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# The Problems of Economic Rapprochement of the Russian Far East with Japan and Other Asia-Pacific Countries

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## The Russian Far East: Economic Background

The Russian (also known as Soviet) Far East is the USSR's only contact zone with the Asia-Pacific Basin. Therefore, Soviet participation in Pacific cooperation necessarily involves the territory of the Far East and the water areas of its adjacent seas.

In spatial dimension, the Far East is the largest among all of the economic regions of the Soviet Union, as well as of the Russian Federation: its territory is equal to 6.2 million sq. km, i.e. nearly 1/3 of the Union's total area in the boundaries of 1990; another 1.5 million sq. km of the national marine economic zone in the Pacific may be added. The region comprises eight administrative units: Yakut autonomous republic, Khabarovsk and Maritime provinces (krais), Amur, Magadan, Sakhalin, Kamchatka and Jewish districts (oblast's).

The Far East boasts 27% of the Soviet timber resources, 30% of hydropower potential and of geological deposits of coal. Fish and other marine biological resources within the Soviet Pacific 200-mile economic zone are estimated at 26 million tons. The region also possesses considerable deposits of ores of non-ferrous, precious, rare and rare earth metals, diamonds, phosphorite, apatite, boron, sulphur, mica, semi-precious stones, platinum and many others (altogether about 70 minerals) as well as oil and gas on the continental shelf of the adjacent seas. The region's share in the national output of fish now exceeds 40%, of some non-ferrous metals is about 50%. and of timber, about 10%. These three industries are popularly known as the industries of Far East economic specialization.

Nevertheless, as a whole, the socio-economic characteristics of the Russian Far East are very modest when compared with national figures. The region has a population of slightly less than 8.5 million people (3% of the USSR), produces only 3% of national income and GNP, and accounts for only 4% of the value of the USSR's exports.

Since times immemorial the Far East was sparsely populated by small nomadic tribes of paleoasiatic and manchurian origin. The first Russian penetration into its northern part dates back to 1639. But the region was explored to only a limited degree until the Russian Empire obtained from China its southern sector where Khabarovsk (1858) and Vladivostok (1860) were founded. The beginning of massive migration of the Russians to the Far East coincided with the timing of Japan's settlement of Hokkaido, and the US's of the Northwest Pacific Coast.

Major milestones of the region's development over the last century include its involvement in the Russo-Japanese war (1904-05), construction of the Transsiberian railroad (finished in 1916), civil war, foreign occupation, and existence of the semi-independent Far Eastern Republic (1918-22), the period of Stalin's terror (1930-40s), involvement in World War II which resulted in obtaining Southern Sakhalin and the Kurile Islands from Japan (1945), and construction of the Baikal-Amur Mainroad (1970-80s).

During the 1950-70's, the major part of capital investment from central Moscow ministries was allocated to the extractive industries, with little or no attention paid to the social infrastructure and to environmental protection. For a certain period of time, such an investment policy worked sufficiently well and secured a high growth rate (in the 1970's, average annual rates were as high as 9% and even 14% in fishery and non-ferrous metals<sup>1</sup>). At the same time, contradictions resulting from this strategy were piling up, and the normal proportions between different industries were progressively deformed. All this resulted in the decrease of the annual growth rate to 2.5-3% in the early 1980's, and by 1985 almost all opportunities for economic growth had vanished.

Regional export activity changed in parallel with the general economic deterioration. Two countries, Japan and China, had always been the main trade partners of the Russian Far East. The break of Sino-Soviet political relations in the 1960-70's reduced the volume of bilateral trade (including border trade exchanges) to almost zero. Thus, Japan became an almost monopolistic partner of the Far East both in terms of conventional trade and large-scale resource development projects. Even now, despite the recovery of trans-border barter trade with China, up to 70% of regional exports are directed to the Japanese market. The negative side of this trade pattern is that it has consolidated the raw materials orientation of Far Eastern exports, and of the economy in general. The lion's share of the region's overseas shipments is accounted for by unprocessed products of the forestry and fishery industries, with practically no value added. According to the words (perhaps too emotional) of the USSR Peoples' Deputy from the Maritime Krai, Ms Ievdokiia Gaiier, her native territory has virtually become Japan's "raw materials appendage."<sup>2</sup> And, what is worse, the region obtains practically nothing from this export because timber and fish have always been controlled by central ministries in Moscow.

The situation deteriorated when Japan began to lose interest in traditional Far Eastern products. In the 1980's, bilateral trade turnover became very unstable, and the volume of Far Eastern shipments to Japan began to drop. The region's trade performance with most of the other Pacific market economies was equally gloomy.

The central Government's reaction to the challenge was shaped in a document entitled "The Long-term Program for Economic and Social Development of the Far Eastern Economic Region (1987)," which was promulgated in the year following M. S. Gorbachev's celebrated speech in

Vladivostok. The Soviet leader's speech, in which he advocated the necessity of radical changes in the strategy of regional economic development and appealed for effective cooperation with the Asia-Pacific region, seemed to be the beginning of a new era for the Russian Far East.

Indeed, soon the USSR asked (though unsuccessfully) for permanent membership in the Pacific Economic Cooperation Conference (PECC) – an organization it had been strongly critical of. The Soviet National Committee for Asia Pacific Economic Cooperation (SOVNAPEC) was inaugurated in Moscow, with Mr. Evgenii Primakov as its chairman, and began participating in several task forces of PECC. (The country was admitted to PECC only in 1991).

Unfortunately, the above-mentioned "Long-Term Program" had little to do with the spirit of Gorbachev's Vladivostok speech and subsequent Soviet moves on the international level. Instead of being self-financing and self-supporting, it turned out to be a collection of direct and detailed economic targets to be achieved by the central ministries and state-run enterprises by the year 2000. Furthermore, the targets indicated in the program for the years 1986-2000 were definitely unattainable: for example, the volume of regional export had to increase more than 3 times, and industrial output had to grow 7% annually (current real annual growth does not exceed 2.5%). Moreover, in order to fulfil the program, some 200 billion roubles of capital investment were needed, which the state budget certainly could not provide.

It should be noted, however, that the negative processes usually tended to be softer in the Far East than in the other parts of the USSR. This was mainly connected with a greater stability of the industries of the regional specialization. But in 1991 the deepening of the national crisis caused harsh difficulties in the economic performance of the Far East as well. Among the factors of this deterioration, besides an extremely bad situation in the state budget, one should mention the weakening of the region's ties with its traditional partners in the Russian Federation to say nothing of the break with the former republics of the USSR which have proclaimed their independence.

#### The Soviet Union on the Pacific: from Isolationism towards Economic Cooperation

Perhaps the crisis in the Russian Far Eastern (as well as national) economy could have been avoided if in due course (at least 15-20 years ago) the Soviet authorities had been able to understand the importance of the influx of foreign capital as the main source of dissemination of advanced technology. Instead of that, they were until recently totally opposed to foreign investment on the Soviet territory.

