

Toward an Open East Asian Regional Integration

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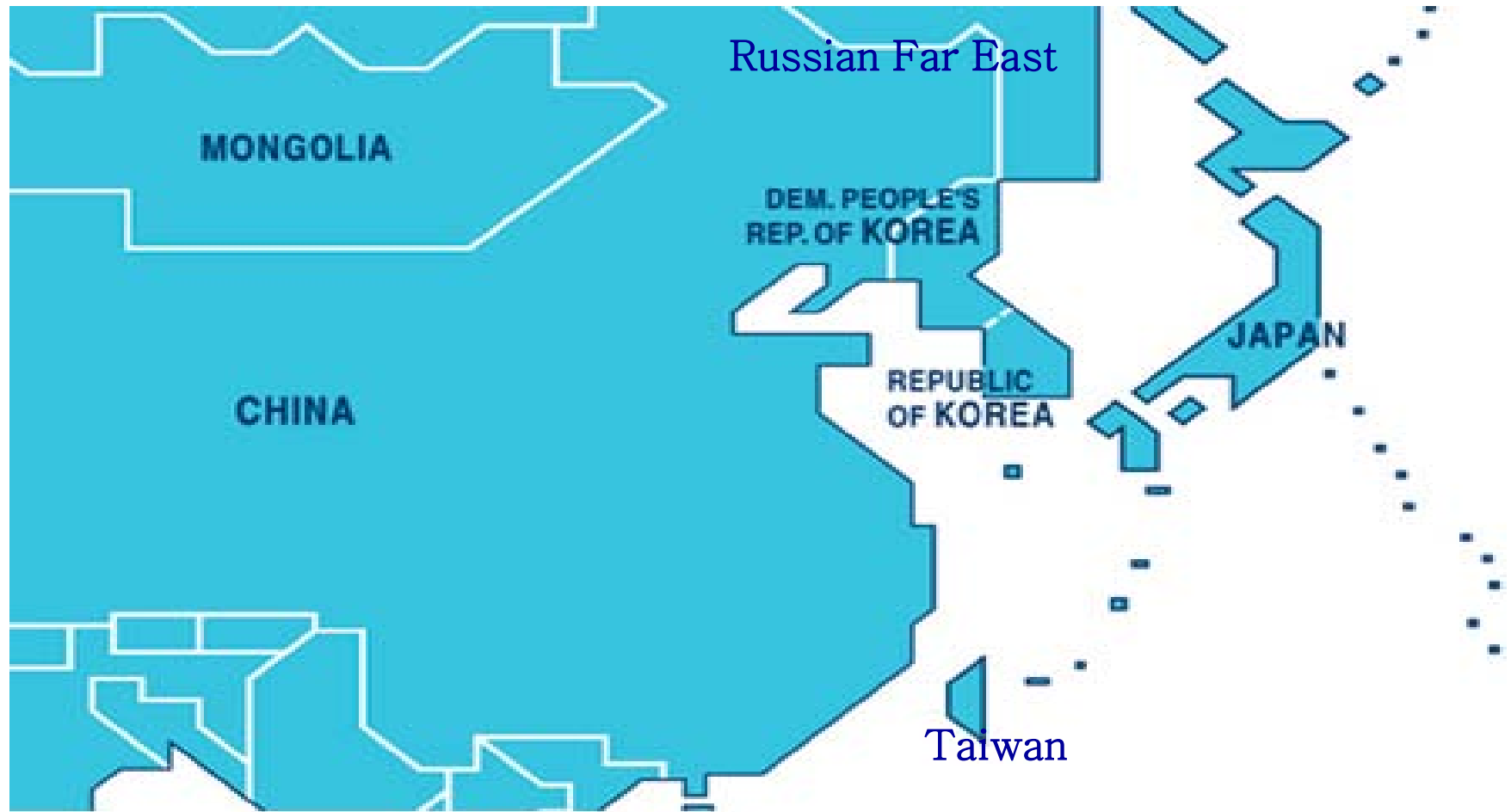
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Northeast Asia : China, Japan, South Korea, North Korea, Russian Far East, Mongolia, Taiwan



- ➡ **Given the difference in factor endowment, Scalapino's natural economic territory (1991) could be extended to entire Northeast Asia.**

East Asia : Expanded Coverage



☞ For a discussion of Asian regionalism, a focus is given to East Asia but functional definition of East Asia needs to include India, the Russian Far East, Australia, and New Zealand.

