location of an important military/industrial complex, and, in the case of the Far Eastern territories, a window on the Pacific and a strategic area for national defense.³

Since 1992, it has been increasingly understood that the Russian Far East and other eastern regions have their own economic and political interests in national policy as well as foreign policy and international economic relations.^c This reflects the change in governance from a command system to one with wider political participation, substantial decentralization of powers and influence to Russia's 89 regions or “subjects of the Federation” under President Yeltsin, and a decline in the military/strategic role of the Russian Far East. This also demonstrates the implementation of a market economic system, with the need to base policy on objective economic factors, including comparative advantage and costs of production and transport. And it reflects a more mature and stable relationship between the central government and the regions, one that recognizes the important role each level of government plays.

With its natural economic orientation towards Northeast Asia, long distance transportation capability and proximity to the Pacific Rim, this major change in policy orientation and implementation have many potential benefits for Pacific Russia. Regional leaders already participate in international meetings, such as the APEC Investment Symposium and Fair

^c A declaration by President Gorbachov in the mid-1980s on the importance of integration with the Asia-Pacific region was not followed by any significant policy action, and only since the mid-1990s have efforts been made to shape a regional economic policy, beginning with the program for development of the Russian Far East and Zabaikalie for 1996-2005 and then more recently steps have been made to encourage the development of regional policies in the Federation and promote greater integration with the Asia-Pacific region.

planned for Vladivostok in September 2002. And these international meetings can be expected to increase in the region. In the context of APEC in particular, a wide range of individual sectoral, project, trade facilitation and other fora provide a vehicle for business and government participation from Russia's eastern regions to interact with their Northeast Asian and Asia-Pacific counterparts.

Pursuit of economic and strategic objectives

The election of a new Duma at the end of 1998, a new president in early 2000, and a stronger economy mark a time of greater internal political stability which has permitted the development and pursuit of a more integrated set of national policies, including a long-term strategic development plan and the development of a supportive foreign policy.⁴ There is new dynamism in the pursuit of economic and strategic objectives, including policies supportive of both the process of internal reform and the strengthening of the country's international position.⁵

This dynamism is reflected in the increased priority placed on relations with Asia, in particular Russia's new engagement with Northeast Asia and the Pacific. As Foreign Minister Igor S. Ivanov has stressed, Russia is pursuing its goals in Asia by becoming more deeply involved in the process of regional political and economic cooperation and integration by seeking new forms of mutually beneficial cooperation with other countries in the region.⁶ A brief overview will illustrate what has been a sometimes-dizzying round of foreign policy activity.

Moscow has intensively pursued dialogue and cooperation with China, as shown by President Putin's visit to Beijing in the summer of 2000, President Jiang Zemin's visit to Moscow in 2001, and the signing of a wide-ranging treaty of friendship and cooperation, in addition to a number of other meetings and contacts. Expectations for increasing trade and

economic relations are high, including joint energy, fuel processing, transportation, manufacturing and new technology projects. The prospect of a pipeline to transport Siberian oil to Northeast China has been advanced by the commencement of a feasibility study by oil companies from the two countries. Russia has also been cooperating with China and several central Asian countries in the “Shanghai Five” process, which as of June 2001 expanded to a membership of six countries under a new name, the Shanghai Cooperation Organization. The new group met in St. Petersburg in June 2002 to consider a more formal organization charter, and a wider mandate extending to bilateral trade issues and improvement of “joint legal, banking and financial infrastructures of cooperation.”⁷

Russia has pursued relations with Japan despite continuing disagreements over sovereignty and border issues in the Southern Kuriles. The 1998 Moscow Declaration on building a long-term partnership was followed by President Putin’s visit to Japan in September 2000, and the issuing of a joint statement on cooperation in international affairs by the two countries (including Japanese support for Russia’s entry into WTO). Although, overall progress has been slower than hoped, expectations for closer cooperation remain. Russia—Pacific Russia in particular—would benefit from stronger trade and economic relations, which could also significantly strengthen the regional economy.

Russian initiatives towards the two Koreas are especially noteworthy. After a decade of chilly and distant relations, the year 2000 saw the first visit by a Russian President to North Korea since the 1950s, and this was followed by the equally historic and much-reported visit of North Korean leader Kim Jong-il to Russia in August 2001. Together with President Putin’s visit to South Korea earlier in the year, these events reflect key elements of Russia’s new diplomacy: to relieve tension and promote reconciliation on the Korean Peninsula and strengthen trade and

economic cooperation. A more recent visit by the North Korean Foreign Minister to Moscow in 2002 included discussions on possible joint energy and agriculture projects and the reopening of mothballed plants from an earlier era of cooperation between the two countries.

President Putin's visit to South Korea in February 2001 was intended to further strengthen the relationship with an already important economic partner, particularly for the Russian Far East. Specific Russian objectives related to regional integration, including construction of a railway through the DPRK to South Korea and prospective regional energy projects, and to highlight Russia's willingness to play a constructive role in the reduction of tensions on the peninsula.

In APEC, Russian ministers and regional leaders have become familiar participants, and President Putin has attended three APEC Summits since his first in 1999 as Prime Minister. Russian participation now reflects a clearer understanding of prospective benefits from the APEC relationship. Trade liberalization discussions—including 'trade facilitation' measures that reduce non-tariff constraints on trade—improve the climate for trade and investment and help Russia deal with WTO accession. Russia's voluntary submission of its latest Individual Action Plan (IAP) on trade and investment liberalization to peer review in 2001 provided an opportunity to use APEC to prepare for WTO negotiations.⁸ APEC Ministerial and Summit meetings have also provided Russian leaders a valuable forum to interact with their counterparts from the region, including the United States. In Shanghai in October 2001, President Putin played a significant role in the dialogue with President Bush and others which resulted in the Leaders Statement on Counter-terrorism. Also, the peer review process on Russia's IAP was followed by support from APEC leaders for accelerating Russia's accession to the WTO.

From the perspective of Northeast Asia, Russia's re-definition of national interests and foreign policy priorities have led to a new strategic engagement in the region with a strong emphasis on constructive participation and multilateral approaches. This new engagement reflects a national, as well as regional, strategy of increasing integration into the world economy, and a recognition—for the first time in Russian history—of Pacific Russia's special interests and economic potential. It also demonstrates an increasing awareness of Russia's Eastern territories' resource potential in a Northeast Asian regional context, and concepts such as an “energy bridge” that could increase the region's energy security.

Positioning Russia in the Region and the Concept of Pacific Russia

Russia's position in Northeast Asia is different from that of other countries in the region; it is located not only in Asia, but also in Europe. This has a major influence on policy and affects the attitudes of other countries. It also continues to influence Russia's own perspective, despite the new focus on Russia's eastern regions and Northeast Asia. It requires that, despite the distance between the different regions and the weakening linkages since the end of the Soviet command economy, economic analysis must take both the national and regional economies into consideration.

The concept advanced here is that of *Pacific Russia*, geographically located in Northeast Asia with a natural focus on its Northeast Asian neighbors and the Pacific Rim for economic cooperation and international economic integration. It is a wider concept than that of the *Russian Far East*, which has been used in much of the analysis of Northeast Asia to date,⁹ as it also includes Eastern Siberia. It is also somewhat broader than that used in Russia's 1996 program for

Development of the Russian Far East and Zabaikalie, which includes several territories adjacent to Lake Baikal, but not other parts of Eastern Siberia. It is, however, more meaningful for economic analysis and policy, since it covers the areas and resources that need to be included in any discussion about prospects for greater economic cooperation and integration.