Recognition of the positive aspects of foreign capital import came only in the second half of the 1980s, after the new government proclaimed a policy of perestroika. The Far East of the USSR probably needed the transition to a

new external economic policy most urgently, because adherence to old patterns would lead only to the further economic isolation of the Soviet Union in the Asia-Pacific Region (APR). Though other investors were equally welcomed, it was obvious that behind the official turn to foreign investment in the Russian Far East stood, first of all, plans to attract Japanese capital.

It was thought that the flow of Japanese funds could help to transform the entire economic complex of the region and to balance its deformed industrial structure. It was also planned that the Japanese trading houses, with their huge marketing networks, could become intermediaries between the USSR and the rest of the Asia-Pacific Region. But main expectations were connected with the influx of Japanese modern technology (on the national level to the present time, 70-80% of foreign contributions have come in the form of transfer of machinery and equipment, know-how, patents, etc., and not in the form of cash contributions<sup>3</sup>). It was hoped that Japan, through joint ventures, could considerably cover the technological demands of Far Eastern industry.

These overly optimistic expectations were founded on widely accepted beliefs in the advantages of the Russian Far East as compared to the other countries of the APR. These advantages were seen to be derived from a wide diversity of natural (mineral and biological) resources, geographical location convenient for intercontinental transportation and communications, and extraordinary opportunities for international tourism and recreation.

Unfortunately, in over-estimating their own resources, the Soviet planners failed to understand that it was not an easy task to attract massive investment from Japan, and undervalued sharp competition for the Japanese capital throughout the Asia-Pacific Region. As Mr. D. Kawake, president of "Oji Paper," put it: "These countries do not sit twiddling their thumbs. They constantly attack Japan with various offers, among which are cheap, abundant and qualified manpower, stable supply of electrical energy, low corporate taxes and other privileges for inward investment."<sup>4</sup>

Creation of a favorable investment climate through offers such as those made by other countries in the Asia-Pacific Region was not paid sufficient attention by Soviet planners when drafting the first version of legislation to permit joint ventures with foreign capital on Soviet territory (1987). Reflecting old strategies and dogmatic ways of thinking, the legislation contained many weak points. It is little wonder that the reaction of the foreign (and especially Japanese) business sector was rather cool. This cool reaction stimulated the adoption of more liberal legislation, especially when applied to the Russian Far East.

The resolution of the USSR Council of Ministers (1988) gave the Far East special status for developing external economic relations. It provided that joint ventures in the region would be exempt from a tax on profits for the first three years of operation, that a tax on hard currency profits would be reduced from 30% to 10% and so on. The existing ceiling of foreign share in the fixed

capital of joint enterprises (which had been 49%) was abrogated, and foreign citizens were allowed to occupy leading managerial positions.<sup>5</sup>

These reforms, beyond doubt, have had a positive impact in general, and not only in the eastern provinces of the USSR. Joint ventures have formed the most dynamic sector of the Soviet economy, though only 1/5 of them are fully operating at the present. In 1990, total investment in the USSR reached 3 billion dollars. During the first 6 months of 1990, joint ventures' production volume was 6.6 times that of the same period of the previous year.<sup>6</sup>

Regretfully, foreign activity in the Russian Far East was (and remains) much weaker. In the middle of 1990, out of 1830 Soviet-foreign enterprises functioning throughout the whole of the USSR, only about 40 were located in the region. On the surface, Japanese investors ranked first here (they are involved in 17 cases of investment), but their business behaviour is obviously passive, especially if previous Soviet expectations are taken into account. The whole city of Khabarovsk (approximately 600,000 inhabitants), most intensely linked to Japan in 1990, could boast only four joint Soviet-Japanese enterprises; in services and retail trade, they would be graded as small and smallest. This apparent lack of foreign interest in joint ventures may be attributed to the wrong motivation on the part of Soviet planners. Instead of seeking profits as such, they are oriented to gaining hard currency, which is the only real money in their view. As a result, the contribution of joint ventures as a source of supply of badly needed consumer goods to the Russian market is grossly insufficient.

In October 1990, in anticipation of new investment legislation, the President of the USSR issued a decree aimed at the further influx of foreign investment to the Soviet territory which, in turn, should accelerate the transition of the country to a market economy. Foreign businessmen were allowed to purchase shares of purely Soviet enterprises, to buy real estate, to establish companies with 100 per cent foreign capital (i. e. legalization of foreign affiliations), to be engaged in the Soviet banking system and so on.<sup>7</sup>

In the summer of 1991, the national Soviet's and the Russian republic's legislation on foreign investment were adopted almost simultaneously by the respective parliaments. Both documents resemble each other and seem to take a rather liberal attitude towards foreign industrialists, though many details are avoided and neither most favoured nor restricted industries on Soviet territory are indicated. According to Russian law, foreign investors, if their share of capital is less than 100 million rubles, need not obtain permission from the Finance Ministry; instead they must simply notify it, and then will be registered automatically within 3 weeks.<sup>8</sup>

Most probably, the new legislation will encourage foreign activity in the Russian Far East (as well as in the other parts of the country), and will create the legal framework for the development of various forms of industrial cooperation in the region. But as it stands, it should be admitted, the regional economy is stagnant and remains at the stage of conventional trade.

Not too successful attempts to create a network of Soviet-foreign joint ventures have provoked the idea of establishing so-called 'zones of free enterprise', modelled after special economic zones (SEZs) in Southeast Asia and China. Though this idea seemed to be somewhat exotic for the Soviet community, the central Government gambled on launching several economic zones, including one in the Far East. Soon after that a lavish proposal to develop 100 square kilometres of virgin soil near the Bay of Posiet to the south of Vladivostok came from Mr. Seizo Ota, an elderly head of a Japanese life insurance company. His was a grand project involving billions of dollars. After scrutinizing it, the central authorities proclaimed it to be more a philosophical concept than a business proposal, and rejected it. Some people argued that the real reason for the Soviet's negative response was the fear of subsequent decay of the existing ports of Nakhodka and Vostochny, because Posiet's geographical location was more convenient for transportation. In any event, Mr. Ota's idea did not die, and might be brought forward for reconsideration in the near future.

Instead, the Government decided to launch a special economic zone in the Pacific town of Nakhodka, still with a view to seeking an influx of primarily Japanese capital. The existence of two big cargo seaports and diversified, though obsolete and insufficient, infrastructure were the main reasons for choosing Nakhodka as the site for a special economic zone. It was assumed that international business activity would begin with the processing of timber and fish and ship repairs. According to M. S. Gorbachev, his talks with American business circles in the summer of 1990 showed that they were inclined to participate in the Nakhodka free economic zone with their capital.<sup>9</sup> South Koreans expressed their interest in the "zone" as well. The prospects for Japanese participation are still vague.