Rising Asia Plays a Critical Role to Save Sinking World Economy : “Asian Century” or “Renaissance of Asia”

- Amid global unprecedented economic down turn and serious downside risk to growth in southern Europe and the U.S., Asian economies, in particular East Asian economies have proven the shining light in gloomy and uncertain world economy. Especially, China, India, ASEAN stood out.
- Indeed, developing Asia has saved the sinking world economy (Ahn 2011)
- To resolve on-going global imbalances and to sustain Asia's regional growth, Asia must shift from its conventional export orientation to intra-regional demand driven strategy to increase imports from extra-regional economies (Ahn 2011)
- To ensure Asia's transition, Asia needs to minimize external financial contagions and expand intra-regional free trade and cross-border investment.



Annual Percentage Change of Real GDP

		Unit: %								Projections		
	93-02'	03'	04'	05'	06'	07'	08'	09'	10'	11'	12'	16'
Adv'nced Economies	2.8	1.9	3.1	2.7	3.1	2.8	0.1	-3.7	3.1	1.6	1.9	2.7
<i>U.S.</i>	3.4	2.5	3.5	3.1	2.7	1.9	-0.3	-3.5	3.0	1.5	1.8	3.4
<i>Japan</i>	0.8	1.4	2.7	1.9	2.0	2.4	-1.2	-6.3	4.0	-0.5	2.3	1.3
<i>Euro Area</i>	2.1	0.7	2.2	1.7	3.2	3.0	0.4	-4.3	1.8	1.6	1.1	1.7
Korea	6.1	2.8	4.6	4.0	5.2	5.1	2.3	0.3	6.2	3.9	4.4	4.0
Emerging & Developing Economies	7.1	8.1	8.5	9.5	10.3	11.5	7.7	7.2	9.5	8.2	8.0	8.6
<i>China</i>	9.8	10.0	10.1	11.3	12.7	14.2	9.6	9.2	10.3	9.5	9.0	9.5
<i>India</i>	5.8	6.9	7.6	9.0	9.5	10.0	6.2	6.8	10.1	7.8	7.5	8.1

Source: IMF: World Economic Outlook; Slowing Growth, Rising Risks, September 2011

Growth Rates of Real GDP and Current Account Balance in Selected Economies

Unit: %

	Real GDP			Current Account Balance		
	2010	Projections		2010	Projections	
		2011	2012		2011	2012
Advanced Economies	3.1	1.6	1.9	-0.2	-0.3	0.1
<i>United States</i>	3.0	1.5	1.8	-3.2	-3.1	-2.1
<i>Euro Area</i>	1.8	1.6	1.1	-0.4	0.1	0.4
Asia	8.2	6.2	6.6	3.3	2.9	2.9
<i>Advanced Asia</i>	5.4	1.7	3.3	3.3	2.5	2.3
<i>Newly Indust'ed Asian Economies*</i>	8.4	4.7	4.5	7.0	6.4	6.1
<i>Developing Asia</i>	9.5	8.2	8.0	3.3	3.3	3.4
<i>China</i>	10.3	9.5	9.0	5.2	5.2	5.6
<i>India</i>	10.1	7.8	7.5	-2.6	-2.2	-2.2
<i>ASEAN(5)**</i>	6.9	5.3	5.6	3.3	2.5	1.6
<i>Developing Asia (other)</i>	5.2	4.6	5.0	-0.4	-0.1	-1.3

Source: IMF, World Economic Outlook: Slowing Growth, Rising Risks, Sept. 2011

*Newly industrialized Asian economies refer to Korea, Taiwan, Hong Kong and Singapore

** ASEAN(5) includes Indonesia, Thailand, Malaysia, the Philippines and Vietnam

“East Asia Identity” awakened after the Asian financial crisis brought in CMI and ABMI : Highly formidable step

- Unlike the EU and NAFTA process, financial cooperation started first in East Asia to trigger the formation of CMI, ABMI as regional self-help financial architectures in East Asia against external financial shocks.

