Economic Cooperation in Northeast Asia: The Case of China, Korea and Japan

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Abstract

The paper examines the prospects of an integrated economic union for China, Korea and Japan, with Russia as a possible fourth member. It analyses the history of political and economic development of the countries of northeast Asia with focus on the major three leading ones. There is no legal-juridical framework for such cooperation at the present time and current programs are stand alone types. The paper highlights the problems and issues of the proposed union and recommends a rigorous feasibility study for the integrated union to which all the countries must agree. Without such a study the full complementarities of the economies of the region can not be gauged properly. This should be done soon if there is indeed an intent for institutionalized cooperation on the model of EU or NAFTA.

Key words: integrated economic, economic transformation, regional economic cooperation.

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I. Introduction

The countries of Northeast Asia (NEA) have made significant economic progress over the past thirty years or so with Japan excelling initially followed by Korea and now China who is posting phenomenal growth at the present time. The region has remained politically and socially stable which has helped growth and economic transformations. However it is never easy to make any forecasts about what might happen to these countries plus Russia and peripherally Mongolia. North Korea belongs to a different genre altogether and hence we do not focus on that country in this paper. Mongolia and Russia feature as members of joint programs undertaken in the region over the last twenty years or so. Japan may expand its role as the number two economic superpower. China’s emergence as a socialist market economy followed by some reforms has also added a new dimension to the challenges and responses of the region. Korea is already a member of the OECD, the club of the advanced and rich countries. Its sustained economic prosperity and acquisition of a rare industrial culture backed by top class service sector are important attributes of NEA.

Internal changes within the region of course will affect international and intraregional relations, with impact on the scope of economic cooperation. Regional integration may not be easy here, given the political history of the past. But then Europe and Southeast Asia also have had similar history of political differences. These, however, did not prevent European Union (EU) or the fortress Europe, and Association of Southeast Asian Nations (ASEAN) from becoming significant regional economic groupings or blocs with tremendous impact on the life and work of the people. Korea and Japan are functioning democracies with free market economies. China has opened up its economy and has adopted many of the principles and practices of the market economy, keeping its political system unchanged from the cold war years. This is a new experiment, but seems to have yielded sustained growth and structural changes in that vast country of immense potentials.

Some analysts maintain that a country’s external relations (diplomatic and economic) may be influenced by the quest for more power to consolidate domestic gains made in all spheres of life which determine the overall ranking of that country in the league of nations. Korea, Japan and China may not be any different from this
imperative. Russia too has similar motivation now in an emerging new international economic order.

II. On Regional Economic Cooperation

Regional cooperation, partnerships, collaborations emerged as a major strategy of national and international advancement in recent years. Between 1943 and 1949, many bilateral treaties were entered into by the nations of Eastern Europe under the active and dominant leadership of the Soviet Union.

The council of mutual economic assistance (CMEA) was created as a counter to the Marshall plan for the reconstruction of western Europe which was a major US initiative for its allies.

In 1945, the Arab League was constituted as an intra Arab bloc for economic cooperation and security related issues.

In 1963, the Organisation of African Unity (OAU) was founded in Addis Ababa with 50 members. Following this there grew many regional organisations in Africa and Latin America in the 50s and 60s, with the objective of regional cooperation for growth.

EEC (European Economic Community) emerged from the old European Free Trade Area (EFTA) in 1992, as a single market for the members with harmonised monetary and fiscal policies, and a common currency, introduced later. This is one of the most successful models of regional development cooperation. Currently it has 27 members.

NAFTA (North American Free Trade Agreement) was formally signed by the US, Canada and Mexico in 1992 making this region a solid economic bloc, internalising most of trade and investment flows within the group.

ASEAN (Association of Southeast Asian Nations) was formed in 1967 with Malaysia, Indonesia, Thailand, Philippines, Singapore, Brunei as its original members. Myanmar, Vietnam, Laos, Cambodia and East Timor joined the bloc later. It is also considered a reasonably successful regional economic bloc.

Regionalism or open regionalism emerged as a concept of economic cooperation through an evolutionary process. It is a twentieth century concept or idea focusing on regional growth.
Countries forming blocs have a strong spirit of regionalism, complementarities in their economic structures, economic policies and similar attitude toward the outside world. Trade and Investment form the core elements of initial cooperation, subsequently spreading to other sectors. Preferential tariffs, customs union, free trade zones, economic union etc. are the different forms of regional cooperation with the last representing the most mature stage when the members look like belonging to one economy in an enlarged geographical space. Only EU perhaps has attained this stage by now.

