



# **Strengthening Economic Integration and Cooperation in Northeast Asia**

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*Closing Roundtable  
International Conference on  
Regional Integration and Economic Resilience*

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# Can Northeast Asia strengthen cooperation?



# Rationale for regional economic integration and cooperation

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## ○ **Benefits from connectivity**

- Gains from freer and less costly movements of goods, services, capital, information, labor
- Benefits with a large market due to scale economies and network externalities
- Gains from comparative advantage and efficiency

## ○ **Managing cross-border negative spillovers**

- Negative spillovers from financial crisis, epidemics, natural disasters and pollution

## ○ **Promotion of regional peace and stability**

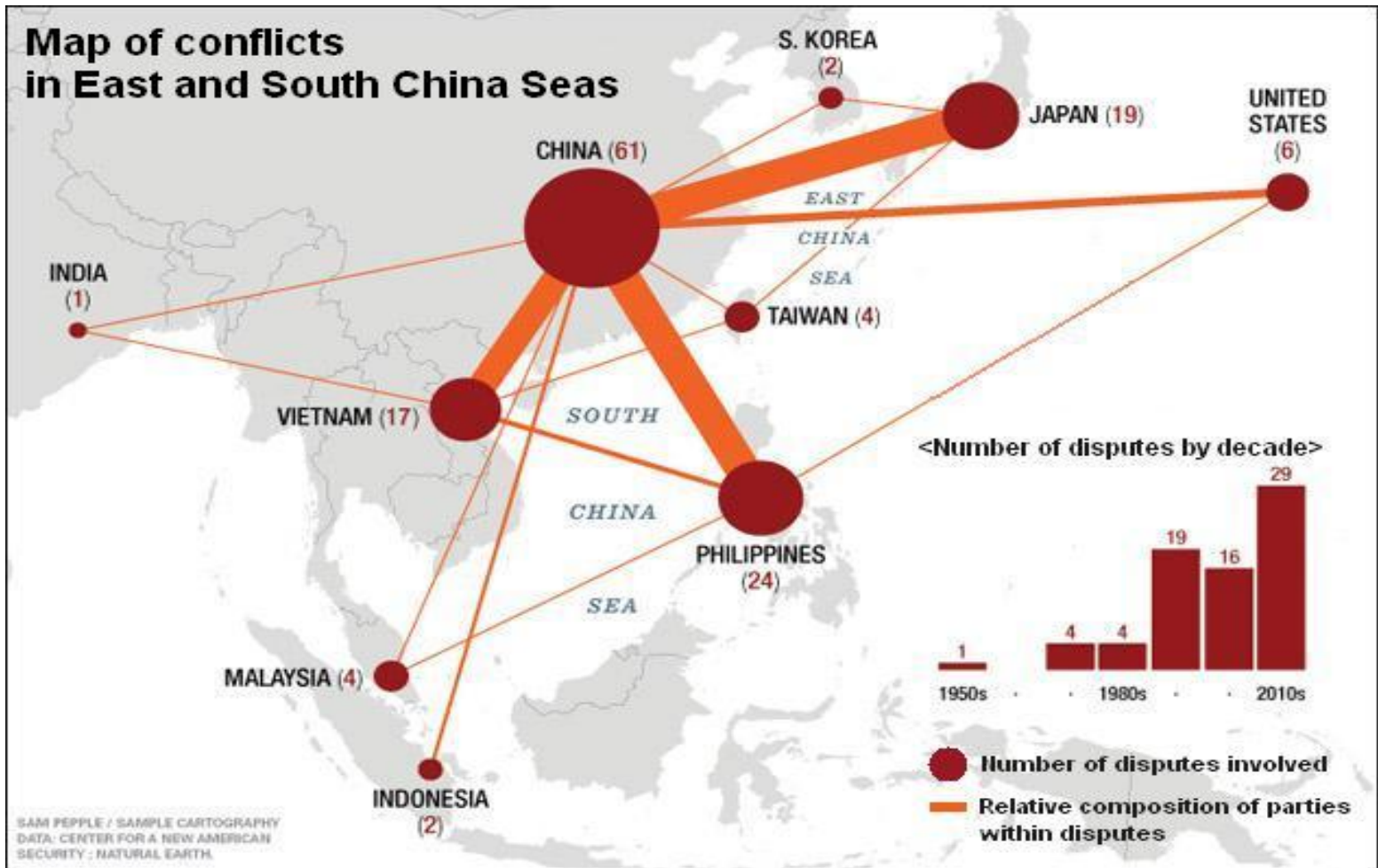
- Deeper economic integration helps to reduce the likelihood of political and military conflicts