Contribution & Maximum Benefit Amount for CMI Multi-Lateralization

Nation		Contribution		Maximum Benefits	
		Amount (USD billion)	Share (%)	Ratio (times)	Amount (USD billion)
Korea		19.2	16.0	1	19.2
China (including Hong Kong)		38.4	32.0	0.5	19.2
Japan		38.4	32.0	0.5	19.2
Total		96.0	80.0	-	57.6
Big	Indonesia	4.77	3.97	2.5	11.92
	Malaysia	4.77	3.97	2.5	11.92
	Thailand	4.77	3.97	2.5	11.92
	Singapore	4.77	3.97	2.5	11.92
	Philippines	3.68	3.07	2.5	9.2
	Total	22.76	18.9	-	56.9
Small	Brunei	0.03	0.02	5	0.15
	Cambodia	0.12	0.10	5	0.6
	Laos	0.03	0.02	5	0.15
	Myanmar	0.06	0.05	5	0.3
	Vietnam	1.00	0.83	5	5.0
	Total	1.24	1.0	-	6.2
ASEAN Total		24.0	20.0	-	63.1
Grand Total		120.0	100	-	120.7

Economic Community Movement in Asia Must Address and Recognize the Following

- **Eliminating cross-boarder regulations and rigidities such as tariff and NTB to promote Cross-Border movement of factors of production, goods and services**
- **Globalization, supply chain and production fragmentation also trigger a formation of Economic Community**
- **Start with top-down Macro-National Approach : FTAs, CMI, G-G based Treaties**
- **Also critical is bottom-up Micro-regional Approach : Cross-Border Cooperation among Sub-regions, and Mega-cities**

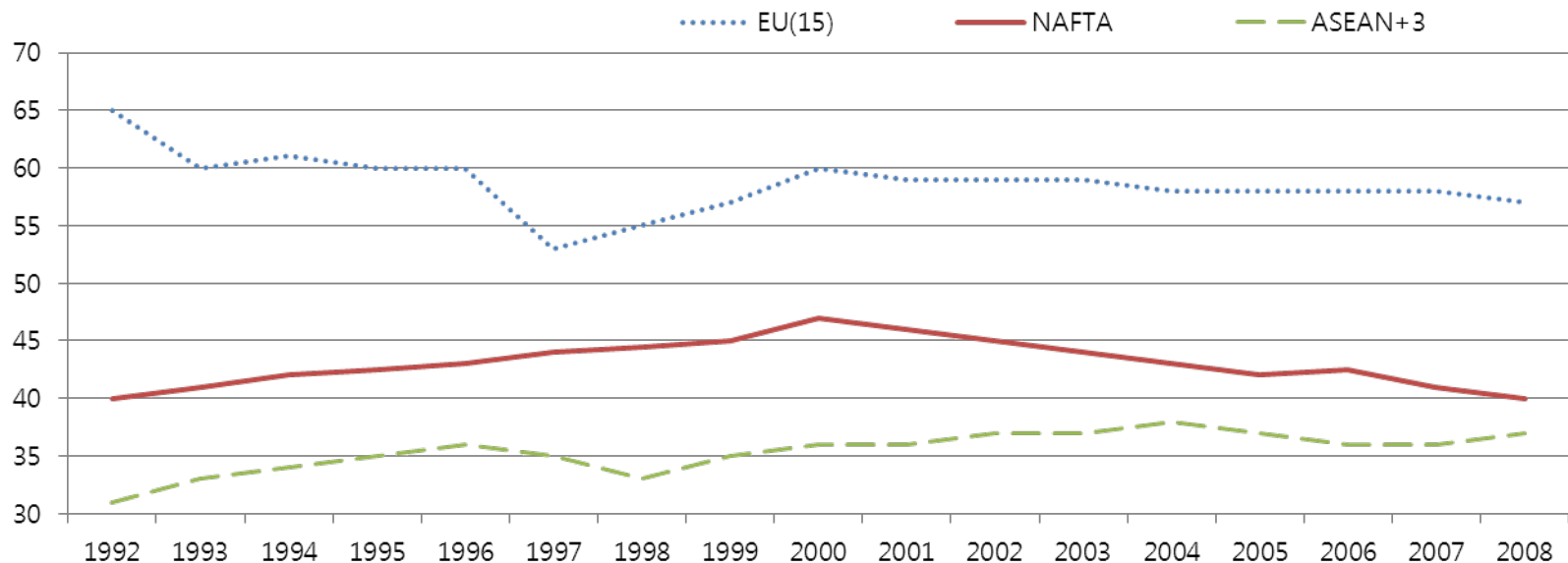
eg. Pan Yellow Sea Circle, Greater Mekong Sub-Regions Development, Tumen River Basin Development



Promotion of Intra-Regional Trade and Investment in East Asia : Key to Sustainable Growth and Regional Integration

- One of most effective means to promote self-sustained regional growth for East Asia is to push intra-regional FTAs and cross-border investment forward, given low level of East Asia's intra-regional trade share compared to EU and NAFTA.
- In the 1990s, East Asia largely ignored proliferation of world wide FTAs movement but has participated in the regional as well as extra-regional FTA scrambles in the past decade.