Surprising news came in June 1990 from Sakhalin. The newly elected Sakhalin authorities, independently of Moscow, proclaimed the whole territory of the island a "zone of free enterprise" and promised to establish labour and stock exchanges there. Later the Parliament of the Russian Federation ratified the decision of Sakhalin authorities and, moreover, gave the status of "zones of free enterprise" to the Maritime krai and to the Jewish autonomous oblast. The authorities in Birobidzhan (the capital of the Jewish oblast) have already proclaimed the launching of free economic zone "Eve" named after the mythical mother of mankind. About twenty more territories of different size have been suggested as the sites for free foreign economic activity. A wide spectrum of privileges for future investors has been offered in these zones.

For example, the draft charter of the Maritime zone includes the following privileges: All the enterprises within the zone will be exempt from national and Russian republic taxes. The tax on profits will be limited to 10%. New enterprises will be exempt of taxes for three years from the time they obtain the first profit. All the goods imported to meet the needs of enterprises will be free of import custom duties, and all the exports from the Maritime krai will

be free of export duties. Repatriation of profits will be guaranteed, and will be taxed at a rate not to exceed 5 %.

International business practice is not familiar with such spacious zones and the giving of this status to huge areas, larger than Japan or many European countries, seems to be a mere statement of good intention or, at best, a long term goal. On the other hand, the smaller zones, like Nakhodka, seem to be more realistic. They have chances to become 'nuclei' or 'poles' for further marketization and internationalization of the whole area of the Far East. But even they will hardly be a panacea from all evils of the Soviet economic system, especially under Far Eastern conditions.

Judging from the experience of other countries, the above-mentioned zones, for several years, are likely to spend more hard currency than they will earn. This development may become an irritating factor for many impatient people. Besides, it is not guaranteed that the advanced foreign technology from these zones will automatically be disseminated into other industries and enterprises, raising the technological level of the entire Far Eastern economy. At the initial stage, the main positive result of special economic zones will probably be the improvement of workers' skills and the introduction of advanced methods of industrial management to the region.

There is some scepticism about the prospects of the Far Eastern zones among foreign experts, too. One reason is that the region, (as was, for example the case of China's Shenzhen), does not possess abundant and skilled manpower. The Chairman of the Association of Japan-Soviet trade, Mr. Tetsuo Sato, considers that the Russian Far East (and the USSR, as a whole) should make its own way, by allocating much more money for the modernization of its infrastructure and by widening the economic and financial rights of local governments, instead of creating artificial structures, like SEZs.<sup>10</sup>

Life itself rather often seems to corroborate the sceptical approach of foreign experts. The establishment of the Nakhodka SEZ was officially proclaimed by the government of the Russian Federation at the end of 1990. In the spring of 1991, local administration even announced rigid limitations for Soviet non-residents wishing to enter the city. But the zone became a hostage of the "war of laws" between the national Soviet and Russian authorities. The custom agency and the National Bank for External Economic Ties said that they submitted only to the central government and were not inclined to pay attention to the privileges for foreign investors set by the government of Russia. It is therefore no wonder that visible traces of Japanese or other foreign activities can hardly be seen in Nakhodka. Only in August 1991 did the Council of Ministers of the Russian Federation decide to set up its own control over the zone and send its special representative there.<sup>11</sup>

In any case, there is no reason for adherence to only such form of economic cooperation as special zones. While experimenting with them, other forms could be introduced into practice, such as concessions, or 'develop-and-import' type extracting facilities which have existed in some countries of Southeast

Asia. Japanese business, for example, could try concessions in extracting ores of rare and rare-earth metals in the Russian Far East. In the 1920s and 1930s, concessions in primary industries (such as fishing concessions to Japan) became widespread in the region, and they left their mark on its history. Vladimir I. Lenin himself was bold enough to put forward the idea of leasing the whole of Kamchatka peninsula to the US for 60 years.<sup>12</sup> Perhaps, one might regret now that Lenin's idea was not implemented.

### Obstacles to Foreign Investment in the Russian Far East

The Japanese statement at the XIIth joint meeting of the respective nation's committees on economic cooperation between Japan and the USSR reads that, for foreign investment "the decisive factor in selection of country and partner is how aptly in quantitative and qualitative respects the three elements – manpower, materials, and money – are interconnected and how freely they can be used." It is obvious that the degree of interconnection of these three elements in the Russian Far East leaves much to be desired. There exists a range of factors to account for foreign reluctance to invest there. Some of them can be related to the USSR in general, and other factors tend to be much more local in nature.

One primary drawback is the inconvertibility of the rouble, which makes it extremely difficult to make use of profits obtained in Soviet currency. Moreover, the black market exchange rate (which in principle, reflects more realistic proportions) is about 10 times higher than the official rate. Therefore, both sides constantly have difficulties in negotiating the true value of the investment, in distributing profits in hard currency, and so on. As the above-mentioned statement at the XII-th meeting continues: "The adoption of the law on joint ventures in your country (in the USSR) is nothing but a first step, and if it is not supported by the convertibility of the rouble, frankly speaking, we do not expect positive results."<sup>13</sup>

Next is the present lack of Soviet business proposals designed to attract foreign investors. Raw materials are the major resource that the Russian Far East can offer for international cooperation but for some foreign partners, especially for Japan, Far Eastern resource development projects do not seem well grounded, because the prospects of obtaining profits at the present time are rather doubtful, and the initial outlay in many cases promises to be so vast that it is impossible to accomplish without financial support of the respective governments.

These calculations are explicable at least. It is more difficult to explain the absence of joint ventures in such a sector as hotel construction. In China, for example, in the first half of the 1980s this sector attracted the major part of foreign investment. Probably, the situation in the Russian Far East can be explained in only one way: there is little confidence in the long-term prospects of the region which derives from the high degree of its "country risk," or, so to say, "region-risk."

The "country-risk" in the Russian Far East has many dimensions. First of all, foreign investors have been cautious because they are not sure of the final victory of the reformists in the USSR, are not aware of the further economic and political performance in the country. It frightens them that the USSR has no accords on investment protection with the Asia-Pacific states. Such an accord was not signed even between the USSR and Japan during Mr. Gorbachev's visit to Tokyo in April 1991.

Then, foreign industrialists, like the Soviets themselves, until recently did not understand the delimitation of functions and of responsibilities between central (Union), republic (Russian), and local authorities. They were never sure with whom they should carry out business negotiations, and who possessed or controlled certain resources. Usually they have been advised to deal directly with the involved enterprises. But concerning the most important Far Eastern resources like fish or timber, they were advised to negotiate with national authorities in Moscow. The awkward situation may be illustrated by the following example. Mr. Valery Lozovoi, who is responsible for external economic relations of the Maritime krai, said in his interview in 1990 that the decision of the Russian Parliament to proclaim the whole territory of his krai a zone of free enterprise had taken its authorities unawares.<sup>14</sup> (Only in August 1991 did the governments of the USSR and Russia jointly decide to allow the Far East's krajs and oblasts to control up to 30 percent of the local production and to export it in exchange for foreign food and commodities).<sup>15</sup>

The situation became more clarified after the August putsch (1991) which resulted in the disintegration of the old structure of the USSR. Now it seems likely that the Russian laws (including the investment legislation) will have priority over the Soviet laws in the Far East in case of conflict between them. Maybe, the Soviet national laws will even become purely symbolic.