Thoughts of a Northeast Asian economic bloc are still at an elementary stage with no formal mechanism or institutional arrangement in place yet. This bloc may comprise Korea, China, Japan, Russia, Mongolia, Taiwan and North Korea, with China, Japan and Korea forming the core of the association. Obviously these countries differ in their economic and political systems. Japan is a highly industrialised developed country representing the second largest economy of the world, after the US. South Korea is an advanced high technology economy with some structural softness. China is emerging as a mammoth economic entity posting very high growth. But it is not a free market economy in the true sense. Post cold war Russia is an economy in transit. It still has many of the problems of a command economy and is relatively underdeveloped in terms of economic infrastructures and transparency in business transactions and may need a secure or protected market for some time to come.

Some analysts feel that it may not make much sense to Japan to promote intraregional free trade because of the existing wide gap between Japan and the other countries of the region. The stages of economic development of them being divergent, there are as many complementarities as elements of competition among them. Japan posts huge trade surpluses vis-à-vis the US and EU. A priori thus it may not have strong incentives for a formal grouping of NEA. South Korea may gain from such a group to develop its rural areas. China being the emerging large market may also reap rich benefits from an integrated NEA, but it has to dismantle many of its protectionist policies, including non tariff barriers. It is true that this region is far from an ideal world of free and fair trade with many tariff, non tariff and other veiled forms of protectionism still in practice which tend to divert trade. But still trade linkages between Korea, Japan and China are not insignificant at the present time. Investment
also flows in both directions.

But there is no getting away from the ongoing process of regionalisation and globalisation and a new spring wind has begun to warm the cold, tense and closed sea encircled by Japan, North and South Korea and Russia. The spirit of regionalism has to be born first of course and then grow - deepen and widen, like it has in other larger regions of the world. The political issues existing in the region are not complex or insoluble. In a true spirit of regionalism the three main countries which are the focus of this presentation can find an optimum institutional setting for enhanced cooperation. The enormous economic space that such a setting can create in itself generate such synergies and spread effects that we may not be able to forecast or quantify them now.

1. Economic Cooperation in Northeast Asia

1) Fact Sheets of the Countries

(1) Fact sheet: Korea

- Population (2008): 50 million
- Area: 98,480 square kilometers
- GDP (2008): 967.5 billion US dollars
- Literacy rate: 97.9 per cent
- Real GDP growth (2008): 4.5 per cent
- Unemployment rate (2008): 3.2 per cent
- Consumer Price Inflation (2008): 3.6 per cent
- Fiscal Balance (2008): 1.1 per cent of GDP
- Imports (2008): 394 billion US dollars
- Current Account (2008): -8.1 per cent of GDP
- Foreign Reserves (2008): 239.67 billion US dollars
Korean economy is innovation driven with focus on knowledge creation and use. China is one of its largest export destinations. LNG, ICT, Biotechnology, nanotechnology now form the rock foundation of Korea’s high tech export basket. With a declining domestic currency (Won) vis-à-vis US dollars currently Korea’s foreign exchange reserves have declined by $ 3.53 billion at the end of September(2007) compared to August statistics. Korea’s strong linkages with the US economy in particular are reflected in these developments with a deep financial crisis now gripping the US. However, given the strength and resilience of Korean economy it is expected that the current issues would be handled prudently and growth will pick up to its trend course before long. With Japan, Korea has had some tariff and non-tariff problems to resolve. Korea is the world’s biggest producer of electronics and a major exporter of ships, automobiles, steel, plastic & rubber, clothing, commercial services.