In total, this concept of *Pacific Russia* includes 19 of the 89 regions or “subjects” of the Russian Federation, with an area of 10,339 thousand square kilometers and a population of 16.2 million. It should be noted that the concept is smaller than that of *Asian Russia*, which would also include Western Siberia (an additional nine of Russia’s regions).¹⁰

Pacific Russia’s potential is based on four key factors: its geographic location; its mineral, biological and forest resources, which are unique in terms of their abundance and quality; the availability of large areas of land with high ecological and recreational potential; and a well-qualified and highly motivated, mobile labor force. Each factor has its own importance, but taken together they give Pacific Russia a special set of characteristics and comparative advantages.

Russia’s eastern-most region, the Russian Far East, extends over five geographic zones: arctic desert – 15% of the territory; polar tundra – 25 %; forest tundra – 35 %; forest – 20%; forest/steppe – 5%. The geographic location of Pacific Russia favors the growth of a heavy mechanical engineering sector, for instance in connection with possible railway projects to link Europe and Asia, and routes to Central and South-East Asia. Rich natural resources await the development of new projects. The Russian Far East alone contains substantial shares of Russia’s available resources: iron ore – 62%; non-ferrous metals – 45%; gold – 90%; diamonds – 100%, wood – 35%, fish – 70%.¹¹ After Western Siberia, the Russian Far East occupies Russia’s largest mineral production, and is first in production of non-ferrous metals, diamonds, gold,

boron and fish. The shares of major industrial production are: mining - 16.4%, manufacturing – 3.7%, non-ferrous metals – 16.1%, forestry – 8%, fisheries – 58%.

Pacific Russia's 19 regions are very diverse in their levels of economic development, and economic indicators for each region can differ widely. In the early 1990s, regional policy for central government-regional relations had yet to develop along the principles of decentralization, and every region pursued its own development strategy—based on what each area inherited from the previous Soviet industrial system. Those territories that were rich in mineral resources enjoyed better economic results than those where the traditional specialization centered around machine-building and processing.

Northeast Asia: Redefined

Regrettably, the approach to Northeast Asia in much of the literature ignores the emergent economic complementarity and potential for economic integration. Much of the economic data and analysis of Northeast Asia has either omitted Russia entirely or focused on the narrower "coastal area" of Northeast Asia. The standard data is usually presented on a country-by-country basis, which reveals less than it obscures. Statistics on Russia, for example, encompasses economic activity directed at East Asia and Europe. (For more data on comparative size, structure of output, structural differences, trade relationships, and investment climate on a country-by-country basis please refer to the Appendix at the end of this paper.)

Moreover, even the definition of the region are narrow and increasingly outdated. Previous definitions of Northeast Asia focus on coastal territories, and use the Russian Far East (RFE) rather than the newer definition of Pacific Russia. It also uses a definition of Northeast China that only includes three coastal provinces: Heilongjiang, Jilin and Liaoning. Consistent

with the definition of Pacific Russia proposed in the present paper, a broader concept of Northeast China is also necessary and I propose to widen the scope of Northeast China to include Inner Mongolia.

By narrowly defining Northeast Asia, while at the same time using national economic statistics (rather than regional data in the case of Russia and China), many economic analyses of Northeast Asia underestimate the economic foundation and potential that exist in the region. I maintain that a comprehensive definition of Northeast Asia (in economic terms), one that both reflects existing economic realities and potential economic interaction and cooperation, needs to be comprised of Pacific Russia, Northeast China (Jilin, Heilongjiang, Liaoning and Inner Mongolia), North and South Korea, Japan and Mongolia. I refer to this area as the *Northeast Asia Triangle*. (Because this is the definition of Northeast Asia that makes the most sense economically, it would be useful to have data that would allow for meaningful regional analysis based on this definition.)

Energy supply and regional integration

Energy trade and cooperation in the Northeast Asian Triangle are illustrative of the economic complementarities that already exist and the large potential for regional economic integration in the future. Despite much discussion, substantive economic cooperation on a Northeast Asian basis has been quite limited, both because of political differences and existing economic links with other parts of the world and because of the absence of strong incentives for cooperation and greater integration.

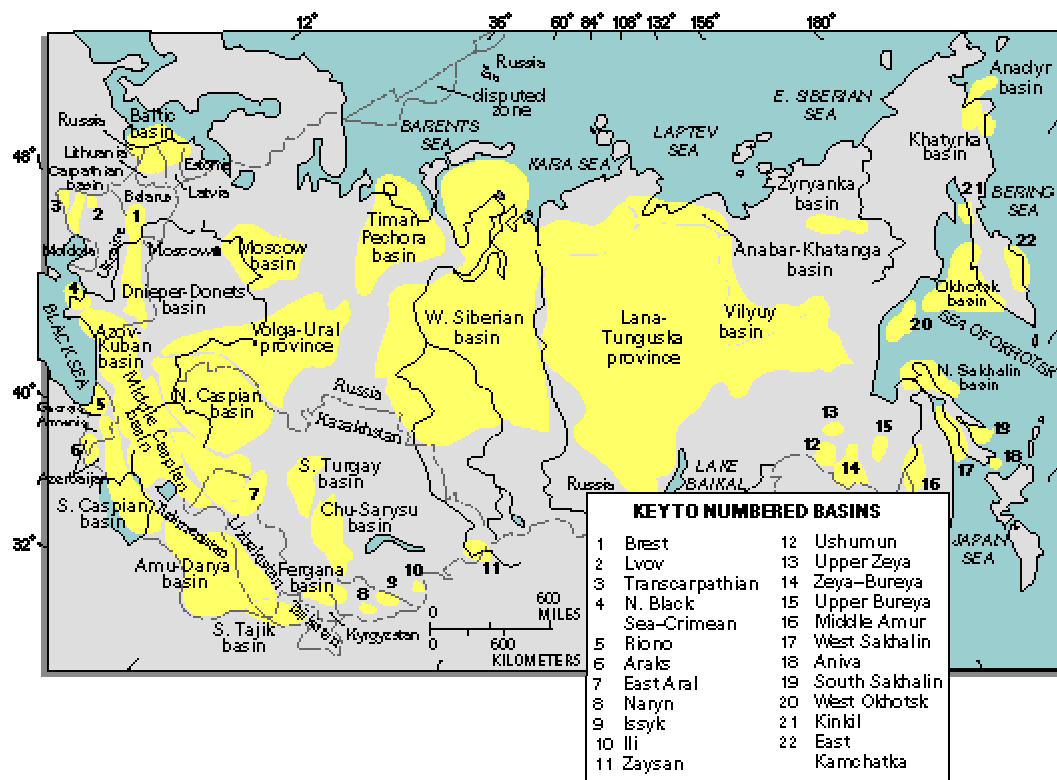
The energy sector deserves particular attention because of its potential to become an integrating factor for Northeast Asia, particularly for the *Northeast Asian Triangle*. Much has

been written about this critical dimension of future developments in the region, and the prospects for what has been described as a potential Northeast Asia “energy community.”¹²

Japan and South Korea are both heavily dependent on imported energy, particularly oil and gas, and China, once a significant exporter, since 1993 has increasingly become a net oil importer. Russia, on the other hand, is an important world exporter of both oil and gas, with the largest reserves of natural gas in the world, including significant reserves in Eastern Siberia and the Russian Far East.

There are many factors affecting energy supply, but long distance pipelines from Russian oil and gas fields are now a practical possibility, and concrete planning is underway on a number of major projects, and two projects in Sakhalin are already under development.

Russian Natural Gas Basins



Source: U.S. Geological Survey (USGS), *World Conventional Natural Gas Resources, by Basin*, Nov. 2000.

Natural gas consumption in Northeast Asia is well below that in other parts of the world,¹³ and demand forecasts for the three major economies in the region until 2020 project that consumption of natural gas will continue to grow at a faster rate than for any other primary energy source. The underlying factors for this growth relate to technological development (which will increase power generation), concerns over global climate change and local pollution, and considerations regarding diversification of energy sources and energy supply.