# Constraints and challenges to regional cooperation

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- Economic and political diversity
  - Heterogeneous preference, asymmetric power
- Strong influence of outside actors
- Rising nationalism and territorial disputes
- Difficulties in building political consensus
  - National sovereignty
- No clear vision and strategy for Northeast Asian integration
- Lack of political leadership
- Compatibility of sub-regional, regional, and inter-regional institutions

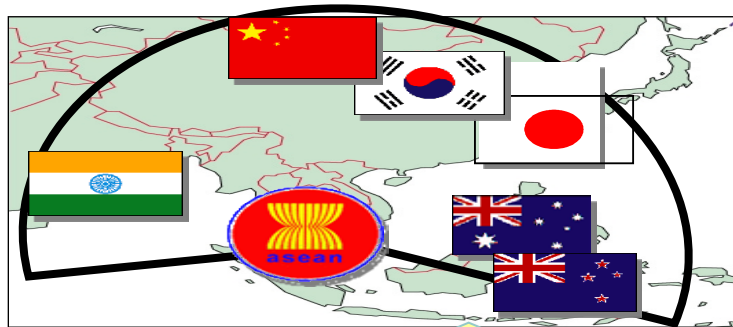
# Increase in territorial conflicts in Asia



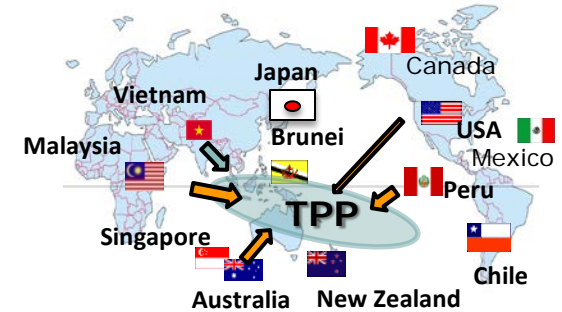
Source: Thomas Wright, "Outlaw of the Sea." *Foreign Affairs*, Aug. 2012

# Region-wide FTAs in East Asia

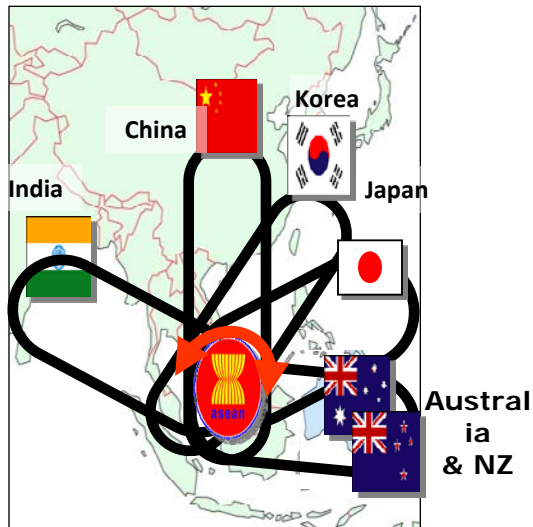
**RCEP(ASEAN+6)**  
(ASEAN+CH, JP, KR, IND, AUS, NZ)