Intra-Regional Trade Shares by Major Economic Bloc



East Asia's Intra and Extra Regional FTAs :

Growing Web of Intra-East Asian FTAs

East Asia's Intra-Regional FTA Arrangements in East Asia

	Effectuation	Conclusion	Negotiations
Korea	Chile, Singapore, EFTA, ASEAN, APTA, India, USA, EU, Peru	Turkey, Colombia	Japan, Canada, Mexico, GCC, Australia, New Zealand
China	Hong Kong, Macao, APTA, ASEAN, Chile, New Zealand, Singapore, Thailand	Peru, Costa Rica	GCC, Australia, Norway, SACU, Iceland
Japan	Singapore, Mexico, Chile, Malaysia, Philippines, Thailand, Brunei, Indonesia, ASEAN, Switzerland, Vietnam		Korea, Australia, GCC, India, Peru
ASEAN	Korea, China, Japan, India, Australia-New Zealand		EU

Sources: ADB (<http://aric.adb.org/ftatrends.php>);

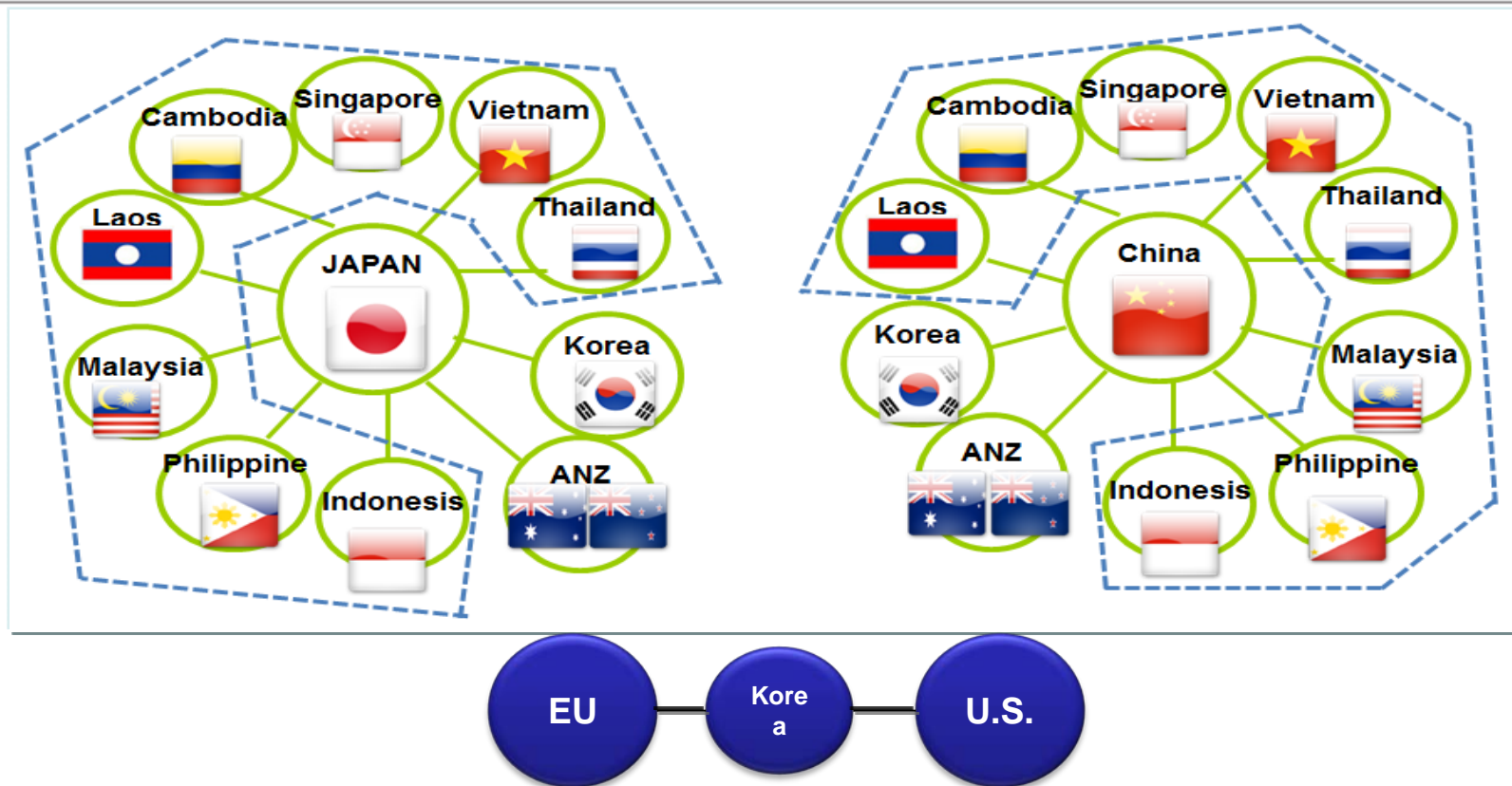
Korea, Ministry of foreign affairs and Trade (www.fta.go.kr/user/index.asp),