In the region, natural gas has only been traded in the form of liquefied natural gas (LNG), and while existing contracts will cover much of Korea and Japan's natural gas requirements up to 2010, there is still a significant gap between supply and demand projections, which will need to be filled by either new LNG contracts (from suppliers in Southeast Asia or the Middle East) or new natural gas pipeline projects. A major study by the Asia Pacific Energy Research Centre (APEREC) in 2000 estimates that the projected shortfall of natural gas for China, Japan and Korea will be around 50 million tonnes—more than total natural gas consumption in Japan for 1998.¹⁴

Until recently LNG has largely been imported into Japan and Korea from Southeast Asian countries such as Indonesia and Malaysia. Recent agreements, however, will increase imports from the Middle East. The share of natural gas from the Middle East in the Korean market is projected to increase from 5 percent in 1997 to as high as 60 percent in 2010. Such an increased dependence on the Middle East may be a cause of serious concern for Korea, given that it already relies heavily on the Middle East for oil. Energy supply security and the

diversification of energy sources is also a critical consideration in Japan, which was hit heavily by the oil crises of 1973 and 1980.

Natural gas resources in the Russian Far East and eastern Siberia have sufficient potential to meet Northeast Asian needs, with a supply potential from Pacific Russia of as much as 12,018 BCM.¹⁵ Given the distances involved, natural gas pipelines from these regions are likely to be more economical than supply from greater distances in Western Siberia or Central Asia, and an attractive alternative to LNG.¹⁶ Sakhalin's Irkutsk and Yakutsk (Sakha) projects are the major projects currently under consideration, with two of the smaller-scale projects in Sakhalin already underway. The Irkutsk project is likely to be the most attractive one in East Siberia because of its shorter distances as well as the absence of permafrost (as exists at the Yakutsk site).¹⁷

The same APERC study concluded that these projects could offer a wide range of benefits from increased economic activity: enhanced regional energy security, new opportunities for resource development, facilitating foreign capital flows into eastern Russia, improved of environmental quality, and regional development and co-operation.¹⁸

Natural gas projects, however, require large, long-term financial commitments, with considerable exposure to risk and cost overruns. Therefore, substantial efforts are needed to stabilize tax systems, foreign investment protection, security of transfer of earnings, clarification of arbitration procedures, and transparent energy policies (all of which pose challenges in the Russian context).

Some Policy Perspectives

There are many policy changes that affect Russia's role as a partner in Northeast Asia and influence any assessment of, and response to, the opportunities this presents for increased cooperation and integration in the region.

In terms of the domestic economy, the government is undertaking a second phase of liberal economic reforms. In 2001 these were aimed at structural reform through a combination of tax reform, business deregulation, judicial reform, protection of ownership rights and development of strategies for restructuring natural monopolies and the banking sector. In 2002, reforms focused on the completion of the 2001 reforms and on the introduction of new initiatives to improve the investment climate and make legislation WTO-compliant in various areas (including the customs code and the law on bankruptcy).¹⁹

Gaining early accession to the WTO is imperative if Russia is to participate in the international economic system on a more equal basis and increase the degree of integration with the world economy. This is illustrated by Moscow's consultations with domestic, regional business communities and encouragement of economic and legal reforms to bring the country closer to WTO standards. Market models from other countries are used to develop the incentives and regulatory framework necessary for a market economy.

The relationship between the central government and the country's 89 regions have changed, and relations now reflect a greater recognition of the appropriate roles each level of government plays under a new legal framework. Part of this new balance is the establishment of seven new Federal Districts or *okrugs*, with a Presidential Representative for each.²⁰ Earlier concerns over fragmentation have been replaced with a new and more co-operative relationship.

Russia's foreign policy is explicitly supportive of its national interests, including issues pertaining to the national economy. In Northeast Asia, Russia's objectives are stability and security, support for integration into the regional and world economy, emphasis on multilateralism, and a strengthening of bilateral co-operation. This has begun to show dividends with China and other countries in the region. The participation of Russia's regions with Northeast Asian partners seems likely to be a positive development and a number of China's Northeast provinces show interest in participating in projects within Russia, at least in the energy sector.²¹

Russia's vision of regional co-operation in the region includes the development of a mutually beneficial "energy community" and the possibility of a "transport corridor" across the Russian land mass. It includes more effective utilization of Pacific Russia's resources in Northeast Asia, including technology and skilled labor.

The new role for Russia's regions benefits the Russian Far East and eastern Siberia in particular because they now have the freedom to directly develop trade and economic links with their Northeast Asian and Pacific Rim neighbors.

The emphasis on multilateral processes and mechanisms, and the cooperation implicit in post-September 11th Russian diplomacy, have strengthened the partnership role in Russian policy. Some of these elements relate to maximizing the benefits from APEC, the Tumen River project and the Shanghai Cooperation Organization, and the potential for wider regional cooperation in energy and transportation sectors. Additionally, shifts in Russian policy providing for greater differentiation at the regional level may open up the possibility of revisiting the issue of Asian Development Bank membership, with prospective benefits for both Pacific Russia and Central Asia.

Asia-Pacific Economic Cooperation (APEC)

APEC has become a principal vehicle for Russia to express and pursue engagement in Northeast Asia and the Pacific. Russia's objectives are to:

- Increase its level of economic interaction with the Asia-Pacific to the level reached in Europe;
- Facilitate Russian participation at all levels of APEC's activities, both governmental and non-governmental;
- Achieve wider involvement by administrators and business actors from Russia's eastern regions in APEC; and
- Diversify and balance its external economic links, strengthen access to Asia-Pacific markets, and attract investments for the development of the Russian Far East and Siberia.²²

Russia is now better prepared to participate in APEC at various levels. Leaders from Pacific Russia have been involved in various APEC meetings, and one of the most important APEC events hosted by Russia this year, the APEC investment symposium and investment fair in September 2002, will be held in Vladivostok. This latter activity, and a number of the working groups and APEC fora, bear on the important issue of the investment climate and the requirements for attracting new investment to Russia's resource-abundant eastern regions.

All of APEC's "three pillars," trade and investment liberalization, trade facilitation, and economic and technical cooperation (Ecotech) are of direct interest to Russia. More broadly, the continuing process of structured discussions provides a kind of "Pacific OECD," and in some ways parallels the type of dialogue that takes place among the more industrialized countries (including several APEC members) at the OECD in Paris, which can be of particular value to Russia.

APEC's trade-related activities provide a non-confrontational context for Russian officials to meet and discuss trade policy and access issues with a range of other countries. This is an

unparalleled opportunity for discussion regarding the policies and domestic interests of other countries, and could provide material assistance for Russian officials in preparing for WTO negotiations.

A parallel step was taken in 2001 when Russia voluntarily submitted to a peer review of its *Individual Action Plan* (IAP) on steps to reduce trade and investment barriers, thereby affording an opportunity for critical discussion of Russian policy and administrative commitments.

Russia's IAP (much-strengthened from its initial IAP in 1998) recorded actions or commitments in a range of areas, including customs tariffs, licensing in the service sector, investment legislation and foreign investment policy, company registration, foreign exchange liberalization, financial services, taxation measures, intellectual property, and Russia's position in its WTO accession negotiations.

Some APEC members harbor a degree of skepticism of Russia's role, especially those who feel that the participation of countries with interests that are heavily focused on other regions of the world could potentially weaken the APEC community and may see Russia's inability to participate in the full range of APEC activities as an inability or unwillingness to commit.²³ Since Russia's concept of integration into the regional and world economies is essentially multilateral, Russia has not focused on developing the kind of bilateral trade agreements common in APEC. In part, this reflects the different objectives and approaches that have always been part of APEC, and in part it may require greater efforts to fully understand the degree of common interest.