The Far East's foreign partners are also embarrassed by the fact that the above mentioned Long-term governmental program of development of the Soviet Union's eastern provinces has turned out to be unrealistic and actually does not work now. In 1986-1990 the industrial output of the krajs and oblasts of the Far East taken altogether grew only by 14.9 per cent against the Program goal 21 per cent. Moreover, none of the detailed targets of the Program has been achieved during the last 5 years. It makes the economic strategy in the Russian Far East unclear, on all levels.

A controversial, psychological atmosphere around foreign investment is another impeding factor. On the one hand, there exist strong reservations regarding the influx of foreign capital, especially on the level of the man in the street. They reflect the not uncommon view that it is better not to develop the eastern regions of the USSR at all, than to allow foreign penetration with its negative impact on social behaviour and labour relations. The fears that the Japanese will eventually buy up the whole center of the city (as they did in Honolulu) can be heard in Khabarovsk. The probable establishment of large scale foreign processing complexes in the Russian Far East may also face an

unpleasant reception from the increasingly active domestic ecological movement. According to a poll held by the National Center of Research of Public Opinion on the eve of Mr. Gorbachev's visit to Japan, only 39.1 per cent of respondents in the Khabarovsk krai would approve of construction of a Japanese plant in their cities; in Sakhalin the figure was as low as 26 per cent.<sup>16</sup>

On the other hand, many representatives of the Far Eastern economic authorities expect too much too fast from the foreign activity in the region. They tend to consider joint ventures a kind of magic wand which should resolve all the problems of the Russian Far East. In their strong striving to create these ventures they try to jump over all the stages of spade-work. These people get seriously angry with foreign (first of all, Japanese) businessmen for their reluctance to invest into the Russian Far East under the existing disorder of its economy. They earnestly think, for example, that if there no intergovernmental agreements on investment protection between the USSR and its pacific partners, the problem can be solved by signing special accords between the respective governments and the administrations of the zones of free enterprise.

The lack of a market-oriented mentality in the Soviet society is likely to be one of the main obstacles for successful activity of foreign enterprises in the USSR, including its Far East. The situation is complicated because of the personal qualities of some people who are becoming the new economic leaders. Many of them are former party and state officials who cannot break with a commanding and administrative style of work.

In the Russian Far East there are few able and efficient administrators who understand how the market economy works. Due to their long-term isolation from the outer world, most managers have become accustomed to aim at only one goal – to fulfil by all costs the state plans set up in Moscow. Some institutions in the region have begun to train their students in international management and marketing, but without foreign aid it will obviously take considerable time to improve managerial skills.

Next comes the problem of manpower. First, there is an evident shortage of labour in the region due to its sparse population. Furthermore, the local labour force also lacks skill and discipline according to standard international requirements. For example, the Soviet official daily "Izvestiia" wrote in September 1990, after a visit by a high-level Japanese economic mission to the Russian Far East: "The mission has come to the conclusion that the Russians deprive themselves of from 30 to 50% of possible profits only because of their own disorganization and mismanagement. The Japanese wondered how the Russians could hold out their hands for foreign capital and think about the establishment of joint ventures without their own efforts to put in order industrial organization, working discipline, a system of wages, and so on."<sup>17</sup> As a prominent Soviet economist, academician Oleg T. Bogomolov put it, "a broad gap between skill, culture and intensity of labour, which are typical for our workers, and Japanese standards, will be among the first

difficulties to be addressed in creating free economic zones in the Russian Far East. Many Soviet Workers actually will have to learn anew how to work.”<sup>18</sup>

Above all, it is perestroika in the mentality of the workers and managers of all ranks which requires foreign cooperation. Obviously, not natural riches but human beings with their skill, education and intellectual abilities are the main economic resource. The region badly needs foreign training centers which could upgrade the skill of Soviet workers and, so to say, modernize the mentality of the managers. Maybe, the key to the problem will be found in the framework of special schools, such as FESIB – the Far Eastern School of International Business with professor Vladimir Shishmakov as its head. The school was established in 1991 under the aegis of the Khabarovsk territorial government; it is scheduled to carry out special seminars for the local top managers and to invite for this purpose businessmen and scholars from Japan, Republic of Korea, the United States as guest teachers.

Probably, the region will also need the aid of foreign economic advisers to organize a shift of the economy to the market on the local level. But it should not be forgotten that the Soviet mentality, the so-called “socialist values,” were formed during many decades of Stalin’s terror and Brezhnev’s stagnation, and it will take considerable time to change them.

Next, the readiness to invest in the Russian Far East is impeded by its underdeveloped infrastructure. The Japanese, Koreans and Americans justly complain of the poor state of air and sea ports, hotel facilities, and the weak development of telecommunication networks in the region. As “Pravda” sarcastically put it in the summer of 1991, it took less time to reach Japan from the special economic zone in Nakhodka by boat than to get your partner in Tokyo on the phone.<sup>19</sup>

The president of ‘Komatsu, Ltd.,’ Mr. R. Kawai, told his Russian counterparts: “We would like you to understand that if infrastructure facilities are not provided, Japanese firms will not be able to participate in launching joint ventures.”<sup>20</sup> It should be added that there are still no investment banks to support foreign economic activity in the Russian Far East.

Thus, of all factors which could stimulate foreign investment (manpower, managerial skill, money supply, goods, raw materials, infrastructure, favourable investment climate etc.), the Far East of the USSR possesses only raw materials, the development of which is now too costly in many instances. It also possesses convenient location and natural beauty. The remaining elements are either underdeveloped, or practically nonexistent nowadays.

One might be excused for thinking that the above-mentioned defects must have an equally negative impact on the investment plans of all our partners from the industrialized countries. This is not exactly the case. Japan, which has been the most desired partner, can to a larger degree than the other countries (South Korea, for example), do without the USSR and its Far Eastern resources at the present moment. Besides, when considering the

Soviet-Japanese economic relationship, one can never avoid its political dimensions.

Needless to say, the problem of the Northern territories is a great obstacle for the development of intergovernmental relations. The summit of the 'Big 7' in Houston (summer 1990), for example, showed that the position of the Japanese government towards the prospects of aid to the USSR was most reluctant, being directly tied to the settlement of the territorial problem. The same happened later when the question of extraordinary food aid to the Soviet Union to survive the winter of 1990/1991 was on the agenda. So it is obvious that the solution of the problem will be a very important catalyst, though this catalyst will work properly only when conditions mature.