Japan, Ministry of foreign affairs (www.mofa.go.jp/policy/economy/fta/index.html),

Bilaterals.org (<http://bilaterals.org>)

Regional FTA leadership competition between China and Japan in the past decade

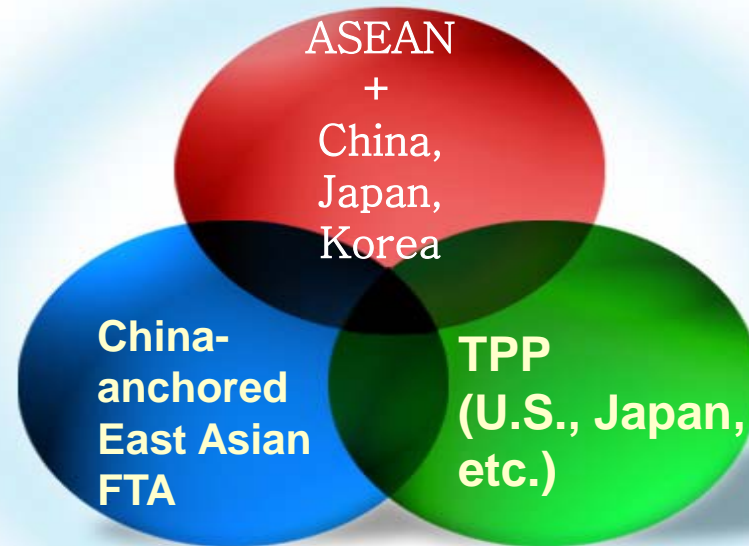
East Asian FTA Bicycle Dilemma (Baldwin 2003) in ASEAN +3 Integration



- Hub and spoke issues emerging?
- Containment each other?
- Engagement each other?
- Mixing both depending on national interest and changing international landscape

Towards East Asia's Open Regionalism : Newly Emerging Picture

Asia-Pacific Economic Community



- **Japan declared a willingness to join the U.S. TPP process in November 2011**
 - ✓ **Is TPP more likely to contain China's economic and geo-political influence?**
 - ✓ **Bhagwati (2012) views that TPP is designed to contain China because it includes non-trade related conditions which China could not accept**
 - ✓ **Is China ready to accept global labor standard and best practiced IPR regimes?**
- **Can Korea's multi-track FTA policy with extra regional economies with the U.S., EU and India, etc. serve an FTA hub nation in the region?**

China, Japan & Korea's FTAs Policy Toward an Open Asian Regionalism

- **China has pursued China-anchored FTA by offering early harvest package to ASEAN economies**
- **Korea became the only country, which has an effective FTAs with EU and the U.S. and aims for a regional FTA nation.**
- **Korea entered a formal process of bilateral FTA negotiation with China**
- **Down the road, Japan-Korea FTA negotiation needs to be resumed to reach a high quality FTA in terms of IPR protection, market based management of currencies. etc as a benchmark to diverse Asian economies.**
- **China, Japan, and Korea must take a position to ensure whichever comes first between the U.S.-backed TPP and China-anchored East Asian FTA should serve as a building block for eventually forging a free trade area encompassing all of Asia and Pacific.**
- **For this purpose, Trilateral China-Japan-Korea FTA needs to be explored as its impacts study had been completed to push ASEAN + 3 and ASEAN +6 forward. C, J, K FTA would be the most forceful FTA catalyst to accelerate “an open East Asian regionalism”**