There is also room for Russia's partners in APEC, including the United States, to assist in increasing APEC's range of activities to include issues pertaining to economic transition and regional integration—to which Russia attaches major importance. In any event it would be useful

for Russia to develop a selective focus for pursuing national interests and economic benefits in APEC's working groups and committees to achieve results on operational levels in key economic sectors.²⁴

Tumen River project

A new and more pragmatic stage in the Tumen River concept was launched in 2001. There is also renewed Russian interest, a key ingredient previously lacking. Russia now sees the Tumen River project as an opportunity to facilitate the development of multilateral cooperative mechanisms with its neighbors.

The concept of a "Tumen River Golden Triangle" proposed by China a decade ago led to an ambitious proposal to create an "international city" linking free economic zones in Northeast China, the DPRK and Russia's Primorsky krai. Although the program (TRADP) has subsequently been watered down, the intergovernmental mechanism established in 1995 remains the most formally structured framework for dialogue in the region. It combines two UNDP-supported intergovernmental bodies with a Tumen Secretariat based in Beijing, together with national coordinators and sector working groups in each member country.

The Tumen River itself provides the point of intersection for Northeast China, North Korea and Russia's Far East, and these three riparian states form the membership of the Coordinating Committee. They are joined by Mongolia and South Korea on the Consultative Commission, with Japan in an Observer role.

A strong proponent of the concept has been China's Jilin Province, with no direct outlets to the sea, joined by the DPRK, which could benefit from greater investment and improved facilities in the region. Russia's Primorsky krai has tended until recently viewed as competition

for its major economic centers in Vladivostok and Nakhodka, while landlocked Mongolia has supported TRADP because it offers access to ports in Korea and the Russian Far East. Wider regional interest is based on the belief that cooperation at the local regional level, and prospects for a Tumen River Corridor to become a strategic entrepot for international trade, could lead to improvements in the political and security environments.

In fact, the program has often been a focus for competition and rivalry rather than cooperation. Nevertheless, with outside financial support TRADP has sponsored a range of low-cost projects (including feasibility studies) in cross-border and international transport, investment promotion and investor services, and environmental protection and tourism.

A critical evaluation of the program in late 1999 has led to a more pragmatic assessment that addresses some of the weaknesses of past efforts and takes advantage of changes in the political environment. The result is a more-carefully structured phase III of the program, approved by governments in April 2001. Phase III objectives are to strengthen the institutional framework and to contribute to economic development in the region in five sectors—trade and investment, transport and communications, environment, tourism and energy. Furthermore, increased emphasis has been placed on viewing TRADP *in the larger context of Northeast Asia*, including associating Japan more closely with the program, and trying to restructure the program's dynamics to require member governments to take the lead.

The Consultative Commission also approved the establishment of a Council of Eminent Persons to lend the Tumen Program greater influence with national governments, the private sector and financial institutions and facilitate strategic partnerships. It is hoped that the Council will facilitate Japan's involvement and help to mobilize additional partners to finance priority projects.

Among other signs of improved cooperation are a China-Russia bilateral meeting between Jilin province and Primorsky krai, organized by the Tumen Secretariat in Vladivostok in September 2001. It appears to have made further progress on transport and border crossings and discussed issues such as investment services, financing mechanisms and tourism.

Also in a wider context, the annual meeting of the United States West Coast – Russian Far East Ad Hoc Working Group (AHWG), established in 1994 by former Prime Minister Chernomyrdin and former Vice President Al Gore, was held in Russia in September 2001 and brought further attention to the East by West Trade and Transport Corridor project, which has been supported by the Tumen Program as a means of activating and strengthening ports in the Tumen River region. The AHWG Transport Subcommittee has developed an action plan for the corridor concept and will undertake further studies to demonstrate the route's competitiveness. The project helps to increase U.S. interest in the Tumen Area's development in a broader Northeast Asia context.²⁵

Shanghai Cooperation Organization (SCO)

The Shanghai Five (China, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan) process is an important example of Russian cooperation in a coordinated, multilateral organization that addresses regional security issues through confidence-building measures and the demilitarization of borders.²⁶ Expanding its mandate in 1999 to include drug-trafficking and terrorism, and subsequently establishing an anti-terrorism center based in Bishkek allowed the group to respond to problems associated with extremists based in Afghanistan and nearby areas in a timely fashion.

In addition to expanding its membership to include Uzbekistan, the group has become more formally structured and was renamed the Shanghai Cooperation Organization in 2001. The SCO aims to expand regional cooperation to include a number of political, economic, trade, cultural, scientific, technological areas. While the focus is on Central rather than Northeast Asia, it is noteworthy as an example of an approach consistent with Russia's new diplomacy and general view of how best to address international issues.

Energy and transport

The prospect of a strategic and inexpensive energy supply from Pacific Russia to China, South Korea and Japan provides a major opportunity for increased regional integration involving energy companies, investors and governments. It is a key part of the vision for a more integrated Northeast Asia, and may provide an impetus for institutionalized cooperation on a regional basis that has previously been lacking. Each country in the region has chosen to address energy and natural resource issues independently or, as in the case of China and Russia, bilaterally, without resorting to regional cooperation, but there are likely to be significant benefits in developing an appropriate mechanism for cooperation.

Asian Development Bank

The ADB is the principal pan-Asian regional institution for development financing, governance and institutional strengthening, poverty reduction, sub-regional cooperation and, most recently, financial sector strengthening. Among its range of activities, the ADB has undertaken a useful role in other economies in transition, including the Central Asian Republics (the CARs), which are now members, and in supporting sub-regional cooperation. The ADB is a partnership between "regional" members, both borrowing and non-borrowing (Japan, Australia,

New Zealand), and “non-regional” members (principally the United States, Canada and West European countries). The former Soviet Union participated in the original negotiations to set up the bank, but did not join. Since 1992, the newly independent CARs have become members and have begun to benefit from some of the distinctive features of the ADB.

Russia tentatively explored membership when it was seeking participate in APEC, but problems arose regarding how Russia envisaged membership and the potential impacts this would have on existing regional members. The ADB is an international financial institution with a formal governance structure, shareholdings based on economic importance, and weighted voting. For Russia to join as a regional member on the basis of its national economy it would have relatively large shareholding and voting strength (largely determined by the weight of European Russia), which could displace other members in terms of influence and membership on the Board of Directors. In addition, if Russia joined as a borrowing member it would raise concerns among existing borrowers over access to resources.

Any solution to this dilemma will require some flexibility, but there is precedence that could be adapted for this case. Russia should join as a regional member (borrowing or non-borrowing), but the standards for Russian membership should be based on the economic size of Asian Russia. The benefits of Russian membership would give the ADB a more effective role in Central Asia and in supporting sub-regional cooperation in Northeast Asia. A re-assessment by Russia, its Northeast Asian neighbors, and the United States (as a key member with considerable influence) of what might be negotiated would be timely.

Conclusions

In terms of geographic location, resource endowment and strategic role, Russia should be seen as an increasingly important player in Northeast Asia, with a stronger economy, improved investment climate, and a policy of constructive engagement in the region, including strategic issues related to inter-state relations and post-September 11th concerns. Accordingly there is a need for a closer examination of Russian policy towards the region and the opportunities this presents. Russia's new commitment to multilateral consultation and dialogue wherever possible should also be viewed as a constructive for Northeast Asian regional relations.

The energy sector, with its prospects as a basis for regional interdependence, can contribute to energy security and serve as a barometer of regional integration. While not the sole economic factor, Russia's energy sector is important for regional economic calculations. Russia has one-third of the world's gas reserves and 12 percent of oil reserves, and there are also important resources of non-ferrous metals such as boron, fluorite and tungsten concentrates, gold and diamonds, of which Russia's eastern regions are a major producer, as well as fisheries and forestry and a strong technology capacity (see Appendix).

