

Part VIII: Concluding Remarks

Economic Cooperation Among Northeast Asian Countries in a New International Economic Order

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INTRODUCTION

We are living in a world undergoing tremendous structural transformation economically as well as politically. The most significant changes are happening in international relationships. The ideological tensions between the East and West are now melting and political liberalization and pluralism are spreading virtually everywhere in the world.

We have witnessed and continue to witness the dissolution of the centrally planned economies in Eastern Europe. Eastern Bloc countries are now adopting a free market approach and have become more integrated into the world economy. Previously closed and autarchic countries in Northeast Asia are now beginning to become parts of the world economy. This means expanded opportunities for investment and trade and therefore growth. But it is still too early to say under what conditions this will occur.

One of the peculiar characteristics of the new global trading environment is a simultaneous progress of multilateralism and regionalism. The European Single Market is now just around the corner. EC and EFTA will have been merged into a European Economic Area which may extend to cover the former COMECON countries. In North America, we also have observed the birth of another trading bloc, the free trade area of the U.S., Canada, and Mexico. In addition, the failure to conclude the Uruguay Round of Multilateral Trade Negotiation in December 1990

has complicated the international trading environment.

Unlike the other economic blocs in the world, the Northeast Asian region embraces a great diversity of economic systems, developmental stages, and industrial structures. Thawing of East—West relations, creation of regional blocs, and threats to the open multilateral trading system are becoming of great concern to the world in general and Northeast Asia in particular.

I think that in this age of uncertainty, Asia, especially Northeast Asia, is now at a crossroads between globalism and regionalism on the one hand and capitalism and socialism on the other hand. If we travel well, we can cross the threshold to an advanced economy status; while if we take a false road, we would be back to the underdevelopment of the past. As a former trade and industry minister, I would like to share some of my thoughts about the economic implications of the evolving world order and future development strategies of the Northeast Asian countries.

REGIONALISM VS. GLOBALISM

All of us know that the trend of regional economic integration had been set initially by the European Community. Europe will soon become a fully unified market with the implementation of the "Single European Act." This market of 320 million people currently produces a third of the world GNP and accounts for two-fifths of world trade. Soon, EFTA will join with the EC to create the European Economic Area, and already the former communist countries of Central and Eastern Europe are being drawn into the process.

If these events are developed and successfully combined, a new era of greatness for Europe would be realized as Lester Thurow predicted in his book, Head to Head. From our perspective, the interesting question to ask is, "Will the new Europe be inward-looking or outward-looking?" Although the EC council has already announced that the members would dissolve their internal barriers without raising external barriers, other countries are worried about the possible forthcoming "Fortress Europe." The Europe of 1992 somewhat foreshadows trade discrimination; otherwise, the United Kingdom and EFTA countries wouldn't have had to scramble their way to get inside the deal for fear of being left outside.

I have a skeptical view of the outward-looking Europe in the sense that non-member countries stand to lose out from regional integration. My argument is that, although market expansion resulting from integration will increase import demand, that demand is more likely to be filled by member countries who are in a position to improve their price and quality competitiveness as a result of the more favorable conditions arising from integration. Faced with this stiff competition, non-member countries are more likely to be left out in the cold with a smaller share of the expanding market.

As a result, various non-EC countries have begun to take countermeasures. The United States has reacted somewhat belatedly to European economic integration by sponsoring its own regional initiatives. Foremost among these is the North American Free Trade Agreement, which forms the United States and Canada into a single market. NAFTA will shortly be expanded to include Mexico, and apparently the long-term objective is to bring the entire Western Hemisphere within the framework of a

NAFTA-like common market.

From within ASEAN itself, some interest has been shown in creating an East Asian core group that would include China, Japan, and Korea, while excluding North America, Australia, and New Zealand. The idea of a so-called East Asian Economic Caucus was first proposed by Malaysian Prime Minister Mahathir Mohammed. From the beginning, the U.S., which does not favor the emergence of a regional economic group in the Asia Pacific, rejected the EAEC concept.

The United States has been traditionally a strong supporter of globalism, and its commitment to the GATT process, has become an objective in itself. With a recent change of the international trading scene and its trade deficit, however, the United States thus far has not seemed to make its position between globalism and regionalism sufficiently clear as to where the major tenet of its trade policy lies.

If the United States wants the Asian countries to remain under the umbrella of APEC, it will eventually have to re-think its policy. First, the United States should not alienate the Asian countries with its creation of NAFTA. The United States should demonstrate persuasively that the mainstay of its policy is globalism rather than regionalism, and that NAFTA is basically a countervailing mechanism against the EC and no more. It is quite clear that, if the protectionist wall of NAFTA becomes high, it will work more against the interests of Asian countries than of European counterparts because European industries have already established well their economic bases in the NAFTA area.

Once the trend toward regionalism on a larger scale has been fully recognized, what is the better option for Northeast Asia? It is my firm belief that globalism should be further promoted and any regional trading arrangements must play a complementary role in strengthening the multilateralism.