Present Economic Challenges faced by China, Japan, and Korea

- China attempts to slow down to restructure legacies arising from high growth regime in the past two decades
 - Japan is still in the “lost two decades” due to mounting public debt and rapidly aging society
 - Korea is also experiencing a “threshold syndrome” as it matures into an advanced economy as evident in the declining growth rate of potential GDP from 8% until the early 1990s to mid 3% at present
- ☞ **Promotion of intra-regional trade and investment among immediate neighbors is a key to resolve these challenges and should not be delayed until a trilateral or East Asia-wide FTAs come into being**



Cross-Border Bottom-up Collaborations among China, Japan, and Korea : De Facto Integration

- **EU experiences show that cross-border bottom-up collaborations might be as important as top-down formal integration**
- **Being in the same domain of “ecological belt” and facing frequent natural and man made disasters, systematic information sharing and concerted cooperative efforts among C, J, K on nuclear power plant operations, yellow sand storm, ocean and air pollutions, is imperative**
- **Enhanced connectivity among C, J, K in logistics, energy supply, green growth projects, R&D clustering is necessary**
- **Cross-border connectivity of East Asian mega cities Tokyo, Osaka, Beijing, Shanghai, Seoul, and Pusan is highly desirable to enhance synergy effects of regional mega-cities as evident in the EU**



Competitive Cross-Border Territorial Policies of Northeast Asia Needs to be Harmonized

- **EU Model is characterized by open transparent, private-led development under spontaneous changes of geopolitical conditions and market mechanism**
- **Northeast Model is more strategic, objective-oriented and central government-led without proper inter-city coordination (Kim Won Bae 2010)**
- **Japan : Seamless Asia**
China : Pearl River Delta, two North-South Axes, two East-West Axes
Korea : Business-hub in Northeast Asia with South Coastal belt, West Coastal belt, East Coastal belt, North-South Border belt
- **Inter-Korean Experiment : Gaesung Industrial Complex right above the DMZ line**



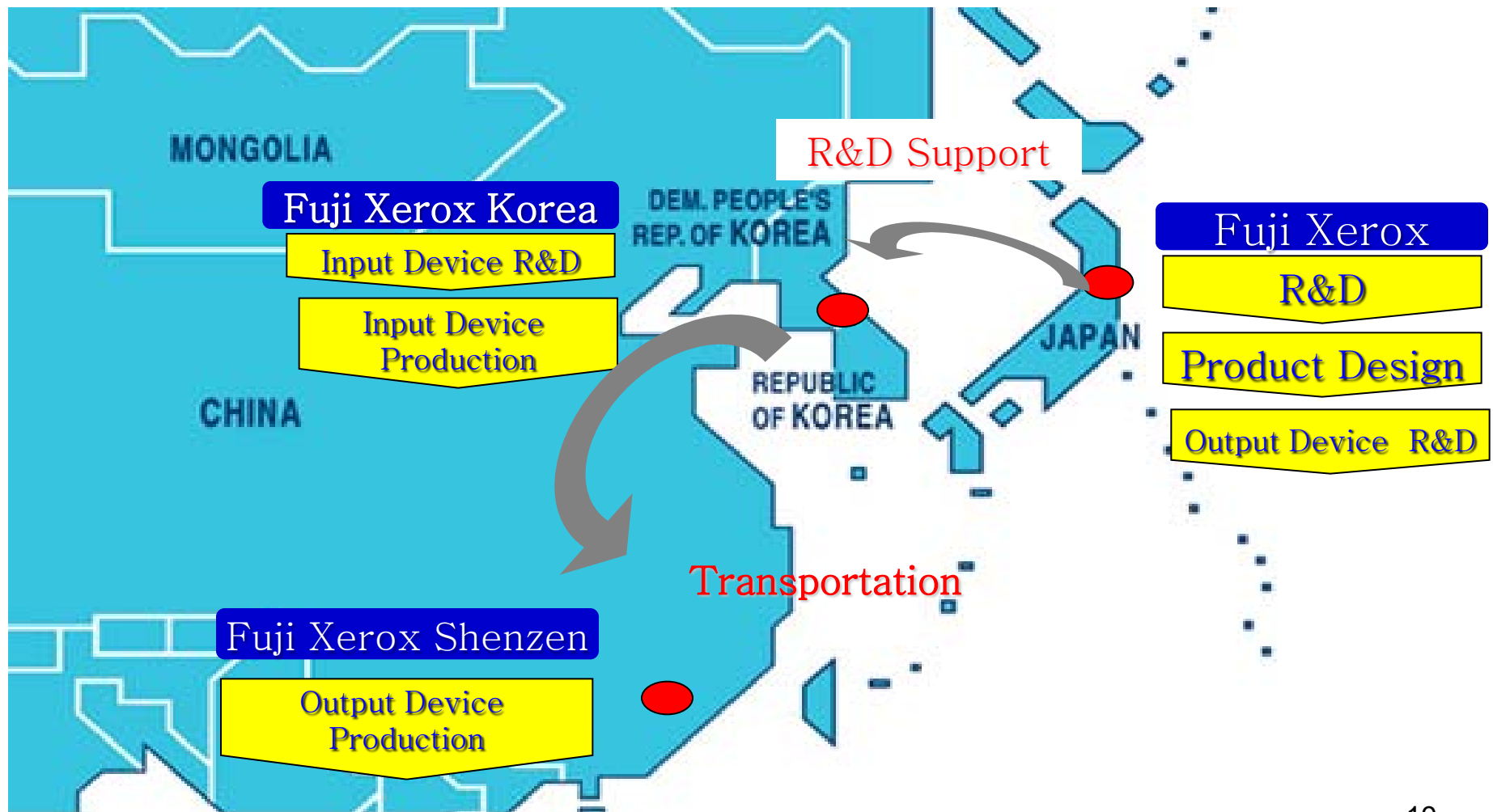
Bottom-up Approach ⇒ **Market-based functional approach:** **De Facto Integration Effect**