The paper has argued that the concept of Northeast Asia to date has either been too vague or too narrow (the coastal areas and Japan), and instead should be based on existing and potential regional complementarities and strategic interaction. The *Northeast Asian Triangle* is a geographic area with a strong potential for regional cooperation. In terms of the Russian part of the Northeast Asian equation, it will be increasingly important to focus analysis on *Pacific Russia*, which faces the Pacific and seeks its destiny within the region and the wider Pacific rim.

APPENDIX

Size and structure of the Northeast Asian economies

Table 1 presents several indicators of the *size of the Northeast Asian economies*, in relative terms, with a “birds’ eye view” of the Northeast Asian Triangle as a sub-set of the numbers based on available sub-regional data. The total population of Northeast Asian countries is about 1.6 billion, or 26.5 percent of world population. That of the Northeast Asian Triangle is some 345 million, or 5.7 percent of the world total, with the difference heavily reflecting the size of China in the totals.

Table 1: Northeast Asian Economies – Comparative Size

	Population	Surface area	Population density	Gross national income		Purchasing power parity gross national income			Gross domestic product	
	Millions	000 sq. km	people per sq. km.	\$ billions	\$ per capita	\$ billions	\$ per capita	Rank (world)	% growth	% growth per capita
	2000	2000	2000	2000	2000	2000	2000	2000	1999-2000	1999-2000
China	1,262	9,598	135	1,062.9	840	4,951	3,920	124	7.9	7.2
(Northeast China) ²⁷	(130.4)	(1,972)	(66.1)	(134.8)	(1,018)	(615)	(4,700)	(111)	..	..
Japan	127	378	348	4,519.1	35,620	3,436	27,080	12	2.4	2.2
North Korea ²⁸	22	121	185	..	..	22	1,000	184	3.0	..
South Korea	47	99	479	421.1	8,910	818	17,300	46	8.8	7.8
Mongolia	2	1,567	2	0.9	390	4	1,760	161	1.1	0.3
Russian Federation	146	17,075	9	241.0	1,660	1,165	8,010	79	8.3	8.9
(Pacific Russia) ²⁹	(16.2)	(10,339)	(1.6)	(30.4) ³⁰	(1,890)	(121.4)	(7,495)	(83)	(7.0)	(9.0)
NEA Countries ³¹	1,606	28,838	56	6,245.0	3,888	10,396	6,460	-	..	..
(NEA Triangle) ³²	(344.6)	(14,476)	(24)	(5,107) ³³	(14,818)	(5,016)	(14,556)	..	..	..
World	6,057	133,806	45	31,315.0	5,170	44,459	7,410	-	3.9	2.5
NEA Countries as % of World	26.5	21.6	124.4	20.0	75.2	23.3	87.2			
(NEA Triangle as % of World)	(5.7%)	(10.8%)	(53%)	(16.3%)	(286%)	(11.3%)	(196%)	-	..	..

Source: World Bank, *World Development Indicators*, 2002, except for Northeast China, Pacific Russia and Dem Rep of Korea (see notes for sources and methods of calculation).

In terms of surface area, Northeast Asian countries represent 21.6 percent and the Northeast Asian Triangle as much as 10.8 percent of the world total; Northeast Russia is the

major factor in the latter figure. There are, of course, enormous differences between the different economies, of which population density (from 2 persons per sq. km in Mongolia to 479 in the case of South Korea) is the most striking.

The remaining columns in Table 1 show figures for the national economies of the Northeast Asian countries – Gross National Income and the adjusted figures of National Income based on Purchasing Power Parity, as well as rates of growth in terms of GDP. Using the PPP numbers, national income per capita for Russia is just over \$8,000 as of the year 2000, well below Japan and South Korea, but more than twice that of China.

Table 2 shows some additional figures on the *growth and structure of output* of the Northeast Asia economies, including rates of growth and broad changes in economic structure over the 1990s.

Table 2: Northeast Asia – Growth and Structure of Output

	Growth of GDP			Structure of GDP						
	annual % growth		average annual % growth 1990-2000	Agriculture value added		Industry value added		Services value added		
				% of GDP		% of GDP		% of GDP		
	2000	2001		1990	2000	1990	2000	1990	2000	
China ^a	7.9	7.3	10.3	27	16	42	51	31	33	
Japan	1.5	- 0.8	1.3	2	1	39	32	58	66	
N. Korea ³⁴	- 3.0	..	..	..	30	..	42	..	28
S. Korea	8.8	2.5	5.7	9	5	43	43	48	53	
Mongolia	..	..	1.0	17	33	30	19	52	48
Russian Federation	8.3	5.5	- 4.8	17	7	48	39	35	54	

Source: World Bank, *World Development Indicators*, 2002, and *Global Economic Prospects*, 2002, except for Dem. Rep of Korea.. Figures for 2000 are in some cases for an earlier year.

^a Including Taiwan, Hong Kong and Macao.

In terms of *economic growth*, the Russian economy, after almost a decade of decline, has shown fairly solid growth in the last three years, and seems likely to be a relatively strong performer in 2002 as well. In terms of economic structure, there has been a sharp fall in the relative importance of agriculture and the industrial sectors, although in both cases there may be some reversal of this trend if economic conditions continue to improve. The natural resource and service sectors have seen the principal growth.

Table 3 highlights some *important structural contrasts* between the Northeast Asia economies that may have a particular bearing on Russia's longer-term position in the region.

The high degree of tertiary education among the local population remains one of Russia's comparative advantages (including in Russia's eastern regions) as it is for South Korea and Japan as well; in percentage terms China continues to lag well behind. Male life expectancy in Russia is noteworthy as it is significantly lower than that in other countries in the region, with North Korea as the only exception. Population growth rates vary significantly, but the rates in Northeast Asia are relatively moderate, with a decline over the past decade in the case of Russia, and projections in all cases show lower rates of population growth in future years or an actual decline, particularly in the case of Russia, and to a lesser extent Japan.

Table 3: Northeast Asian Economies – Some Structural Contrasts

	Education			Life expectancy		Population dynamics		Energy sector			Gross capital formation
	Primary enrollment	Secondary enrollment	Tertiary enrolment	Male	Female	Average annual		Commercial energy use		Net energy imports	Average annual % growth
	% of	% of	% of	years	years	% growth rate		000 metric tons oil equivalent	average annual	% of commercial energy use	
	age group	age group	age group			1990-2000	2000-2015	1999	% growth 1980-1999	1999	
	1998	1998	1998	2000	2000	1990-2000	2000-2015	1999	1999	1999	1990-2000
China	107	62	6	69	72	1.1	0.7	1,088,349	3.8	3	11.6
Japan	102	102	44	78	84	0.3	-0.1	515,447	2.7	80	- 0.1
N. Korea	..	..	..	59	62	1.4	0.6	58,925	4.0	8	..
S. Korea	94 ^a	102 ^a	68 ^a	70	77	1.0	0.4	181,365	9.3	82	1.4
Mongolia	88	56 ^a	25	65	69	1.3	1.3	..	..	..	..
Russian Fed	107 ^a	..	43 ^a	59	72	- 0.2	-0.5	602,952	-1.3 ^b	-58	-18.3

Source: World Bank, *World Development Indicators, 2001 and 2002*. Figures for 2000 are in some cases for an earlier year.

^a 1997.

^b Interpolated.

Table 3 also highlights Japan and South Korea's substantial share (80 percent or more) of energy imports in commercial energy use, and Russia's share of energy exports (negative share of net energy imports), a factor of considerable significance in Northeast Asian regional terms. Capital formation is an important determinant of competitiveness and growth, and the average annual increase in the case of China is very striking. Equally striking, however, is the decline in the case of Japan and the dramatic adjustment in Russia, although there are welcome signs in the latter case of a reversal in the most recent period.