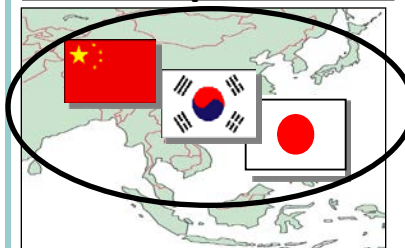
**TPP**



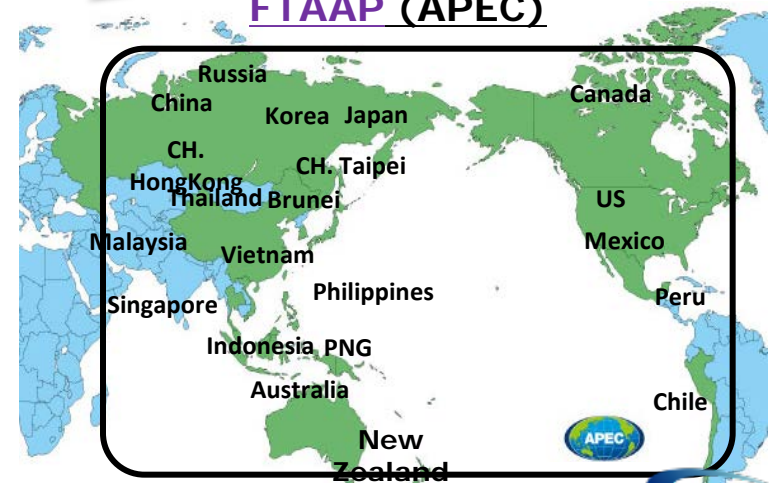
**ASEAN+1 FTA**



**China-Japan-Korea**



**FTAAP (APEC)**





# Chinese dream: One belt, one road



Source: Asia Pacific Intellectual Capital Centre Ltd; South China Morning Post

# Agenda for strengthening regional economic cooperation

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- Need stronger institutions to complement market-driven integration
- Implement a flexible and pragmatic approach with proper sequencing
  - An immediate leap to European-style institutions is unlikely and unnecessary.
- Establish effective institutions to broaden and deepen integration process and maximize benefits from integration
- Address various cross-border issues in Northeast Asia
- Build up political commitment and national consensus toward a closer regional integration and cooperation



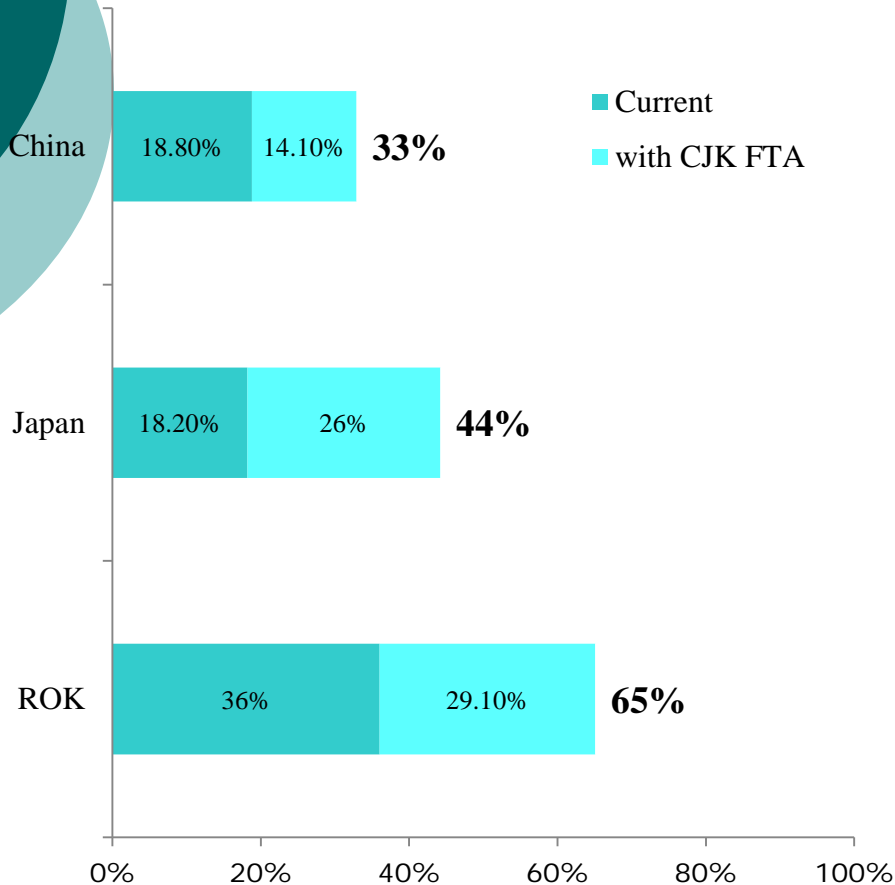
# Strengthening institutions in Northeast Asia

