

# Comments: The Economic Integration of Northeast Asia

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## Two Streams to Asian Economic Integration

### *A Global Trend of Regional Integration*

There is a global trend of regional integration. This integration is taking place not through political means or through racial or religious means, but mainly through economic means. Yet this economic integration represents a kind of political power. Because of a near global consensus on the importance of the market economy, we are witnessing a process of dynamic regional integration at the same time as the expansion of globalization.

On the other hand, having seen a concentration of power in the United States for over fifty years, at the opening of this century we are now also seeing an expansion of terrorism (in many cases, of a religious nature). This is an increasingly different phenomenon and situation than the political ideological polarization that characterized the previous century. Despite this, there is still the expectation that economics and economic integration may contribute to greater prosperity and stability.

### *Northeast Asian: In the Direction of Integration*

There have been discussions about Northeast Asian integration, East Asian integration and on a larger scale, the horizontal integration of Asia into an Asian Union. If we consider regional integration on a somewhat smaller scale (omitting here South Asia), then the engine of regional integration of East Asia would be China, South Korea and Japan and the Association of Southeast Asian Nations (ASEAN+3). Yet we may also consider the integration of Japan, South and North Korea, and China as a starting point for integration. Because of the political and security situation surrounding North Korea, the Japanese government has been reluctant to actively pursue economic integration in Northeast Asia. However, from a geographical point of view, the economic integration of Japan with the rest of Northeast Asia is a rational strategy. Also rational from a geographical perspective is the inclusion in this integration of the three northeastern provinces of China plus Inner Mongolia. In addition, we cannot conceptualize Northeast Asian integration without the participation of the Russian Far East and parts of Eastern Siberia, which are critical in terms of energy cooperation and vital transportation routes.

### *From Vision to Agreement*

How do we make economic integration a reality? Some proposals have been put forward that merit attention. One of them is a rather formal one that starts with an Economic Partnership Agreement (EPA) that eventually leads to a Free Trade Agreement (FTA). Another proposal is to begin with bilateral FTAs and then step up to multilateral FTAs, that is, moving from a 'bilateral' line to a 'multilateral' surface.

Another perspective on regional integration sees the Northeast Asian region as a core of what would eventually expand to form a bigger Asian Union. This perspective gives priority to the integration of Northeast Asia and its key elements (China, Russia, Korea, and Japan) and then expanding in the direction of ASEAN (already happening in the ASEAN+3 format) and then an Asian Union. This would be done on the basis of agreements.

*Equalizing the Standard of Living*

Poverty reduction should be a very important goal in our efforts toward regional economic integration. But one could suggest equalizing the standard of living instead of the more negative target of reducing poverty. The equalization of the standard of living between Germany and France after World War II was very important to the success of the European Union (EU). We see the importance of this too in the United States. It is difficult to be integrated economically when there is a large gap between rich and poor.

**Range and Scale of Northeast Asian Regional Integration**

*The Range of Regional Integration*

I believe China, Russia, South Korea, North Korea, Mongolia, and Japan are part of the Northeast Asian region; however, China and Russia, should be included only in part. For China, the area we may count as part of the region is the three Northeastern provinces and Inner Mongolia. For Russia, we may count the Russian Far East which shares a border with China, North, Korea, and Mongolia and a maritime border with Japan. The Russian Far East includes Sakhalin, Khabarovsk and the Amur region. We should also include Chita, the Buryat autonomous region, Irkutsk, Usti-Ordinskii Buryat and Tuba Republic in East Siberia. Some propose including a larger area that also encompasses Kamchatka, Koryakskii, Magadan, Sakha and Chukotka.

*The Scale of Regional Integration*

The population of the Northeast Asian region as a whole—the area we are considering here for economic integration—has a population of 334 million people. This is less than NAFTA as a whole (410 million) and the European Union (454 million), but these lesser numbers belie the fact that the Northeast Asian region exhibits the **necessary conditions** for economic integration. These conditions are not only population but also resources, energy, communications, transportation, labor, capital, and industry of a large enough scale.