Trade within the region

Trade patterns are an important starting point for any analysis of economic interaction and integration within the region. Available figures are largely on a national basis, and these are used in the analysis that follows, although some data is available on trade within the Northeast Asian Triangle, and future work needs to be undertaken to strengthen data and analysis.

Table 4 presents export figures for the year 2000. Exports to other countries in the region are relatively strong for China, with some 42 percent of exports from Mainland China in 2000 going to the regional economies, or 22.3 percent excluding Hong Kong and Taiwan. For South Korea, the share of total exports going to other Northeast Asian economies was 34 percent, and for Japan it was 26 percent.

For Russia, the nominal percentage is 9.4 percent, but this reflects the heavy concentration of exports from European Russia westward to the rest of Europe, and a more meaningful figure in a Northeast Asian context would be that for Pacific Russia, which would be far higher. Russia's most important partner within the region is China, with exports to Mainland China over the past decade varying between 4.5 and 7 percent of total exports to all countries, and this does not include Hong Kong and Taiwan. Russia's exports to Japan were relatively low in 2000, and have generally ranged between 3.0 and 4.5 percent over the decade. It might be noted that Russian exports to North Korea (which in 2000 were too small to register in the table) were much higher

in earlier years, and as recently as the early 1990s were 0.6 percent of total exports. They have also begun to turn upwards again in 2001.

Table 4: Northeast Asia – Exports Within the Region: 2000

(percent of total exports)

TO	FROM	China (mainland)	China, Hong Kong	Japan	Russia	Korea, Rep. of	Taiwan, prov. of China	Mongolia
China, mainland		-	34.5	6.4	5.1	10.7	21.0	47.2
China, Hong Kong		17.9	-	5.7	0.1	6.2	13.1	0
Japan		16.7	5.5	-	2.7	11.9	14.7	2.2
Russia		0.9	0.0	0.1	-	0.5	0.1	9.0
North Korea		4.5	1.9	6.4	0.9	-	3.9	0.5
South Korea		0.2	0.0	0.0	0.0	0	0	..
Taiwan, China		2.0	2.5	7.5	0.4	4.7	0	..
Mongolia		0.0	0.0	0.0	0.2	0.0	0	-
Total to NEA Countries		42.2	44.6	26.2	9.4	34.0	52.8	58.9

Source: IMF, *Direction of Trade Statistics Yearbook, 2001*.

Note: Totals may not add exactly because of rounding.

Table 5 gives an idea of the *structure* of foreign trade in Northeast Asia. The indicators have been selected to provide insights that are particularly relevant to Northeast Asian trade. Trade in goods and services as a percentage of GDP is highest for Mongolia, Korea and Russia, and lowest for Japan. The annual growth in merchandise trade over the decade has been particularly significant for China, Korea and Russia, ranging from 9.3 to 14.6 percent per year in exports and 6.6 to 12.6 percent in imports.

Merchandise exports from Japan, South Korea and China are predominantly (88 percent or more) in manufactures. In the case of China, exports of food and fuels, which were significant a decade ago, have declined to relatively small percentages. Russia's exports are much more strongly in fuels, at 51 percent, and in ores and metals, at 9 percent, with manufactured exports also significant, at 22 percent.

Table 5: Northeast Asia – Size and Structure of External Trade

	Goods & services		Merchandise trade		Structure of merchandise exports ^a				Structure of merchandise imports ^a			
	Exports	Imports	Export value	Import value	Food	Fuels	Ores & metals	Manu- factures	Food	Fuels	Ores & metals	Manu- factures
	% of GDP		average annual % growth		% of total				% of total			
	2000	2000	1990-1999	1990-1999	2000	2000	2000	2000	2000	2000	2000	2000
China	26	23	14.6	12.6	5	3	2	88	4	9	6	76
Japan	10	8	4.0	4.3	0	0	1	94	13	20	6	57
N. Korea	..	..	..	..	..	..	..	..	..	..	..	..
S. Korea	45	42	10.1	6.6	2	5	1	91	5	24	6	62
Mongolia	65	82	- 3.0	- 1.9	..	..	..	..	..	..	..	..
Russian Fed	46	25	9.3	6.8	1	51	9	22	15	3	3	42

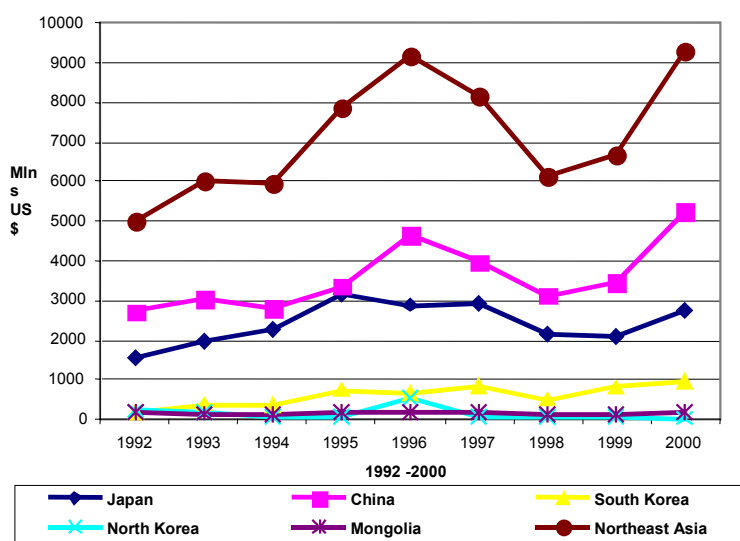
Source: World Bank, *World Development Indicators, 2002*.

^a Agricultural raw materials not shown. High technology exports as % of manufactured exports: China 17%, Japan 27%, Rep. of Korea 32%, Russia 16%.

Manufactures are the largest category of imports for China, South Korea, Japan and Russia. Also important are imports of fuels in the case of South Korea, Japan and, increasingly, China. Food imports are significant for both Russia and Japan. Imports of ores and metals are also significant for China, Japan and South Korea. In the case of China, the percentage of imports in the form of fuels and ores and metals has increased substantially since 1990. South Korea's imports of fuels have also increased significantly. In the case of Japan, imports of fuels have fallen in percentage terms, but still remain high at 20 percent of total imports.

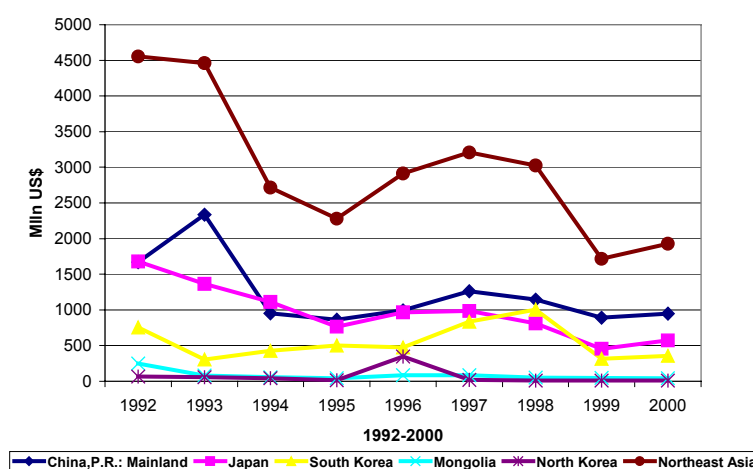
As shown in the graph at the right, Russia's exports to other countries in the region have increased significantly over the past decade (the upper line in the graph), reflecting rising exports to China, as well as to Japan and South Korea. This is consistent with the increase in Russia's exports to all countries over the same period, although the world total has risen somewhat more quickly, reflecting a larger share of energy exports and higher energy prices.³⁵

Russian Exports to Northeast Asia



The second graph shows Russia's imports from other countries in the region, which have been following a very different trend, with imports in 2000 at less than half the dollar value in 1992. There has been a significant fall in imports from Japan, China and, to a lesser extent, South Korea. This is in contrast to Russia's imports from all countries, which increased over most of

Russian Imports from Northeast Asia



the period, and despite a sharp decline in 1999 returned in 2000 to the same level as in 1992. There is now a substantial trade surplus with other Northeast Asian countries.