Of course, the Japanese government is able to influence the business behaviour of domestic corporations. Until it allows its Eximbank to extend long-term loans to the USSR, the private corporations would hardly participate in large-scale projects in the Russian Far East and Siberia. Nevertheless, it can be argued that if, let us say, the Keidanren were deeply interested in Soviet resources, the position of the government would not be so particularly decisive. This opinion is confirmed by the results of a poll held by the Keidanren in 1990 among the Japanese corporations dealing with the USSR.

They were offered to agree or disagree with two assertions. The first one was: "The political problems between the two countries are a hindrance to your company's business relations with the USSR". 41% of companies answered "yes," 29% - "no," with 30% abstaining. The second assertion was: "The economic exchange between Japan and the USSR stagnates because it is not attractive from an economic standpoint for Japan." 55% of companies answered "yes," 20% - "no," with 25% abstaining.<sup>21</sup> So, a much greater proportion of Japanese firms connect the stagnation in the bilateral economic relations mainly with economic reasons.

The amount of change to be completed in the Russian Far East is tremendous. As an outstanding expert on the Soviet economy, Professor Kiichi Mochizuki of the Hokkaido University, put it briefly, "it is necessary to open Vladivostok, to establish the Institute of Socio-Economic Problems of the APR, to put the whole of the Baikal-Amur Mainroad (BAM) in operation, to prolong the BAM to Yakutsk, to organize year-round navigation along the Arctic coast of the USSR, to create favourable conditions for the operations of joint ventures, to set the Far Eastern infrastructure in order, to solve the housing problem in the region" and the list goes on.<sup>22</sup>

### Economic and Political Changes in Northeast Asia

The Japanese unpreparedness to make large-scale investment in the eastern provinces of Russia has provoked Soviet attempts to find a reliable substitute for Japan. Probably, this is the main reason for a swift switch from the long-term Soviet hostility towards South Korea to the rapprochement

with this country, which has resulted in the establishment of diplomatic relations, president Roh Tae Woo's visit to Moscow and the Seoul's promise to extend long-term loans (3 billion dollars) to the USSR. It seems not impossible if the Koreans who, unlike Japan, badly need Soviet raw materials could become a major foreign investor in the Russian Far East. Their investment plans involve hundreds of millions of dollars. On the other hand, the Soviet Union has suggested a list of 1000 high technologies for use by the Korean companies. It has been reported that the Koreans are especially interested in 200 items on the list, items which Japan and the US are reluctant to transfer to Seoul.<sup>23</sup>

Meanwhile, some signs of improvement on the Soviet-Japanese economic relationship also deserve mention. Despite the lack of political support on the part of their government, Japanese corporations, both small and large, have considerably increased the number of business missions dispatched to the Russian Far East. Among the Japanese there are real enthusiasts of bilateral cooperation in the region. Two of them - Atsushi Iwasaki of Osaka and Nobuo Arai of Sapporo - who seem to know everything about the Russian Far East and tend to spend more time in the USSR than in Japan, might be the first on the list of these enthusiasts.

Japan and the USSR resumed negotiations on the joint development of oil and gas on the Sakhalin shelf which the USSR had suspended after the oil shock in 1980. 'Mitsui Bussan' is planning to launch a joint natural gas production project off Sakhalin, reportedly in association with the Americans and Koreans, which may involve 1.5 billion dollars. Some Japanese firms have shown an interest in the conversion of Soviet military plants to the production of consumer goods. The fourth stage of a joint forestry development project, involving 80 billion yen, is to be resumed in 1991.<sup>24</sup> The total number of joint Soviet-Japanese ventures, located in the Far East, is sure to increase in the nearest future. According to SOTOBO (Japan Association for trade with Soviet Union & Central-Eastern Europe) information, 80% of these enterprises do pretty well, and their reputation in terms of profits is high.<sup>25</sup>

A new dimension to bilateral relations is currently underway. This is direct productive cooperation on an interregional basis. Certain Japanese prefectures (first of all, Hokkaido, Niigata and Kanagawa) are trying to establish independent trade and cooperative relations with kraies and oblasts of the Russian Far East. They have begun to develop joint projects in transportation (for example, a ferry service between Hokkaido and Sakhalin), fisheries and agriculture. Niigata, whose capital is sister-city of Khabarovsk is particularly active in this connection, attempting to form a vast trading zone embracing the Sea of Japan Rim. A group of about 50 companies from Niigata has recently set up a special firm to promote Japanese investment in the Russian Far East. The new firm, capitalized at 1.5 billion yen, will provide consulting service to the companies hoping to invest there and will

begin its activity with construction of a hotel for foreign businessmen in Khabarovsk or Vladivostok.<sup>26</sup>

Hokkaido's governor, Mr. H. Yokomichi, during his visit to Khabarovsk (summer 1990) brought forward a program (the so called 'new model') of economic ties of his island with the Russian Far East. The program envisages interregional cooperation in such industries as fisheries, forestry, construction, mechanical engineering, and international tourism.<sup>27</sup>

These modest but noticeable changes are connected with the Japanese need to diversify their export markets, in view of growing anti-Japanese sentiments in the US and plans to establish a "united" Europe in 1992. These new markets could be found in the Soviet Union because of the disintegration of the world socialist system and subsequent growing freedom of hands for Soviet trading bodies to select partners everywhere, including the Asia-Pacific Region.

Of course, the population of the Russian Far East is small (it will hardly reach 10 million people by the year 2000), but commodities and consumer goods produced there can easily and without custom duties be sold throughout the whole territory of the Union of Sovereign States (the heir to the former USSR) or, at least, in Russia proper. The Soviet market is dormant for Japan now because of inconvertibility of the rouble, but potentially it is immense. Each of the Soviet's nearly 300 million citizens (including newly-born babies) has saved more than half of their yearly income in savings banks, and this is in the situation when the shelves in the shops are empty. The collection of this money when the rouble becomes convertible is an attractive prospect. That is why all six Japanese major sogo-shosha have set up their representative offices in Khabarovsk. The official 'Japan Times' has written that their advance in the Russian Far East is based on the premise that the region will become a centre of trade between the neighbouring nations; the paper even predicts growing rivalry between these nations in this part of the globe.<sup>28</sup> The very tone of the Japanese press towards the economic ties with the USSR changed considerably, especially in anticipation of President Gorbachov's visit to Japan in spring 1991.

Unfortunately, the long-looked-for visit satisfied neither the political demands of Japan, nor the economic expectations of the USSR. The only achievement in the economic sphere was the accord on Japanese technical assistance in the transition of the Soviet economy towards market principles, but it does not involve any appreciable amount of money in either the form of loans, or of direct investment.<sup>29</sup> (Tokyo's promise to extend \$ 2.5 billion appeared much later, in the fall of 1991).