Table 1. Population of Northeast Asia

Country/Area	Population
Japan	127,649,000
South Korea	47,700,000
North Korea	22,664,000
Mongolia	2,594,000
China: Three Northeastern Provinces and Inner Mongolia	130,834,000
Russian Far East and East Siberia*	11,853,000

Total

343,294,000

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Note: \*When limited to a smaller area of the Russian Far East and East Siberia the population is 10,308,000, based on 2003 figures; China based on 2002 figures and 2001 figures for Heilongjiang and Jilin; Russia based on 2002 figures.

## **The First Step: Promoting Economic Integration**

### *A Region of Complex Political Problems*

Complex political problems exist in Northeast Asia, which inhibit the integration of the region. Therefore, despite otherwise favorable conditions, economic integration in Northeast Asia will not be achieved as easily as in other regions. The political problems Northeast Asia faces are the division of the Korean peninsula, a past history of war between Japan and several of the countries of the region, tension between China and Taiwan, and the North Korean nuclear problem. However, the leaders and the people of the region must make efforts to solve these problems within this generation to make this a politically, economically, culturally, socially, and environmentally healthy region for future generations.

### *Building a Network Based on Economic Incentives*

Northeast Asia requires diplomatic efforts and multilateral frameworks such as the six-party talks. At the same time we need to look at possible solutions based on economics and economic incentives. The Grand Design for Northeast Asia also represents a multilateral framework for the region, but one that is based on the economic incentives and benefits derived from infrastructure. This Grand Design or blueprint for infrastructure development includes communications, transportation, and energy: the foundations for a prosperous and peaceful Northeast Asian economic community in the twenty-first century. We must commit ourselves to overcoming the legacy of severed ties among neighbors and build an economy-based network that rises above political obstacles.

### *Areas for Integration*

Where do we start? In my opinion the three priority areas in this network-building process are communications, transportation, and energy.

*Communications.* Communications network-building should be a priority. This field does not require large-scale infrastructure, but at a minimum the main circuits have to be equipped with fiber optics to allow widespread use of computers in the region. Fortunately, the region already has the necessary materials in China and advanced fiber optics technology in Korea that will facilitate the creation of a region-wide communications network. Cost-sharing for building this network can be based on the financial power of each participating country. The main challenge is to convince each country in the region to make this communications network a priority and to take the necessary steps to do so. I think it is necessary for central governments, local governments, and non-governmental organizations to cooperate and organize a committee or an organizational body dedicated to promoting a Northeast Asian communications network. This communications network involves two parts for each

participating country: the domestic communications infrastructure and the inter-country connecting infrastructure. Mongolia and North Korea, however, will need support from the other countries in the region to build their internal lines.

*Transportation.* The second priority area is the transportation network. Where communications and transportation infrastructure is in place, distribution of goods can take place. Economic activity is facilitated thereby creating economic links that are the basis for a network and economic integration. Nine basic routes are usually described in discussions of a region-wide transportation network for Northeast Asia. The Tumen River route is one of them and, at this writing, its infrastructure construction is ahead of other routes. This route would link Mongolia, the Tumen River area, South Korea, and Japan.

I would like to point out that EU development and integration in some ways can be measured by the success of cooperation with and integration of the coastal states along the North Sea and the Baltic Sea. The prosperity of, for example, the shipping industries of the North Sea and the Baltic Sea is a symbol of EU development.

Regarding Northeast Asia, however, we can hardly call the area around the Japan Sea (East Sea) a success in terms of distribution of goods, with the exception of the Yellow Sea area. We do however have plans to improve this situation, including the use of Zarubino as a seaport of the Tumen river route. This includes a ferry linking Zarubino with Japan. South Korea, too, is attempting to open a new navigation route to Zarubino. Estimates of the volume of freight, however, are still a problem.

*Energy.* Securing energy for Northeast Asia is a serious challenge. The demand for energy in China, which recently became an oil importer, is expected to increase. However, there are energy sources in Northeast Asia in Siberia and the Russian Far East. Russia's Northeast Asian neighbors are potential markets for Russian energy supplies, and this complementarity could lead to mutual benefits: supply of energy to importing countries and the development of the Russian Far East and Siberia. The question regarding the construction of oil and natural gas pipelines from Russia to Japan or to China is not a question of competition, but rather a question of integration. Northeast Asia lags far behind the EU and other regions in terms of energy infrastructure, and therefore, we should not focus on whether there will be a Japanese line or a Chinese line. We should focus instead on having both.