Pacific Russia. To turn to Russia's eastern regions, there have been major shifts in trade patterns in the past decade, particularly towards Northeast Asia. Pacific Russia's exports grew by 237 percent from 1992 to 2000³⁶. The region appears to have become more dependent on external factors than other parts of Russia.³⁷ This was a result of the

economic transformation process, with an increase in production costs and transportation charges for the goods and raw materials that Pacific Russia traditionally supplied to other regions of Russia and the now independent states, which has led to a change in the country's division of

labor. The share of inter-regional market demand³⁸ for Pacific Russia declined from an estimated 75 percent in 1990 to 10 percent a decade later. The aggregate demand represented by the region itself rose from 19 percent to 75 percent.³⁹ As a result, Pacific Russia's economy became more isolated within the domestic market.

The structure of demand for Pacific Russia reflects changing trade patterns and a tendency for a natural economic integration with Northeast Asia. Among 95 countries trading with this part of Russia, China, South Korea, Japan and the United States are the most important. In 1992–1995, the major export market for Pacific Russia was Japan (33 percent of total exports). Japan was also the major source of imports (48.4 percent of regional imports).⁴⁰ Since 1996, however, Japan's share has fallen. Figures for the Russian Far East (RFE) show a decline in trade with Japan of 35 percent, and the RFE share in total Russia-Japan bilateral trade is estimated as currently only 50 percent of the 1996 level.⁴¹

Pacific Russia's major exports are raw materials (70 percent). From the RFE, the major exports are ferrous and nonferrous metals (27 percent), mechanical engineering products (19 percent), lumber and wood products (15.4 percent), food products and food raw materials (15.4 percent), and fuel and energy (13.9 percent). Some 90 percent of exports to Japan are timber, coal and fish products. Major exports to South Korea (almost 80 percent) are fish and other sea products, oil products, metals and timber. Exports to China are similar in composition, except for occasional sales of military equipment. Pacific Russia's major imports are machine building products and food products and materials for their production.

Pacific Russia's exports and imports accounted for 11.6 percent and 7.2 percent respectively in total Russian trade in 2001.⁴² Leading exporters in the region were Krasnoyarsk krai (26 percent), Irkutsk oblast (23 percent), Khabarovsk krai (21 percent), Republic of Sakha (11 percent), and Primorsky krai (8.2 percent). Leading importers were Krasnoyarsk, Irkutsk, Primorsky and Sakhalin.

Primorsky and Khabarovsk, Sakhalin and Kamchatka together account for about 90 percent of total Russian Far East trade. In eastern Siberia, Krasnoyarsk and Irkutsk account for about 90 percent of exports and around 67 percent of imports.

Integration into the world economy and the investment climate

Table 6 provides several indicators of the *degree of integration into the world economy*.⁴³ The table shows the change over a 10-year period, including from zero in the case of foreign direct investment in Russia. Trade in goods as a percentage of GDP at nominal exchange rates has increased substantially for Russia, and is now relatively high (60 percent), as it is for South Korea and Mongolia, which contrasts sharply with the very low percentage in the case of Japan (17.7 percent).

Table 6: Northeast Asia – Integration into the World Economy

	Trade in goods				Growth in real trade less growth in real GDP percentage points 1990-2000	Gross private capital flows		Gross foreign direct investment	
	% of GDP		% of goods GDP			% of GDP		% of GDP	
	1990	2000	1990	2000		1990	2000	1990	2000
	1990	2000	1990	2000		1990	2000	1990	2000
China	32.5	43.9	47.4	65.8	-2.7	2.5	12.7	1.2	4.3
Japan	17.1	17.7	44.4	55.2	2.6	5.4	10.3	1.7	0.9
N. Korea	..	..	..	..	..	..	..	..	..
S. Korea	53.4	72.8	102.7	153.8	7.5	6.2	11.5	0.7	3.2
Mongolia	..	93.4	..	180.2	..	..	10.1	..	3.4
Russian Feder.	16.5	60.0	35.0	117.3	0.7	..	13.3	0.0	2.4

Source: World Bank, *World Development Indicators*, 2002. Figures shown for 2000 are in some cases for an earlier year.

The growth of real trade has been substantially higher than the growth of real GDP over the 10 years 1990-2000 for South Korea (7.5 percent) and Japan (2.6 percent), and has also been higher in the case of Russia (0.7 percent). The relationship is reversed for China, where trade in real terms has grown significantly less rapidly than real GDP (-2.7 percent). Gross private capital flows and gross foreign direct investment in the case of Russia are now of the same order of magnitude as a share of GDP as for other countries in the region and, indeed, significantly higher than for Japan, which is a major change from a decade ago. These indicators tell only part of the story, but provide insights in terms of inter-country comparisons, particularly in the case of Russia.

Table 7: Northeast Asia – Investment Climate, Selected Indicators

	Foreign direct investment		Entry and exit regulations ^a			Composite ICRG risk rating ^b	Institutional investor credit rating ^c
	% of gross capital formation		Entry	Repatriation of income	Repatriation of capital	0 to 100	0 to 100
	1990	2000	2000	2000	2000	December 2001	September 2001
China	2.8	9.5	S	F	F	74.3	57.4
Japan	0.2	1.1	..	..	..	84.3	86.2
N. Korea	..	..	..	..	..	47.5	7.0
S. Korea	0.8	7.1	R	F	F	79.3	61.7
Mongolia	..	10.4	..	..	..	64.3	..
Russian Federation	0.0	6.0	F	F	F	69.5	26.8

Source: World Bank, *World Development Indicators*, 2002.

^a For economies shown, entry and exit regulations are classified as free (F), relatively free (R) or special classes of shares (S).

^b Composite International Country Risk Guide (ICRG) is based on 22 components of risk (political, financial and economic), converted into a single numerical risk assessment ranging from 0 to 100 (highest risk to lowest).

^c Institutional investor country credit ratings are based on information provided by leading international banks. Countries are rated on a scale of 0 to 100 (highest risk to lowest).

Table 7 gives some indicators for *investment climate*, an important factor for assessing, for example, the potential for investment in Pacific Russia. Looking at the last two columns first, the lower the number the higher the perceived risk, and the higher the number, the lower is the expected risk. The Composite ICRG rating is a composite of 22 components of risk (political, financial and economic). For Russia the number of 69.5, while relatively low, is still not dramatically lower than, for example, that for China, where the number is 74.3. But it is the comparison with the last column that is interesting. This is a similar rating provided by leading

international banks for institutional investors. The bankers' perception for Russia, at 26.8, is far below that for China.

Foreign direct investment – that which has already taken place – is shown in the first two columns of numbers as a percentage of gross capital formation. The figure for Russia, at 6 percent in 2000, is significant, and a major change from 10 years before, when there was none. This compares favorably with 7.1 percent of total capital formation in the case of South Korea, 1.1 percent for Japan, and 9.5 percent for China.

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¹ See C. Fred Bergsten, “Back to the Future: APEC Looks at Subregional Trade Agreements to Achieve Free Trade Goal,” Speech given at the Pacific Basin Economic Council luncheon, St. Regis Hotel, Washington, D.C. 31 October 2000 and C. Fred Bergsten “Brunei: A Turning Point for APEC?,” International Economics Policy Brief (Institute for International Economics, February 2001).

² See *The New Russian Diplomacy*, by Foreign Minister Igor S. Ivanov (The Nixon Center and Brookings Institution Press, 2002), pp 13 ff.