It is common knowledge that the Asia-Pacific Region, like the rest of the world, entered the last decade of this century facing growing regionalism and protectionism. Such protective fortifications, as "fortress Europe" and North American free trade agreement etc., are becoming the reality of our epoch. Despite the formation of the Asia-Pacific Economic Conference (APEC, Canberra 1989), the plans to establish a pan-Pacific economic cooperation

network are confronting obstacles which are difficult to overcome, mainly due to socio-economic differences in the development of the region's nations and the vast territory of the Basin. An unsuccessful course of the Uruguay round of the GATT negotiations has also impeded the Pacific economic integration which PECC and APEC aim at.

Neither Japan, nor the Soviet Union nor any other country of Northeast Asia has contributed to the split of the world into separate trade blocks. But now, when market principles conquers the last bastions of the planned economy, they are doomed, in different degrees, of course, to adjust themselves to the current situation, including moves to mutual economic cooperation.

These moves can only be facilitated by the current favourable political changes in the sub-region of Northeastern Asia (NEA). The importance of ideology in international relations here is decreasing, and the priority given to economic development and foreign economic ties is becoming evident. The relations between former enemies (e. g. the USSR-the US, the USSR-China, Japan-North Korea, China-South Korea, even between both Koreas) are improving, though at different speeds. Some events, like the South Korean President's visit to Moscow, could not be foreseen even a year before. The Soviet-Japanese dispute over the Northern territories is one of the last political obstacles to cooperation in Asia-Pacific region, and according to some experts both in the USSR and in Japan, the settlement of the problem has never been so attainable as in the autumn of 1991, after the failure of the reactionary coup d'etat in Moscow. For example, in September Mr. Grigori Iavlinskii, the famous economist responsible for the formation of a new national Cabinet of Ministers, distinctly supported the transfer of the Kurile Islands to Japan.<sup>30</sup>

When the normalization of relations between the two countries begins, it will be appropriate to speak about the end of the cold war in the APR. This is the background to the concept of the subregional economic zones which has emerged only recently but which seems to be disseminating with considerable speed.

#### The Concept of Northeast Asia Economic Zone: Burden and Gains of Partnership

First appeared the Japanese idea to establish 'The-Sea-of-Japan Economic Zone' which would tie together the Ura-Nihon prefectures of Japan, Northeast China, both countries of the Korean Peninsula, and the territories of the Russian Far East which are adjacent to the Pacific Ocean or its seas. In China, they put forward the similar idea of 'The Yellow Sea Cooperation Zone' which could incorporate the same area with the exception of the Russian Far East. A mechanism of consultations on these issues has already begun to come to life. It has taken the shape of already regular symposia in Niigata, Harbin and other cities, and especially, huge conferences in Vladivostok. The

last Vladivostok meeting (September 1990) was chaired by the then Soviet foreign minister Eduard Shevardnadze, and the Sea of Japan cooperation was at the top of its agenda.

It seems only natural that soon the both concepts would merge into one, namely the concept of establishing “the Northeast Asian Economic Cooperation Zone.” This, for example, was the chief idea of a recent international conference held in Kawasaki under the auspices of an outstanding advocate of Pacific cooperation, Dr. Saburo Okita. There are profound reasons for the merger of the two proposed zones. First, the Korean peninsula belongs simultaneously to the basin of the Sea of Japan (the Koreans call it the East Sea) and to the Yellow Sea, and it would hardly be possible for each of the Korean states to get torn towards two economic groupings. Second, under the new scheme the Russian Far East will acquire access to the Yellow Sea, and the Peoples’ Republic of China – to the Sea of Japan. In this case both seas, located between the five countries, could become one inner lake of the NEA economic zone which would facilitate communications, transportation and cultural exchanges. One cannot exclude that in future Taiwan will wish to join the Northeast Asian Zone, and in this case the latter will unite the basins of three seas – the Sea of Japan, the Yellow and East China Seas.

The NEA Zone, if organized on these principles, could bring together under the auspices of multilateral cooperation huge capital funds, the advanced technology and management skills of Japan, ROK (and Taiwan), vast natural resources and the outstanding results of fundamental research of Russia and China, and manpower from all the countries. It should be stressed that the NEA economic zone must embrace the Ura-Nihon prefectures of Japan, and the Pacific provinces of China and the USSR, i. e. regions which in each of the respective countries are considered to be underdeveloped.

Of course, much more in-depth academic studies and practical work with respect to the proposed zone is required in the future, and on many levels. But even now, thanks to the efforts of Japanese and other experts, the probable main directions of its operation can be enumerated.<sup>31</sup> They include: (a) promotion and financing of joint ventures, and free economic zones in the USSR, China, etc.; (b) extension of air, maritime and other communications between the major cities of the subregion; (c) improvement of social and industrial infrastructure; (d) assistance in the transfers of technology between the countries of the zone; (e) arrangement of a wide and comfortable network of recreation facilities, etc.

Within the framework of sub-regional cooperation, it would be much easier to overcome various obstacles of an economic and political nature, and to manoeuvre natural, financial, technological and labour resources between the involved partners to the mutual benefit of them all. A proposal of the head of the research institute of SOTOBO, Dr. Kazuo Ogawa, can be taken as an example. The export of raw and semi-processed timber is vital for the economy of the Russian Far East, and Japan has always been its main

consumer. Now, unfortunately, the Japanese timber market is stagnant. But China and both Korean states show lively interest in Siberian and Far Eastern timber. Under SOTOBO's scheme, within the framework of the NEA economic zone, Japan could supply the Russian Far East with long-term credits, machines and equipment; China could provide it with manpower, consumer goods and foodstuffs, and Russia could deliver the products of forestry to China, both Koreas and to Japan, when she needs them<sup>32</sup>. Obviously, a similar scheme could be applied to the multinational development of other natural resources, for example, fisheries.

The coordinating role of the zone will require unification of economic statistics which differ greatly from one country to another, and which are, for example, semi-secret in the USSR and entirely secret in North Korea at the present moment. The concentration of economic statistics in the hands of a specialized body would allow all interested businessmen and economic organizations throughout the NEA zone (and beyond) to be provided with adequate trade and investment information, which would greatly contribute to Pacific cooperation. All these tasks, of course, will require considerable financial funds to be raised from the contributions of separate provinces (e. g., Sakhalin, Hokkaido, Heilunjiang) or entire countries (South Korea).

The critical question is what each of the would-be members could give as their contribution to economic cooperation in the NEA zone, and what gains each could take on the basis of its membership. It seems that participation could be designed so that all countries, without exception, could win. It makes no secret of what the Soviet Union or Russia proper want. Now it is common knowledge in this country that the epicentre of world economic activity has been shifting to the Asia-Pacific Region. On the other hand, the Far East, which is Russia's only contact link with the Pacific, is one of the most underdeveloped areas of the country and for many years has shown a tendency towards economic stagnation. To leave the situation as it is means nothing but to doom the whole of Russia (or the USSR) to absolute non-participation in the Pacific economic life.