In other words, it is necessary to build a region-wide energy network. This, however, requires enormous investment. Japan, China, and South Korea are all behind other areas in the development of energy networks. It is important to stabilize the supply and demand of the region by establishing a network based on mutual benefits, both economic benefits and political benefits, based on energy interdependence.

### **The Second Tier of Integration**

The second tier of integration includes those areas that will facilitate supply and demand: food, labor, finance, and the environment.

*Food.* Food is also an important area for regional cooperation. Naturally, market economy principles apply. However, careful analysis of future regional demand is important, as this is connected to public welfare and can have an impact on the economy and stability of the area as a whole. Regional supply and demand balance may require an export-import plan.

*Labor market.* The labor market is another area of economic and political significance. The question of equalizing the standard of living and managing the labor market should be handled delicately. Labor markets can be opened step by step, but even so, each country will need to adopt rather drastic policy changes in the labor sector. This problem is linked to broader reforms in the economic structure of each country. This represents a significant challenge along the road toward regional integration.

*Finance.* Finance liberalization and stability are indispensable to integration. In addition, integration is an expensive process, and large amounts of investment are needed for energy, transportation infrastructure, etc. Securing this investment remains a challenge. In this respect, proposals for a Northeast Asian Development Bank merit attention.

*Environment.* Environmental problems are often trans-border issues. China, South Korea, and Japan already are jointly looking at the problem of the yellow sand. Air pollution, water pollution, and desertification are areas for a common agenda in the region and for an oversight network.

#### *Integration of Non-economic Sectors*

Following the priority and economic sectors dealt with above, attention should turn to non-economic sectors by liberalizing and building network in the medical and education. This is the third step. Besides these two sectors, networks in fundamental social services sectors should be established.

*Medical sector.* Wealthy people going abroad for advanced medical treatment is a common phenomenon. In discussing equality in the standard of living, we are referring to equality in educational opportunities and access to medical treatment. These two sectors represent the base layer of social life and are the most important social services. I think it is possible to establish standards based on equality in these sectors. However, the costs of doing so are considerable. In the medical sector there are two targets, achieving equal standards in advanced medical materials and equal standards in the technical level of medical service. There is also the challenge of achieving equality in standards in medical knowledge, both inter-state and within each country of the region.

*Education.* As for education sector, the challenge is similar to that in the medical sector, and achieving equality in standards of education is also possible. Currently, efforts in this area include student exchanges. However, as in medicine, this is primarily in the form of students going abroad for higher education. Our goal of region-wide equal standards of education is better served by, for example, establishing a higher education network that recognizes credits or units of universities from the region, or that institutes common examinations in medical departments, or common university entrance exams.

## **Further Suggestions for Regional Integration**

### *Common Goals and Targets*

Our efforts in regional integration should include establishing a system in which each country and each area sets targets and evaluates their implementation during a given time. An example of such targets in the transportation sector would include border customs clearance services for intra-regional freight, relaxation of tariff rates, no inspection or less burdensome inspection of freight to third countries, reduction of the rate of freight passage commission, and visa-free provisions for transporters. A system should be in place to evaluate progress toward such targets.

### *Establishment of an International Organization for Northeast Asian Regional Integration*

It may be necessary at some point to establish an international organization dedicated to Northeast Asian integration to facilitate communications, solve common problems, and clarify common goals and set targets. The demand for this is already obvious in the transport field. In response to this demand in Japan we have established the "Northeast Asian Corridor Transportation Network," a non-governmental organization of domestic non-profit organizations (NPOs). One suggestion is to establish similar organizations in each country and liaise through an international conference. The Northeast Asian Economic Forum and the Northeast Asia Economic Conference in Niigata, Japan (or joint conferences such as the one that took place in February 2004) could serve this purpose.