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- **CJK (China, Japan, South Korea) FTA** to build a single market with free trade and labor mobility
- **Financial stability dialogue** among the region's financial authorities to promote regional financial system stability and prevent a crisis
- **Effective regional public good's forum** to deal with issues such as natural disasters, environmental problems, and health concerns
- **Dialogues** to share successful economic and social policies and technological and scientific knowledge

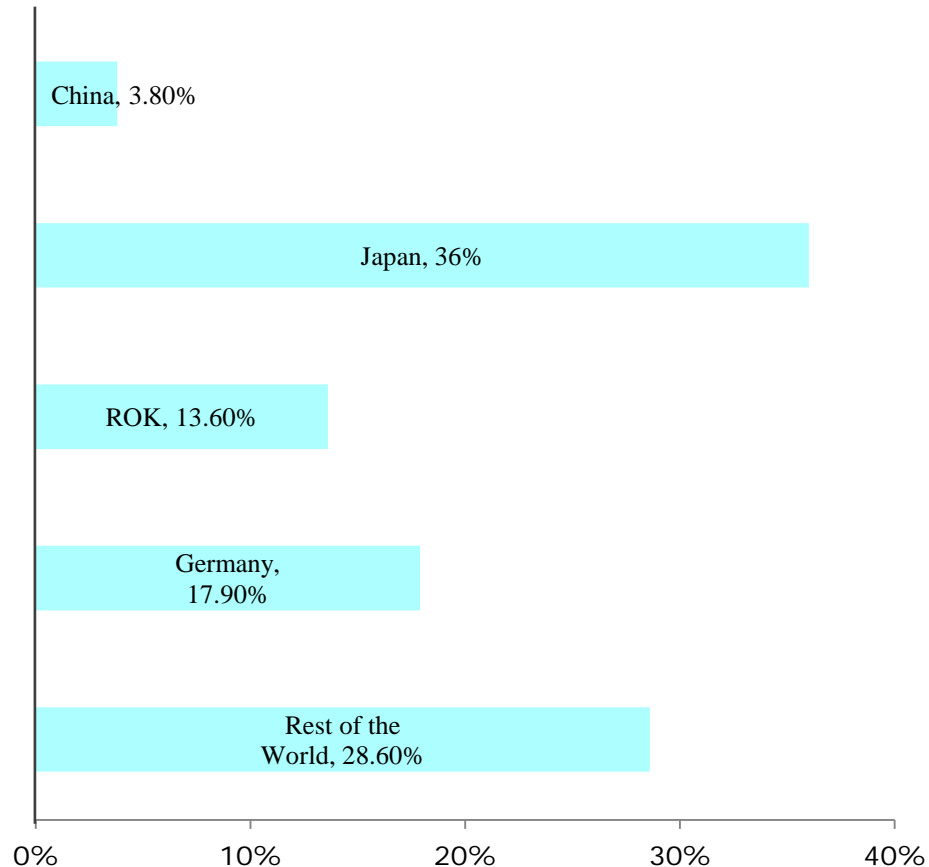
# CJK FTA to promote regional and global trade

## FTA coverage ratio



Source: Trilateral Cooperation Secretariat

## The Share of the value added in the manufacturing process of iPhone 3G

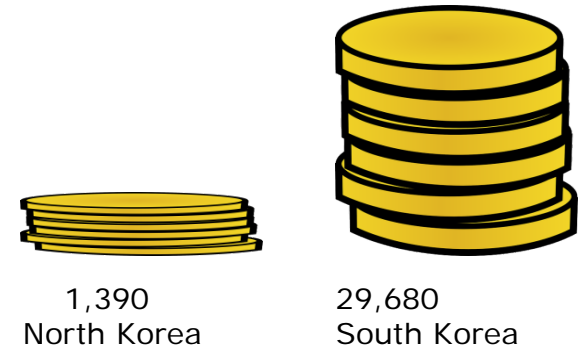


Source: Trilateral Cooperation Secretariat.; Xing, Yuqing, "How the iPhone widens the US trade deficit with China" Vox.EU 10 April 2011

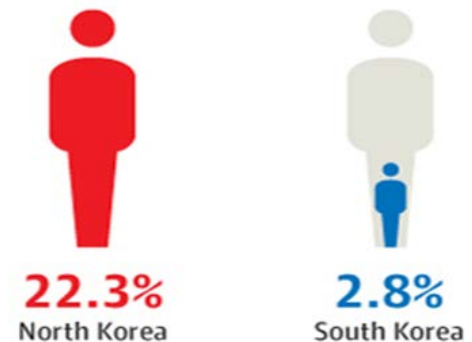
# Can two Koreas move towards peace and unification?