In this sense, it is of critical importance to keep the GATT vital. I think that sub-regional groups should provide a service not to compete with APEC and GATT. Unlike the European Economic Community, APEC is still embryonic, but it has come a long way since the first Ministerial Meeting and would yield many substantial results.

As Trade and Industry Minister, I co-chaired the Seoul APEC Ministerial Meeting with Korea's Foreign Minister last year, and my fellow Ministers once again agreed that a continuing theme of APEC would be the promotion of a more open trading system. There are ongoing consultations on sub-regional groupings such as ASEAN Free Trade Area and East Asia Economic Caucus under the umbrella of APEC. I believe that any regional approach to reduce barriers to trade among participants is not desirable unless any such liberalization is consistent with the GATT principles yet not to the detriment of other parties. Since Northeast Asia has a strong interdependence outside the region, we have more reasons not to pursue a closed bloc but instead an open sub-regionalism. Attaining a successful outcome to the Uruguay Round still remains a preeminent objective of APEC.

My final point regarding regionalism is that, in reality, sometimes we have to accept the fact that nations will have to deal with economic issues simultaneously at the bilateral, regional, and global levels. None of these levels of dialogue and decision-making can be currently abandoned. Every effort must be made to reduce

the contradictions among them with the emphasis upon steadily broadening the scope of agreements. Therefore, before embracing regionalism as the inevitable economic direction of the 1990s, the pillars of free trade need to be strengthened.

ECONOMIC SYSTEMS IN NORTHEAST ASIA ECONOMIC COOPERATION

From the recent development in the Soviet Union, we notice that the Cold War is fading into history. One implication of this change is that political and ideological differences are giving way to economic and geographical factors. The recent collapse of the centrally planned economies created a euphoric sense of the utmost superiority of capitalism over socialism.

Some of us may have an illusion that the world is evolving into a huge capitalistic economic system. This trend is also apparent in Northeast Asia where some old conflicts still linger. Regarding this new development in Northeast Asia, there is the concern of how the countries in the region should pursue economic cooperation.

What is, for example, the productive potential of these economies when they move from an inefficient, centrally planned system to a more efficient market economy? Can these countries like Japan and the Dynamic Asian Economies mobilize sufficient domestic savings to finance the necessary industrial restructuring? The uncertainties are numerous and potentially significant.

Giving up the central planning does not mean a complete turn toward a laissez-faire economy. The reduced intervention of the government must be complemented by the active role of the "invisible hand." The free market mechanism serves as the principal foundation of the Japanese and South Korean economies as each government has actively intervened in the private sector in the pursuit of its government-led development strategy. As such, Asian economies can be characterized as a mixed economic system.

The traditional Asian social code consists of Confucian ethics and paternalistic authoritarianism. Under such a code, people have traditionally found virtue in respecting authority and have generally perceived that government action served to benefit the entire nation and its people. In the earlier stages of economic development, Confucianism more or less facilitated government-led economic growth in East Asia, but, as an economy matures, excessive intervention of the government often has turned out to be costly.

With these things in mind, let us turn our attention to China. I suggest that the role of the Chinese government in economic development must differ from that of the governments in the advanced capitalist nations, contrary to Western economists' recommendations. An ideal strategy mix of government push and market pull of an economy is recommended.

The shift in development strategy should be based on the view that economic growth as well as equity can be enhanced by promoting the development of private enterprises. The government should pursue stable foreign exchange and money supply policies and coordinate conflicts of various interest groups in the transitional period from central planning to the market mechanism. Another important role of the government is in reducing uncertainties of the future by its commitment to economic

reforms and political stability in order to attract uninterrupted investments from abroad.

During my trip to China two months ago, I met Mr. Ma, and we had a very fruitful discussion on economic systems and their roles in economic development. If I understood him correctly, he said, "As economic planning and government guidance are allowed in the capitalist countries, the market mechanism can be compatible with economies of socialism." Agreeing with him, I believe that the optimal system in China in this transitional period could be "Market Socialism," to make the most of both capitalism and socialism.

We can also unlearn the mistakes of radical reforms and social disorders in the former USSR. Drastic measures such as a complete trade liberalization may cause a severe instability and make advanced countries richer and underdeveloped countries poorer, at least in the short run. Therefore, the first step should be modest. All the governments in the region should promote exchange of views through various opportunities, including official meetings and private talks to construct a more favorable climate for trade and investment. We could seek practical collaborations among nations to harmonize the region's progress and minimize shocks to each economy.

It is still unclear whether and how the Russian Republic will promote economic reform. A more active trade with East Asian market economies may help East Siberia develop faster and eventually contribute to the general welfare of the nation as a whole. Cooperative measures among the local governments should be implemented with the full support of each nation's capital.

I think that business opportunities through trade with, and investment in the People's Republic of China, will be much larger as fast-developing coastal areas of China have been given more political powers. The large population seems to create a large supply of labor force and a large potential demand for products. Although the labor force is largely underemployed, foreign investors sometimes face labor shortage problems because of disguised unemployment and inefficient allocation of resources. Business management in the PRC is still inefficient, partly because of incomplete reforms of the economic system. Many Chinese are anxious to work abroad for better income and living, creating a substantial number of potential workers in the future Northeast Asian economic cooperation.