(2) Fact sheet: China

- Population (2008) : 1,321.3 million
- GDP (2008) : 3,241.8 billion US dollars
- GDP (Purchasing Power Parity) : 7,245.0 billion US dollars
- GDP Per Capita (2008) : 2,453 US dollars
- Real GDP Growth (2008) : 10.8 per cent
- Exports (2007) : 1.2 trillion US dollars
- Imports (2007) : 904.6 billion US dollars
- Current Account Balance : 5.6 as % of GDP (2007)
- Exchange Rate (2008) Rmb. : Dollar 7.6
- Foreign Direct Investment : 3 per cent of GDP (2007)
- Foreign Trade surplus : 315.4 billion US dollars (2007)
- Rate of Inflation (2008) : 4 - 5 per cent (estimates)
- Efforts to move the economy to a more socially & economically sustainable path will guide public policy in 2009-2010.
- Government Accountability has improved, but much wider reforms to increase domestic participation of the people in economic affairs are still needed.
A strong campaign against corruption and misconduct will continue. Growth will moderate to 8.5 per cent in 2009 (Economist Intelligence Unit forecast).
- Socialist Market economy stresses growth & political control.
- Balance of economic prosperity is being altered in favour of social priorities with stress on education and healthcare.
- A private sector made of domestic and foreign funded interest is set to expand, completing the dominant state sector.

(3) Fact sheet: Japan

- GDP (2008) in official X/rate : 5,103 trillion US dollars
- In Purchasing Power Parity : 4,305 trillion US dollars
- GDP Per Capita (2008) : 33,800 US dollars
- Exports (2007) : 665.7 billion US dollars
- Imports (2007) : 571.1 billion US dollars (f.o.b.)
- Current Account Balance (2007) : 201.3 billion US dollars
- Government Expenditure („ „) : 1,575 trillion US dollars
- Public Debt (2007) : 182.4 % of GDP
- Unemployment rate (2008) : 3.8 per cent
- Inflation rate (CPI) : 0 per cent
- Investment Gross Fixed (2008) : 23.6 per cent of GDP
- Export destinations: US 22.8%, China 14.3%, Korea 7.8%
- Import sources: China 20.5%, US 12%, Korea 4.7%

- Second largest economy of the world. Japan is among the technologically advanced producers of motor vehicles, electronic equipment, machine tools, steel, ship, chemicals, textiles, processed food.
- Apparently its trade links are the highest with China and the US. There is a strong government-business partnership in Japan.
- Strong work ethics. Lifetime employment. High Life Expectancy (81 years).
- Low defense expenditure: 1% per cent of GDP.
- Measured in terms of purchasing power parity Japan ranks as the second largest economy of the world (2008).
- Manufacturers, suppliers and distributors work in close harmony, in close-knit groups called Keiretsu. Guarantee of a lifetime employment for a substantial proportion of workforce is a basic feature of Japanese economy. But this is now eroding with increasing globalisation and changes brought in its wake. Its industrial sector is heavily dependent on imported raw materials and fuel. The tiny agricultural sector is heavily subsidised and protected, with crop yields among the highest in the world. Japan posted spectacular growth for three decades - average of 10% in the 1960s, 5% in the 70s and 4% in the 80s. Now it can barely post a 1.7% annual growth. Government efforts to revive growth in 2001-02 proved short lived and was hampered by very slow growth in the US, Europe and some Asian countries. Growth picked up a little in 2002-07 period, but was only 0.7% in 2007 - the last year for which data are available.
- Huge public debt (182% of GDP) and ageing labour force would be major long run problems. Some fear that any tax increases can affect the ongoing economic recovery which is not strong.
- Debates on the role and effects of economic reforms, growing economic inequality and privatisation of Japan Post, largest financial institution of Japan for decades, are current concerns.
- Recent financial crisis in the US and elsewhere have also had its impact on the economy of Japan which has large stakes in many western financial institutions. If the rescue or bail out package being tried at the initiative of the US do not work and the crisis deepens and spreads the chances are that the scope of regional economic cooperation in NEA could narrow down for the time being with focus on the crisis and its resolution.