Source: Huffington Post  
[http://www.huffingtonpost.com/2014/02/25/north-korea-at-night-photo\\_n\\_4851929.html](http://www.huffingtonpost.com/2014/02/25/north-korea-at-night-photo_n_4851929.html)



**Per Capita National Income**  
(1,000 won)



**Military expenditure 2008**  
as a percentage of GDP

# North Korea and Northeast Asia cooperation

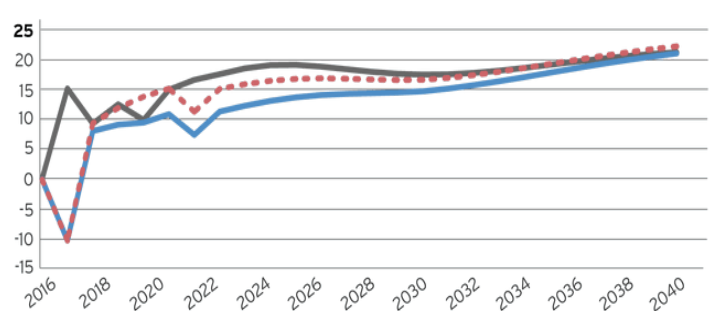
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- Northeast Asia must work together to promote peace and prosperity on the Korean peninsula.
- The sudden collapse of North Korea or a military conflict on the peninsula would threaten regional security and prosperity.
- North Korea should abandon nuclear weapon and missile programs and embark on far-reaching reforms toward market economy and open trade regime.
- If North Korea takes market reforms and opens up, it can achieve high growth, as China and Vietnam did.
- A Northeast Asian Economic Community may evolve by including a more open, market-based North Korean economy.

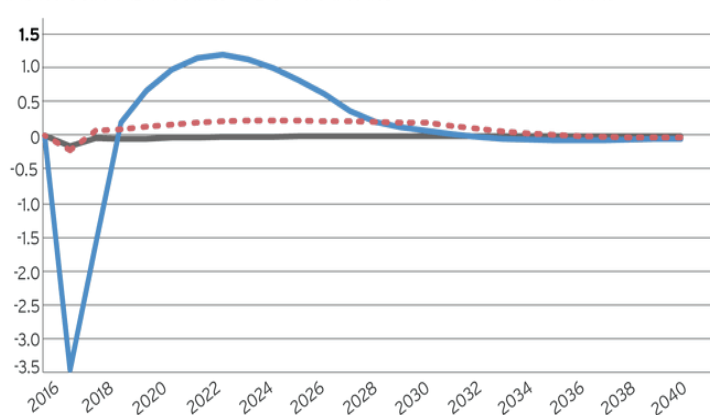
# Modelling economic impact of Korean unification

How 3 Korean unification scenarios would affect...

**North Korea's Real GDP Growth**



**South Korea's Real GDP Growth**



BROOKINGS

- McKibbin, Lee, Liu and Song (2017) builds a global economic model that incorporates North and South Korea and simulates the impact of Korean unification for 3 scenarios: (i) Gradual Reform and Convergence of North Korea, (ii) Managed Chaos in North Korea, and (iii) Chaos and Crisis in North and South Korea.
- The results shows that reform and cooperation with South Korea matters a lot for North Korea's growth.
- Sudden collapse and political crisis can cause an economic crisis in the Korean peninsula.

**Source:** Warwick J. M., J.-W. Lee, W. Liu, and C. J. Song: "Modelling the Economic Impact of Korean Unification," Working Paper, the Brookings Institution. May 2017.

# Concluding remarks

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- Northeast Asia needs to build stronger and more effective regional institutions to promote cooperation in trade, investment and finance, and deal with cross-border spillovers and regional public goods.
- Northeast Asia can work together to make North Korea abandon nuclear programs and take reforms toward a more market-oriented and open economy, which would also serve the best interests of neighboring countries.
- The region should build up a shared vision alongside good strategies to establish a Northeast Asian Economic Community for the region's peace, stability, and prosperity.





*Thank You*

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