Most of the trade frictions between China and its partners are also related to its incomplete transition from a centrally planned economy to a market economy. Chinese export subsidies take the form of direct fiscal subsidies through central and local government budgets, subsidized export credits, and indirect subsidies through the use of multiple exchange rates. Administrative interventions have been used extensively in recent years to suppress imports and engineer the attainment of a trade surplus.

Trade among the USSR, North Korea, and the capitalist economies is so small that major trade disputes have not arisen among these economies. However, it is likely that, if trade does expand rapidly, the USSR and North Korea will run into similar problems as China related to subsidies to exports, administrative restrictions on imports, and the use of forced labor, all of which contravene the GATT.

As we are all aware, the economies of the area have different political and economic systems, and a wide disparity exists in the degrees of their openness to the outside world. As a consequence, I think that the scope of cooperation had better be limited to the smaller spheres rather than a full scale participation of the representative countries in the Far East.

As it is smaller in scope, the parties concerned may facilitate the joint projects with ease and enthusiasm. I think that the level of cooperation also should aim at the "functional integration" between the local governments and the private sector rather than the "institutional integration" encompassing the central governments and the whole nations.

Considering the diversity of the economic system, economic development, size of the countries in the region, "special economic zones" must be agreed upon by the parties concerned. China, as a large developing country, differs from ANIEs and cannot follow an export-oriented development strategy in the country as a whole.

The joint efforts of building "special economic zones" can take advantage of natural resources and abundant cheap labor in China and Far Eastern Russia to produce competitive products, enable them to enter the international market, and help the underdeveloped parts of Japan and Korea to reach the developed status. Promising industries will be picked up with a consideration of the harmonious development of the region and efficient use of factors of production.

I think that Northeast Asia could be transformed into another dynamic sub-regional group because its constituents are complementary in terms of resources, investments, and trade. Coastal areas of China and Far Eastern Russia also will play an important role in the economic progress of the whole nation.

To conclude, I would like to describe South Korea's role in the economic cooperation in our region. In the past two decades, South Korea has experienced rapid economic growth at close to 10 percent, emerging as a center of growth in the Asia Pacific. In fact, the four economies of the ANIEs are often grouped together and referred in journalism as Asia's "Four Dragons." The ANIEs as a group, have now become a significant economic power in the region. In this context, South Korea will increasingly play an important role in the balance of economic power within the region.

Trade relations between South Korea and her northern neighbors have so far been limited. But I expect that the structural adjustments in industries and intra-industry specialization in the region will be able to enhance trade relations among them as the degree of interdependence becomes larger. As South Korea shifts to more skill-intensive and technology-intensive products as a result of higher labor costs and the increased maturity of industrial sectors, China and North Korea may take the place of South Korea in exporting products of unskilled labor, resource-intensive products, and simple consumer goods.

For the acceleration of cooperation and development in the Northeast Asian region, a significant role can also be expected from South Korea. It has accumulated sufficient experience in adapting Western technologies and in concentrating national energy for its economic development in recent decades. Technologies developed in industrialized countries may first be transferred to the ANIEs before they are passed

on to the lesser developed countries. South Korea's neighbors could learn managerial knowhow and experience of the Korean business firms. I think that South Korea can serve as a bridge between the economies of the advanced and developing countries.

Multilateral Cooperation in Northeast Asia

Ma Bin

In this conference, Professor Scalapino stated the complexity of the situation in Northeast Asia from the viewpoints of the political, historical, and current situations. But from the general trend, the number one problem facing each country in this region is that of economic development. Professor Oshima has pointed out that the search by developed countries for regions that have the best combination of human and natural resources in which to invest capital and transfer technologies provides an opportunity for Northeast Asia. During this conference, spokesmen from the countries of China, Russia and North Korea have affirmed that this opportunity now exists and presented some problems that need to be solved. Although we share some of their viewpoints we also have different ideas in establishing the "Tumen River Economic Zone." I think it is natural, for people to have different ideas; as long as we continue to have discussions and consultations, we will come to an agreement. Especially, since we all share the same dream of achieving peace and development all over the world.

I believe that China, Russia, and North Korea have already begun to independently develop free trade and economic zones. When the conditions are mature, multilateral cooperation is a natural and the trend since each country has its advantages and problems. From the viewpoint of natural economic geography, multilateral cooperation is the best, which may realize the adage of the whole being greater than the sum of its parts. If we consider our economic contact with neighboring countries such as Japan, South Korea, and Mongolia, and other countries, such as the United States, Canada, and the Southeast Asian countries, the idea of multilateral cooperation is both scientific and economic, which would then require of course, needs more discussion, negotiation, and scientific proof. Since more tasks face us and more problems need to be solved, we have to take some concrete action step by step and never give up, no matter what may happen.