(4) Fact sheet: Russia

- Population (2008) : 150 million
- Area: (largest country in the world): 17 million square Kilo meter
- (broad plain with low hills west of Urals; vast coniferous forest and tundra in Siberia, uplands and mountains in Caucasus). Russia is a federation with 21 autonomous regions/republics
  - GDP (2007) : 1.34 trillion US dollars
  - Per Capita GDP (2007) : 1,014 US dollars
  - Real GDP Growth (2007) : 8.1 per cent
  - Exports (2007) : 335 billion US dollars
  - Imports (2007) : 223 billion US dollars
  - Production & Economic Services : 84 per cent
  - Government : 16 per cent
  - Current Account Balance (2007) : 78.3 billion US dollars
  - Foreign Direct Investment (2007) : 52.5 billion US dollars
  - Public Debt (2007) (at 3% of GDP) : 36.0 billion US dollars
  - Consumer Price Inflation (2007) : 11.9 per cent
  - Literacy (2008) : 99.4 per cent
  - Life Expectancy (2008) : 73 years (women), 59 years (men)
  - Workforce (2008) : 73.88 million
  - Stabilisation & rainy day funds (2007) : 156 billion US dollars
- Natural Resources: Petroleum, natural gas, timber, wood products, metals, chemicals.
- Agriculture: Grains, sugar beets, sunflower seeds, dairy products, meat.
- Industry: Manufactures, automobiles, trucks, trains, aircraft, machine tools, mining and construction materials.
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On a laissez faire free enterprise capitalist economy: In trade, it has done well running a balance of payments surplus since 2003. But this makes monetary policy difficult. Russia currently has a sovereign investment grade rating of BBB+ from Standard and Poor’s. Its main private sector activities include wholesale and retail trading, banking, insurance, communications and transportation and post an average growth of 10%. Heavy dependence of the economy on oil and gas makes it somewhat unbalanced. Alongside institutional reforms, there is the need for diversification of the economy. Its worn out physical infrastructures require upgrading and renewal. In Russia, there are obvious problems of a transient economy like excessive bureaucracy, overcentralisation, problems of trust and corruption. It is not easy to do business in Russia. However, the currency Rouble is convertible up to some limits.

2) Current Programs of Cooperation

There are some on going activities involving the countries of the region but without any legal-political framework or model, unlike in the European Union for example. Thoughts of an economic zone or a common market have been there since the 1980s. Capital and technology of Korea and Japan, huge labour force of China, Russia’s resources, knowledge, management can set up a profitable division of labour in trade, investment and other major areas of economic cooperation. All these countries want peace and prosperity, along with better maritime access to the Pacific ocean.

China's coastal, valley, border and hinterland and overseas Chinese form the core of its plans for future. Economic cooperation in its Liaodong peninsula, Shandong peninsula and Beijing area with Japan, Korea, Mongolia and Russia can widen under a properly worked out institutional arrangement. All will benefit from this.

Russia wants to stabilise its boundaries, but seeks cooperation with its neighbours
in Northeast Asia (NEA).

Republic of Korea has already spent substantial amount of capital for the development of its west coast. It has invested billions (US $19.36) in a U-shaped coastal industry belt from Incheon to Puhang. This can be a good launching pad for the creation of growth triangles with neighbours.

Japan claims to be always positive about the subject. Prime Minister K. Miyazawa had suggested the creation of a “prosperous and open NE Asia” in a parliamentary speech as far back as in 1992. Ideal sites for river and sea ports exist in the Tumen river region.

Even though there are high complementarities between the economies of Korea and Japan in particular, they have not been optimally explored. Economic relations between Korea, Japan, China and Russia have been somewhat tight. Of late there are signs of better environment.

The Russian far east has sped up its economic interaction with Korea, China and Japan in recent times.¹

Sino-Japanese relations despite being positive remains fragile. The two neighbours are yet to establish the mutual trust of good neighbours. Both have problems, but have to widen and deepen cooperation. Japan imports huge quantity of foodgrains and farm produce from China which is among the top ten food exporting countries of the world.

China despite posting high growth continues to have problems of inequality and illiteracy. Currently nearly 116 million Chinese are illiterate whereas in Russia the literacy rate is 100% and in Japan and Korea 99%.

Korea-Japan trade has been declining since the 1990s. In 1999, Japan accounted for only 11% of exports from Korea. That figure is lower now.

Much of the shifts in Korea-Japan trade have been due to growing Korea-US trade and Korea-China trade. Currently Korea exports as much to NEA as to the US. Data on intra NEA trade barriers are not readily available. But there are considerable tariff and non tariff barriers between Korea and Japan which restrict the flow of trade between the neighbours.

North or Democratic Peoples’ Republic of Korea (DPRK) has been expanding its

economic cooperation with the outside world since framing laws on joint ventures; has established economic zones in Najiin and Simpo. But it continues to remain closed and a command economy with inward looking approach. Very little is known in the outside world about its decision making system and policies.

Our focus in this paper however is on China, Korea and Japan and hence we will not discuss DPRK much except when it is a part of an ongoing program.