In order to make a breakthrough in the Russian Far Eastern economy, it is critical to increase its export, both in volume and in the number of items; it is also absolutely necessary to attract foreign capital, technology and management skills. Currently, these conditions are becoming more and more vital because it is unrealistic to count on increased allocations from the central budget.

It is obvious that in the nearest future, the visible export of the Russian Far East to the countries facing the Sea of Japan and the Yellow Sea will consist almost entirely of raw and slightly processed natural resources. Besides the above-mentioned timber and fish, the set of these resources includes natural gas, coal, ores of non-ferrous, rare, precious and rare-earth metals, many other mineral resources and, maybe oil among them. If unnecessary for Japan at the present moment, these commodities could bring profits to the business community of the Ura-Nihon prefectures due to their

re-export to the other countries of the NEA and beyond. As regards the exploitation of natural resources it is important to point out the growing influence of the local administrations of the Far East's krajs and oblasts which, by the decision of the Russian government, have been given the right to keep a part of raw materials (non-ferrous metals, fish, timber and so on) produced locally and to dispose of this part, including its export.

Luckily, the Russian Far East can contribute to subregional cooperation not only with items of visible trade. Its own geographical location is also one of its most important resources. The region can offer its territory for cargo ports, for giant warehouses, for conventional and space-based communications and for international aviation projects. Both Russian Far Eastern railroads, BAM and Transsib, could be integrated into the network of NEA cooperation, and the latter could be prolonged to the southern extremity of the Korean peninsula. The sphere of recreation and tourism can also be attractive for international cooperation in the Russian Far East. This region is unique in its beauty and diversity, but in combination with the natural characteristics of adjacent countries, it can produce tourist routes of international significance which promise to be profitable for their organizers.

There is one more – and entirely new – resource in the Far East: the conversion of its military industrial complex to the production of civilian goods. Until recently it was a completely isolated enclave in the Far Eastern economy though it played a major role in its industrial structure. For example, according to some estimates, in Khabarovsk krai the production of military aircraft, vessels and other equipment accounts for more than 25 per cent of the total industrial output of the territory. The military production per capita in the area is near 7 times as high as in the USSR on the average and, what is very important, the technological level of military plants surpasses that of the civilian sector many times.

The current political situation in Russia makes the reduction of military expenses and the conversion of the military industry in the Far East inevitable. Even in short-term perspective the region's industrial output related to the defence will be reduced by 18-20 per cent. Financial resources, buildings, industrial facilities, skilled manpower will be freed in dozens of military plants. So, the conversion in the Far Eastern region is able to create a new area of the effective intraregional cooperation.

According to SOVNAPEC, which reflects the interests of influential Soviet circles, the auspices of Northeast Asian cooperation would be ideal for launching special economic zones and other large projects in the Russian Far East. The Far-Easterners themselves think that the merger of foreign and local interests could become an important counterweight against the inertia of the central bureaucracy. Once involved in subregional economic cooperation, local authorities and the business community will be able to pay less attention to the state of Moscow-Tokyo political relations (for example, to the dispute over the Northern territories). Besides, none of the countries involved will be alien to the people in the Russian Far East. For a long time

they have been acquainted with the psychology and business behaviour of the Japanese and the Chinese, to say nothing of the Koreans, hundreds of thousands of whom live in the Far East and other parts of the USSR.

Billions and billions of dollars of investment in the regional infrastructure are needed to bring all these plans to life (For example, the Nakhodka special economic zone alone needs 2 billion roubles in infrastructure facilities). And though there is a shift in favour of reallocation of internal investment from industrial facilities to the infrastructure in the Russian Far East, it is widely accepted that the Soviet side cannot raise sufficient funds to construct an infrastructural network on the level of international requirements. On the other hand, neither Japan, nor the Republic of Korea would do this work for the Soviets, and their position is quite natural and explicable. The way out could be found in the framework of subregional cooperation. This cooperation could, by the end of the century, substantially improve the Russian Far East's poor infrastructure, and not only to the benefit of the USSR, but also in the long-term interests of the countries involved. The construction of a highway between Nakhodka and Vladivostok, the centers of the two future economic zones, or extension of Transsib to the South of the Korean peninsula could become good examples of such cooperation.

Surely, the different nations which could join the NEA economic zone will do so because of their own interests and considerations, which will not necessarily coincide with those of other participants. They may also have different views on the balance of economic power within the proposed group. The academic circles of Moscow and of the Russian Far East believe that, objectively speaking, only Japan could play the role of 'big brother'. Many people in Korea, on the contrary, adhere to an opposite opinion and consider that due to historical, geopolitical and economic background, neither Japan nor the Soviet Union can be leaders of the proposed organization, and that their country (i. e. ROK) is the only one which can take the initiative for its establishment.<sup>33</sup> The rather sharp statement by president Ro Tae Woo's special envoy in Washington (December 1990), who expressed his country's reluctance to participate in the subregional organization if it is dominated by Japan, is a clear example of such an approach.<sup>34</sup> The fear of Japanese hegemony is not uncommon in other countries, too. That is why the participation of Japan on the level of separately taken prefectures without the visible involvement of the national government would be an optimal solution of the problem, at least at the initial stage. It would considerably reduce the mis-givings that Japan is planning to make the whole of Northeast Asia its economic hinterland.

Paradoxically, the Ura-Nihon prefectures are considered under-developed in Japan (sometimes they are even called the economic backyard of Japan). But from the Soviet and Chinese point of view they are already clear examples of successful economic development and are strong enough to launch the mechanism of subregional economic cooperation. Nevertheless, the absence of headquarters of big corporations and unsufficiency of financial funds in these

prefectures have been serious obstacles of the way of the implementation of the concept of sub-regional integration. Happily, several highly developed prefectures, such as Kanazawa and Hyogo, recently have demonstrated their interest in the economic zone of the Sea of Japan, too. This might positively increase prospects of success for this idea.

Japan can give very much to her partners in the Northeast Asia Region. What does she stand to gain from this kind of cooperation and, particularly, from the Russian Far East's participation? Some Japanese scholars (prof. J. Nishikawa among them) admit that the NEA cooperation can be significant for Japan in a number of areas. First, it could provide a counterweight to the growing economic regionalism throughout the world. Trade within the Northeast Asian pentagon must give Japanese companies an opportunity to obtain profits in hard currency, even when selling goods to the countries whose currencies are not convertible, or by selling goods produced in these countries to third nations.

Second, large-scale demand for Japanese capital goods is certain to stimulate the economic growth of the prefectures alongside the coast of the Sea of Japan, and the level of existing differences between them and the central regions of Japan should diminish. Small and medium-size firms which prevail in these prefectures will be able to obtain new profitable trade and investment opportunities abroad. It would also be possible to use the mechanism of the NEA economic area to avoid excessive competition between the Japanese and other companies in the Russian (Soviet) market when the time comes.

