Strengthening Economic Integration and Cooperation in Northeast Asia

Closing Roundtable
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Can Northeast Asia strengthen cooperation?
Rationale for regional economic integration and cooperation

- **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

- 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

Region-wide FTAs in East Asia

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

China-Japan-Korea

China-Japan-Korea

ASEAN+1 FTA

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

- 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

- 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**

- **China**: 18.80% (Current), 14.10% (with CJK FTA), **33%**
  - **Rest of the World**: 28.60%
  - **Germany**: 17.90%
  - **Japan**: 36%
  - **ROK**: 3.80%

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

- **China**: 3.80%
- **Japan**: 36%
- **ROK**: 13.60%
- **Germany**: 17.90%
- **Rest of the World**: 28.60%

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

Source: Trilateral Cooperation Secretariat
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

Per Capita National Income (1,000 won)

<table>
<thead>
<tr>
<th>Country</th>
<th>Per Capita National Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Korea</td>
<td>1,390</td>
</tr>
<tr>
<td>South Korea</td>
<td>29,680</td>
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Military expenditure 2008 as a percentage of GDP

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<tr>
<th>Country</th>
<th>Military Expenditure as a percentage of GDP</th>
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<tbody>
<tr>
<td>North Korea</td>
<td>22.3%</td>
</tr>
<tr>
<td>South Korea</td>
<td>2.8%</td>
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</tbody>
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North Korea and Northeast Asia cooperation

- 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.
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.

Concluding remarks

- 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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