3) Subregional Economic Zones (SEZs)

Following are the main factors on the subject of SEZ.
- “Pattern of one big, three small and one heated” prevails in NEA.
- Big refers to general economic cooperation, three small refers to Bohai sea subregional economic zone, the yellow sea subregional economic zone, the sea of Japan subregional economic zone. One heated is the well known Tuman River International Cooperation & Development Zone.
- Bohai Sea Subregional Economic Zone covers China’s golden coastal areas of Liaodong peninsula and the Yellow river delta in NEA (Beijing and Tianjin). It borders DPRK. This area is called “one day economic zone”. Cooperation prospects in science & technology, directly productive activities are bright and substantial. Creating a larger market space is one major goal of economic cooperation.
- Sea of Japan Subregional Economic Zone includes Russia’s far east, three provinces in China’s northeast, north and south of Korean peninsula and 16 coastal prefectures on the Japan Sea.

It makes up 20% of Asia’s vast landmass, has a population of 290 million (10% of Asia), GNP of $3000 billion. It is well connected by land and air routes. Offers vast scope for regional cooperation on a diversified range of sectors and projects yet to be explored.

Yellow Sea Subregional Economic Cooperation Zone between Korea, Japan and China (the core group of NEA). It could include Japan’s Kyushu area, Hiroshima; China’s Lianyengang, Xuzhou, Shanghai; Pusan in Korea. In future this may be connected with the coastal economic belt north of Yangtze river.

At the present time these zones represent possibilities only. To create effective free
economic zones the framework agreements articulating all legal, political and economic aspects would be a first necessary step, followed by the details of areas/sectors/projects to constitute the substantive elements.\textsuperscript{2}

4) The Tumen River Area Development (TRADA)

The Tumen region faces the far east of Russia, is linked to the Korean peninsula in the south and is separated from Japan by the Japan sea in the east. This region extends to vast areas of China (northeast), Mongolia, Siberia.

The area is at the confluence of national borders of China, Russia and North Korea. The objective of the program is to establish joint institutional, infrastructural and financial centers and services for all the five countries. The long term design is the development of the Tumen River Economic Development Area (TREDA). Tumen river region committee on project administration includes China, Korea, Russia, Japan, Mongolia and North Korea. It agreed to establish the Tumen River Development Corporation, with land grants from the riparian states China, Russia and North Korea\textsuperscript{1993}. This corporation is tasked to set up an international zone for free trade and export processing.

The river bed is all under the level of the sea of Japan and there is no territorial dispute among the co riparians. The river has excellent navigation conditions. There are several ideal sites for the construction of sea and river ports, viz, Fangchuan region (China), Vladivostok (Russia). The major goals of the project primarily are:

- A sea port with all modern facilities like a grain terminal, a passenger terminal, a ro ro terminal etc (\$ 4 billion)
- An inland river port in China on Tumen River (\$ 1 billion)
  An extension of the existing airport into a modern one of international standards (\$ 2 billion)
- Introduction of new trains with hundreds of heavy engines and improving the railway system, connecting it with the new port (\$ 4 billion).
- Two electric power plants (120 MW) in China and DPRK (\$ 2 billion).

\textsuperscript{2} Bureau of Economic and Eurasian Affairs\textsuperscript{\textregistered}2008, p. 9.
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Secondly, the emergence of economic corridors with increased trade across international borders and beyond.

Thirdly, creation of growth triangles which make optimum use of members' complementary factor endowments & competitive advantages, as well as cross border trading prospects augmentation.

Mongolia is a hinterland of TREDa. Its links with NEA need to be strengthened. Improved transportation will lower costs of movements of goods and services. The two main transportation corridors are a) Yanbian- Rajin Sonbang and b) Yanbin-Khasan district. China has put in considerable efforts and resources into it for improving both routes, but a lot remains to be done. Bulk of Russian – Chinese trade moves across Suifenhe–Grodekero border to the north. This border should be included in a wider Tumen region. For Mongolia to benefit, the Missing railway link east of Mongolia and Jilin province should be constructed. (We have to remember that in any regional groupings the small and weak members are supposed to reap the maximum benefits, like Ireland, Greece, Portugal from EU and Mexico from NAFTA). Telecommunications, physical infrastructures, energy, R & D need to be developed on priority. Modernisation of Nanyang – Rajin railway line is another priority. Likewise modernisation of Yanji airport is important. Mongolia, DPRK and China can make
only small contributions to overall project funding. UNDP reportedly has become pessimistic about mobilising the necessary funding for TREDA. The rich countries like Korea and Japan should take the lead now and internalise project funding. This is within the realm of the possible. Japan has to be the lead donor for obvious reasons.