Japan could also obtain some political and strategic gains which are difficult to measure in yen or dollars. Investment of the Japanese business community into the Pacific provinces of the USSR (and China as well) on the basis of subregional cooperation will accelerate the introduction of market principles into the economy of these regions and will help the economic decentralization in both countries, which is obviously in the interest of Japan. The participation of Japanese firms in the conversion of Far Eastern military plants will give them an opportunity to watch the demilitarization of the Soviet economy to some degree. Mutual interconnection of interests in the bilateral and multinational projects must reduce the remaining fears of the Soviet military threat in the Pacific. In this context (as Dr. Kazuo Ogawa has written), Vladivostok could become the central city of Northeastern Asia. Perhaps the people in Niigata or Dairen will not like this idea very much, but in any case it is much safer for them to have Vladivostok (as it was promised by Mr. Gorbachev) a center of economic and cultural international exchange, than the home of the Soviet Pacific fleet.

There is perhaps one more consideration in favour of subregional cooperation from the Japanese standpoint. It can be often heard, particularly from the elderly Japanese, that the young generation tends to pay increasingly less attention to labour and much more attention to leisure and consumption. Sooner or later, this trend could result in the decline of

Japanese economic positions throughout the world. Not a few people think that it can occur, because the stimuli for creative labour, for invention and for a spirit of enterprise are weakening in the country. If it is so, then the zone of NEA, especially the untapped expanses of the Russian Far East and Siberia, could offer practically unlimited opportunities to demonstrate these qualities for several dozens of years.

Possible Mechanism of Sub-regional Cooperation in Western Pacific:  
Soviet Viewpoint

The organizational principles of the NEA economic zone, of course, will be elaborated by the united efforts of all its participants. Many Soviet experts consider that conditions have matured sufficiently for the creation of an international subregional committee, at least in the Basin of the Sea of Japan. For example, such an idea was forwarded by the Khabarovsk Institute of Economic Research at an international forum in Niigata (November 1990) which was sponsored by the Socialist Party of Japan. The committee would include non-governmental representatives from several Japanese prefectures (Hokkaido, Niigata, etc.), from the Pacific provinces of Russia and China, and from both Korean states. It could also deal with the resources of the Sea of Japan and the Yellow Sea themselves. The idea was supported by the International symposium held in October 1991 in Hyogo which was presided by the governor of this prefecture.

From an organizational point of view, this committee could resemble PECC, or better to say, would become a subregional PECC. It could begin its work with the following functions: (a) recommendations on the guidelines of economic, scientific and technological cooperation in the subregion; (b) coordination of academic research and comprehensive studies of the subregion's resources; (c) elaboration of an international environmental program for Northeast Asia; and (d) creation of an international information network in the subregion. When financial opportunities increase, the committee could widen its tasks and the areas of its activity. It could organize joint financial foundations for academic research on economic and cultural cooperation, which later could develop into the NEA investment bank. An international magazine (let us call it "The Sea of Japan," or "Northeast Asia") could be very important for fostering public opinion of the sub-region in the desired direction.

Sometimes there arise fears that the proposed zone of economic cooperation in NEA could hinder pan-Pacific cooperation, fears which are hardly well-grounded. On the contrary, none of the adherents to the concept advocates the idea of preferential trade tariffs within the zone. It will not become a closed grouping which discriminates against non-member nations. Subregional cooperation should be conducted without any exclusiveness towards outside countries (and their respective regions) and must be open for those of them which would like to join the zone in the future. There are

indications that, perhaps, the state of Alaska would like to enter the zone.<sup>35</sup> Its emergence alongside with such sub-systems as ASEAN or the Australia-New Zealand common market could in due course create conditions for a united system of Pacific cooperation, and will contribute to the lessening of socio-economic gaps between its members. Moreover, the NEA economic organization, including the Soviet Far East (and the USSR beyond it) could become a contact zone between the trading blocks of Europe and North America, could soften international frictions and hinder the rise of trade protectionism.

The mechanism of entering the proposed zone of cooperation is being silhouetted in the Russian Far East. The Institute of Economic Research (Khabarovsk) has elaborated the concept of the so-called Far Eastern Regional Association (FERA) which should unite the Yakut Republic, Khabarovsk and Maritime kraises, Sakhalin, Kamchatka, Amur, Magadan and Jewish oblasts. In 1990 the Association was established. In May 1991 Chita oblast and the Buriat Republic which, strictly speaking, only gravitate to the Russian Far East but do not belong to it, joined the FERA.<sup>36</sup>

The establishment of the Association was promoted by the falling authority of the central government and its incapability to finance the Long-term program of the USSR's eastern regions' development. The FERA should promote the formation of a Far Eastern common market of capital and consumer goods and services. It should also take responsibility for the elaboration and implementation of a united economic and pricing policy with regard to its exports abroad and to the other parts of the Soviet Union. It is important to avoid excessive and destructive competition between those kraises and oblasts of the Far East which produce similar commodities-timber, fish, nonferrous metals, fur and so on.

According to its guidelines, the Association should deal with external economic ties, agriculture, energy production, transportation, development of ocean resources and large-scale mineral deposits, regional and tourist facilities, ecological policy, regional information systems, maintenance of the Russian Far Eastern non-governmental bank – i. e. in the sectors where pan-regional cooperation is most logical or even inevitable under the conditions of a market economy. In May 1991 the then Russian Prime Minister Ivan Silaiev promised his government's support to the FERA's claims to sole responsibility for the licensing of the region's exports (instead of leaving this authority with Moscow), but it is still unclear whether such a radical change will be approved.<sup>37</sup>

Each krai or oblast's authorities will function independently when solving problems unrelated to FERA activity. It is important to stress two principles. First, the Far East Regional Association is designed as an entirely voluntary organization, and its constituent administrative units have the right to join it partly and conduct their own policies whenever it seems reasonable to them. Second, in principle it does not want to be vested with political functions. Beside other considerations, the politicization of the Association would

require huge expenditures for its own military units, police etc. Such principles of Soviet (Russian) participation in the future economic network in the basin of the western seas of the Pacific seem to be quite acceptable for all of the parties involved.

It should be added, however, that some changes in the FERA guidelines are not impossible. The governors of the Far Eastern krais and oblasts at the October (1991) meeting of this organization even went so far as to warn Boris Yeltsin that if sufficient allocations from the Russian budget are not guaranteed to them annually, they might put forward the idea of the independent Far Eastern Republic which had existed in 1918-1922.

Nearly 300 years ago, Peter the Great proclaimed the goal of "cutting out a window to Europe." It may seem strange that the country endeavoured to pursue a similar goal in the Pacific only at the end of the XX-th century. Though much time has been lost, it is better late than never. After surmounting inevitable difficulties and getting over its own mistakes, after obtaining more economic independence from central bodies, the Russian Far East will eventually become an attractive place for economic cooperation and will occupy its unique niche in the international division of labour on the Pacific. And it is not impossible that it will find its way to internationalization within the framework of the Northeast Asian economic area, the concept of which has been discussed in this paper.

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