³ Anna V. Shkuropat, *The Emergence of Pacific Russia* (Princeton University, Program on U.S.-Japan Relations, 1995), pp. 13 ff.

⁴ Emphasis is placed by Ivanov on the internal political stability factor. See Ivanov, *The New Russian Diplomacy*, p. 7. Russia’s stronger economic position was also important, however, particularly in providing a better basis for the renewed dynamism in support of economic and strategic objectives.

⁵ A combination of challenges that, as Ivanov points out (*ibid.*, p.27) was familiar to Gorchakov in the mid-nineteenth century.

⁶ See Ivanov, *The New Russian Diplomacy*, p.121.

⁷ As reported in *Strana.ru*, June 7, 2002.

⁸ Individual Action Plans (IAPs) are a requirement for each APEC member and often provide the best available compilation of policies on trade liberalization measures being taken or contemplated, but the “peer review” process has been (at least until now) a voluntary one.

⁹ See *Proceedings of the Conference on Economic Development in the Coastal Area of Northeast Asia, August 1991, Changchun, China*, international conference on “International Cooperation in Establishing Regional Order in Northeast Asia,” Monterey 1997; the annual Northeast Asia Economic Conferences in Niigata, ERINA, Japan, and other similar conferences. See also Shuntaro Shisido et al, “A Multiregional Input-Output Table for Northeast Asia

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¹⁰ This latter concept of *Asian Russia* can be useful for other purposes, such as consideration of Russia in an Asian Development Bank context. Note that the combination of East and West Siberia is not quite the same as Russia’s new Siberian Federal District, which excludes Tyumen oblast and Khanty-Mansi and Yamalo-Nents autonomous areas (76, 77 and 78 on the map above).

¹¹ Unpublished materials of Prymorsky Administration, prepared for President Yeltsin’s trip to Japan, October 1993.

¹² A term used, by Governor Victor Ishaev of Russia’s Khabarovsk Territory, who is also Chairman of the Interregional Association of the Russian Far East and Zabaikalie, in his presentation to the 2001 Niigata Economic Conference, “Emerging Northeast Asia: Progress and Problems of the 1990s,” and in an earlier paper prepared by the Slavic Research Centre, “The Ramifications of Energy Demand and Supply for International Cooperation in Northeast Asia,” (Slavic Research Center, Hokkaido University, 1999), as well as others.

¹³ The share of natural gas in primary energy is above 25 percent on average in other parts of the world such as the Americas and Europe, well above the 5 percent in Northeast Asia as of 1995.

¹⁴ Asia Pacific Energy Research Centre (APEREC), Institute of Energy Economics *Natural Gas Pipeline Development in Northeast Asia* (Tokyo, April 2000), p.85.

¹⁵ *Ibid*, p. 85. Estimates of natural gas reserves vary, but by any definition the reserves available in Pacific Russia are substantial in relation to the needs of the region.

¹⁶ Length of the Irkutsk pipeline at 3,365 km for the shortest route and the Yakutsk (Sakha) pipeline at 4,800 km would be substantially shorter than the 6,500 km for a pipeline from Western Siberia or the 6,100 to 7,500 km length pipeline options from Turkmenistan (distances as shown in Table 10 of the AERC study, p. 16). These lengths are also shorter than the roughly 8,500 km maximum distance for pipeline transportation, which makes them an attractive alternative to LNG, depending on the wellhead price.

¹⁷ *APEREC Study*, pp. 52-53.

¹⁸ *Ibid*, pp. 1 and 86.

¹⁹ IMF, *Russian Federation: 2001 Article IV Consultation and Post-Program Monitoring Discussion – Staff Report*, IMF Country Report 02/74, April 2002, p. (i) and p. 20.

²⁰ Decree of the President of the Russian Federation No. 849, 13 May 2000.

²¹ Heilongjiang province is particularly interested in participating in the Khabarovsk and Sakhalin gas projects. Until recently, Chinese provinces were interested primarily in cooperation on projects in their own territory.

²² Ministry of Foreign Affairs, cited by Stranu.ru March 16, 2001.

²³ See, for example, Lepi T. Tarmidi, “Whither the Asia Pacific (Economic) Community?,” paper presented at the APEC Study Centers Consortium Annual Meeting, Merida, Mexico, May 22-23, 2002 by the Director, APEC Study Center, University of Indonesia, p. 6.

²⁴ A principal conclusion of a study of Russia’s participation in APEC by the author. See Anna V. Shkuropat, “Assessing Russia’s Entry into APEC” (APEC Study Centres Consortium, Auckland, 1999) and *Russia in Asia and the Pacific: An Initial Assessment of Russia’s Membership in APEC*, Centre for Trade Policy and Law, Carleton University).

²⁵ Discussion of Tumen River is based on Shkuropat, *The Emergence of Pacific Russia*, pp. 80-86 and contributions by the author to *Brookings Northeast Asia Survey 2001-02*, pp. 93-95.

²⁶ Ivanov, *The New Russian Diplomacy*, p. 128.

²⁷ Heilongjiang, Jilin, Liaoning, and Inner Mongolia. *Data sources*: China Statistical Abstract, CEIC database; Jilin Statistical Yearbooks of Jilin, Liaoning and Inner Mongolia. GNI estimates are derived from GDP data in RMB for the four provinces and applied to national GDP to derive a coefficient, with this applied to WDI data for China.

²⁸ CIA, *World Factbook*, North Korea.

²⁹ Russian Far East [Prymorsky krai, Amur oblast, Khabarovsk krai, Kamchatka oblast, Magadan oblast, Sakhalin oblast, Yakutia (Republic of Sakha), Jewish autonomous region, and Kayak and Chichi autonomous areas] and Eastern Siberia [Republics of Buryatia, Tyva and Khakassia, Krasnoyarsk krai, Irkutsk and Chita oblasts, Taimyr (Dolgano-Nentz), Ust-Ordyn Buryat, and Aginskii Buryat autonomous areas]. *Data sources*: State Committee of the Russian Federation on Statistics, *Handbook “Russia 2000”: Main Socio-Economic Indicators of the Regions of Russia (Moscow, 2001)*. GNI estimates are derived from Goscom Stat Russian Federation data roubles for GRP for the individual sub-regions and applied to the national total to derive the appropriate coefficient, with this applied to WDI data for Russia. PPP GNI estimates are based on Ministry of Economic Development and Trade data for each sub-region’s GRP per capita adjusted for purchasing power, weighted by population, and then used to derive a

coefficient to apply against WDI data for Russia. Estimates thus provide orders of magnitude, implicitly using the exchange conversions applied in WDI estimates for the whole country.

³⁰ GNI and GNI per capita numbers do not include North Korea, for which comparable data was not available.

³¹ China, Japan, Russian Federation, Rep. of Korea, Dem. Rep. of Korea and Mongolia.

³² Northeast China (as defined above), Japan, Dem. Rep. of Korea, Rep. of Korea, Mongolia and Pacific Russia (Russian Far East and Eastern Siberia).

³³ GNI and GNI per capita numbers do not include North Korea, for which comparable data was not available.

³⁴ CIA, *World Factbook*, North Korea.

³⁵ Data for both charts is drawn from IMF: *Direction of Trade Statistics Yearbook*, 2001.

³⁶ Statistics of regional administrations.

³⁷ See, Minakir, Pavel A. *Russian Far East and Zabaikalie*, Moscow, 2002.

³⁸ Demand from other regions of Russia.

³⁹ Materials of the Interregional Association of Economic Coordination for the Russian Far East and Zabaikalie.

⁴⁰ Data of Regional administrations of Far East territories.

⁴¹ Materials of the Interregional Association of Economic Coordination for the Russian Far East and Zabaikalie.

⁴² As recorded by Russian customs statistics.

⁴³ The methodology is that developed by the World Bank and presented in *World Development Indicators*.

Explanations are provided in the table notes.