Progress:

- National teams have been formed in each country
- Program document has been approved
- Channels of communications have opened between parties
- Investment discussions have been held
- The budget is contributed to mainly by Korea, UNDP and Finland
- Commitments of members are growing
- Trade posted an increase of 400% between Northeast China and the
- Russian far east, Hunchun, the capital of the Yanbian special (Korea) zone of Jilin province grows as a result.
- Counterparts from each of the countries have decided to identify sectoral priorities of high mutual benefits.3)

These are not major accomplishments, but can create the milieu for enhanced cooperation. If implemented fully, the project will open up doors of new technology and institutions in multilateral economic development cooperation. Once the countries can develop more cutting edge industries, they could dedicate domestic industries on this strong basis. Foreign cheap labour can be imported on the model of Korea using Vietnamese labour in projects in Libya (Jin Hwan Chen). In such regional cooperation ventures shared history and cultural factors play an important role. In NEA, the people share similar beliefs, traditions, customs and usages. Well managed enterprise zones beefed up by set rules can have good chances of attracting and keeping foreign investors. Due to seemingly low fixed costs Tumen Area is ideal for value added consumer goods production by Korea in particular. Arguably, this could be the super mega project of a properly formed NEA regional economic bloc.

5) Existing Relationships

Sino-Japanese: Rapid strides made in recent times. Japanese investment in China now totals more than $7 billion. Trade at $90 billion is good and growing.

Sino-Korean: Since the establishment of diplomatic relations in 1992, Korea has been a major player in Chinese economy. Its current investments there total $5 billion. Its exports to China posted a hefty 57.3% growth in the mid 90s. China is now Korea's third largest market. Current volume of trade is around $30 billion. ROK exports steel, metal products, machinery & plastic machines to China. Recent rapid growth of China has added to its absorptive capacity and led to an increase in imports from Korea which imports mainly agricultural products from China. Korea's investments in China's large scale projects have increased (heavy & chemical industries. Littoral region of Bohai sea in China has become a hub for Korean investors.

Korea-Japan: Japan accorded GSP facilities to Korea in 1973. However there are problems of tariff and non tariff barriers in their trade relations which have declined since 1990s. There is enormous scope of augmenting these figures since the two countries have excellent complementarities in their economic structures and have dominated the export markets of the world for a long time (Krugman). Japan needs to be more accommodating to exports from Korea in the spirit of true regional cooperation.

Korea-Russia: Enormous expansion in economic relations since 1992. The areas of cooperation include Railways, Power, Oil, Gas and Coal explorations by Korean companies in Russia's far east. Russia has already assured supply of LNG for 20 years. A gas pipeline through feasible routes is being explored.

Korea will get involved in explorations of natural resources in Siberia. Another field identified is nuclear energy. Joint projects in agriculture and high technology manufacturing, space exploration are being examined. A Korea-Russia rocket is to be launched as a result of which Korea will be able to launch its own rockets from this pad. Both agree to promote peace and security in NEA in particular. People to people contact has widened and deepened in the two countries. Every year 60,000 persons visit one country from the other. Korean big companies are familiar household names
in Russia, just as the master Russian music composers, authors and poets are well known in Korea. Cultural ties are strong and growing. This excellent bilateral framework offers plenty to the prospects of more intense and meaningful regional cooperation in northeast Asia.

There has been a hefty growth of trade between Korea and Russia. The current figures are around $7 billion. This is largely due to a look north policy adopted by Korea in recent years.

However, there may be many other possibilities.

- Foster local development financial institutions and other mechanisms to fund small and medium enterprises (SME) (in China and Russia in particular).
- Improve border conditions. Currently there are limited border opening hours between the countries sharing land borders. These can and should be extended with mutual discussions.
- Open border trade and make the movements of men, money and materials easy across borders.
- Follow up and consolidate on the synergy of trade promoting activities identified which include the following: manufacturing, timber processing, food processing, traditional medicine, textiles, livestock farming (China).
- Transit, tourism, fisheries, export processing, research based industries, timber processing, agriculture, shipping, transportation (Russia, Primorsky territory).

The comparative advantages of Korea and Japan, being similar, are well known and hence not reported here.

6) Unexplored Areas and Sectors

Two conferences (in 1986 and 1993) on Northeast Asia had identified a large area of cooperation for a possible regional bloc or grouping involving China, Korea and Japan, plus Russia, Mongolia and North Korea. Many of those were in the realm of mere ideas, or distant possibilities but some had solid ex ante rationale. I will mention a few of them:
- Enhance trade promotion on a multilateral, regional basis.

- Create a new financial system with the formation of a NEA development bank on the model of Inter American bank

- Integrate transportation and communications systems

- Make joint utilisation of labour on the basis of cost effectiveness

- Identify sub regions for joint collaboration for setting up free economic zones

- Examine the role of provincial/local governments for closer and district based cooperation

- Explore the role of private sector as a major catalyst of promotional activities within the region and in becoming the main players of action after the selection of projects, programs & policies

- Explore maritime cooperation in the region

- Explore cooperation for environmental protection & green growth

- Expand cooperation for joint exploration of natural resources

- Explore the possibilities of a single market for NEA

- Analyse the challenges of Chinese economy to the region, as a market and a competitor, to internalise the synergy from both

- Rechannel direct investment within the region
7) Some Pertinent Issues

Historical conflicts, different socio-economic systems, different policy regimes and different stages of development of China, Korea, Japan and Russia, and the shadows of the cold war years make it difficult to integrate these economies into one solid bloc like Europe or NAFTA. China is a socialist-market economy, Korea and Japan are mature, developed market economies while Russia is just about to open up after more than 50 years of Communism. It is an emerging, transient economy.

Japan’s sunbelt is on Pacific coast near the main international trading route. Inner Japan (Kanazawa and Hakodate) is scarcely populated and relatively underdeveloped.

In China, there is a high concentration of state owned enterprises (SOEs) in the provinces of Hei Longjian, Jilin. Market is less developed in this part.

In Korea, the expressway from Seoul to Pusan gave a fillip to growth in the southeast zone, while the west continued to remain relatively underdeveloped.

In the far east of Russia, the shadow phenomenon is obvious. One third of technical personnel in Vladivostok do not live there for more than three years in a row because of poor living conditions and shoddy infrastructures.

Absence of an overall balanced mechanism makes it difficult to bring about genuine and meaningful regional cooperation. Thus, an economic grouping here (NEA) has got to break away from old, conventional, stereotyped thinking and take into consideration the entire Asian context while allocating productive resources within the zone of cooperation identified.

Local governments may have to be assigned a leading role in the China-Korea-Japan-Russia economic union once that is formally established. The central and national government should create the ideal benchmark conditions for promoting regional economic cooperation which is also known as “Open Regionalism” - conditions like undertaking reforms, setting appropriate macroeconomic policies and creating conditions for productive investment.

China currently has more than 20 economic zones and many development projects are under implementation surrounding the Bohai Sea. The government has built a railway link from Hunchun to Tumenjung. These should be opened to Korean and
Japanese investments in the wake of formation of the integrated economic union between these countries.

The idea of a regional economic bloc in NEA may run counter to Japan’s global trade objectives. Japan has strong preferences for trade ties with the US & other western countries. There may be a strong anti Russian bias in Japan as well.4)

The gap between the developing countries of Asia and the rest of the world is getting wider. A strong regional economic bloc in NEA can offer enlarged opportunities and other synergy to the struggling economies of south Asia. This huge market of nearly 1.5 billion people (China, Japan and Korea) can help create trade on a scale not known before and internalise much of Asia’s economic challenges, prospects and opportunities which are now scattered, disjointed, uncoordinated and do not yield much economic benefits to Asia as a whole in general and the Asia-Pacific region in particular. This is the most likely positive externality of an economic union in northeast Asia.

At present there are no formal politico-legal-economic framework agreement of cooperation or other institutional arrangement between China, Korea and Japan although there are a few projects involving them. There are bilateral ties of course. In order to have genuine regional economic cooperation these countries must first of all decide on the exact form and substance of cooperation—whether they would have preferential tariff arrangements, free trade area, customs union or a comprehensive economic union on the pattern of the European Union (EU). Economic integration is a multidimensional concept and at its ideal create one large economic space for the countries integrating. In such an integrated economy the participating members fully harmonise and synchronise not only trade policy, but all major economic policies, like the EU for example. This may also mean one central bank, one currency, one fiscal and taxation authority.

III. Conclusions

The Korea Institute for International Economic Policy (KIEP) has recently

recommended the setting up of a “Northeast Asia Economic Council, like the Asia-Pacific Economic Cooperation (APEC)”, involving Korea, Japan and China the combined economies of which account for 20 per cent of the world economy (http://www.blogpoint.org/?id=00x88wih6xyjrknh). But this may fall short of a comprehensive regional economic bloc. APEC is unstructured and informal, consultative in nature and it is too huge. For focused economic integration the three countries need to have a formal legal agreement detailing the entire scope of the institutional setting being proposed. The concept of a regional economic grouping with Korea, Japan and China (plus Russia) is valid. They combine resource providers, manufacturers, high and low labour cost producers and

The vast Sino-Japanese markets, supplemented by a highly developed and technologically advanced Korea. The combined international reserves of these countries stand at $3 trillion, which is more than four times higher than the recent US financial bail out package of $700 billion! Because of the underdeveloped regional bond markets, these countries continue to invest in US treasury bills. A NAFTA or EU type association of Japan, Korea and China can have important political gains as well since the frictions in some of their bilateral relations can be eliminated by this process. ASEAN, EU and NAFTA are good examples of successful separation of economic and contentious political issues. Korea, Japan and China can follow the same principle. Their political problems are not more complicated than those of the countries of the regional groupings mentioned here. The politico-legal basis for such a regional economic grouping - call it NEA association for Regional economic cooperation (NEAAREC) - has got to be put in place first. Such an agreement can combine elements from the existing models like ASEAN, EU or NAFTA. It is for the countries to choose the best form. In the absence of such an umbrella agreement, formalisation of the process of economic integration of the region would remain incomplete and weak. With these background analysis I now propose the following as my final recommendations:

A rigorous and comprehensive feasibility study should be commissioned to examine the complementarities and competitiveness of NEA economies within the framework
of an integrated economic union, identify the full synergy of such an union and recommend the precise nature and scope of such an union given the fact that currently they do not constitute even a free trade zone.

On the basis of the result of the study, a formal regional economic grouping should be created under sovereign agreement in which Korea, Japan and China agree to sink their policy differences and create one grand economy on the model of fortress Europe. The first imperative for such a milestone agreement of course would be the creation of a true spirit of regional cooperation which must be strong enough to give the big push to the endeavour for an integrated NEA.

- The possibilities of one central bank and one currency may also be examined when appropriate, on the pattern of EU.

- The members should harmonise their trade standards—tariff and non tariff barriers, customs regulation, anti dumping rules, law on country of origin, environmental safeguards etc.—for a successful economic union and trade promotion within it.

- The members should jointly attract foreign direct investments to augment their resources.

- The members should have a common tariff policy vis-à-vis the rest of the world.

- There should be free movements of the three Ms within the regional bloc, i.e., money, materials and men/women.

- A pre agreement consultative body should identify a comprehensive list of projects/programs to be formulated and implemented under joint ownership, after the formal launching of NEAARBC.
- It would be for the member countries to decide at what pace they want to move toward a regional economic bloc. A time frame may perhaps be set and then pace the preparatory works. A gradualist approach seems suitable for the culture of NEA.

- A lot of hard ground work on major issues has already been done for a meaningful regional economic grouping in NEA—an idea whose time has come and which needs to be carried forward in earnest.

It is now time for action.
동북아시아 경제협력 : 한국, 중국, 일본을 중심으로

Samad, Syed Abdus

= 한글요약 =

본 논문은 중국, 한국, 일본 그리고 러시아와의 통합경제동맹에 대한 전망의 가능성을 점검하고 있다. 이에 대한 연구를 위하여 이들 북동 아시아지역 국가들에 대한 정치와 경제에 관한 역사를 분석하고 있다. 본 논문에서는 이들 국가에 대한 법리적-사법적 틀에 대한 논의는 하지 않는다. 본 논문은 특히 경제통합동맹에 대한 문제점과 쟁점에 초점을 맞추고 이들 모든 국가들이 동조하여야만 하는 통합동맹에 대한 가능성을 권고하고 있다.

주제어 : 경제통합동맹, 지역경제협력, 경제이전.
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