- Due to rising China, supply chain, production fragmentation, rapid rise of intra-regional container shipment and air passenger traffic has fostered market-led cross-boarder cooperation(Ahn 2007)
- Pan Yellow Sea Economic Circle, Pan East Sea Circle, Greater Mckong Sub-Regions have been proposed but little actions have been realized
- While taking advantage of geographical proximity, 『economics of diversity』 in East Asia, cross-boarder regional approach has been increasingly visible and significant



Example of Supply Chain in Northeast Asia

Supply Chain - Fuji Xerox



Growing Connectivity of Intra-Regional Container Shipment and Air Passenger Traffic (1)

- Intra-regional container shipment among C, J, K have been risen very rapidly, C, J, K being a global manufacturing hub
- Ports in the region needs to be transformed into port-centric zone with manufacturing and service activities at hinterlands of regional ports
- Intra-regional air travelers would have risen more rapidly by the expansion of low-cost carrier air routes in the region under an open sky agreement. For example, China's air travelers for tourism is expected to reach 100 million by 2020



Growing Connectivity of Intra-Regional Container Shipment (2)

Tri-lateral Container Shipment among China, Japan, and Korea

Unit: 1,000 TEU

		1995	2000	2005	2009	CAGR
Korea & China	Korea - China	189	547	1,408	1,696	17.0%
	China - Korea	332	924	1,161	1,365	10.6%
	Total	521	1,471	2,569	3,062	13.5%
Korea & Japan	Korea - Japan	257	331	459	466	4.3%
	Japan - Korea	317	673	756	742	6.3%
	Total	574	1,005	1,215	1,208	5.5%
China & Japan	China - Japan		1,057	2,007	1,847	
	Japan - China		375	860	942	
	Total		1,432	2,867	2,790	
Total			3,908	6,651	7,060	

Note: CAGR refers to a compound annual growth rate.

Source: For the Korea-Japan and Korea-China bilateral shipment, SP-IDC For China-Japan bilateral shipment, SCAGA(www.scaga.net)

Growing Connectivity of Intra-Regional Air Passenger Traffic (3)

Tri-lateral Air Passengers among china, Japan, and Korea

Unit: 1000 persons

		1995	2000	2005	2009	CAGR(%)
Korea & China	Korea - China	523	1,134	3,282	3,520	14.6
	China - Korea	549	1,176	3,291	3,529	14.2
	Total	1,072	2,311	6,573	7,049	14.45
Korea & Japan	Korea - Japan	2,828	3,730	4,310	4,994	4.1
	Japan - Korea	2,816	3,719	4,282	4,939	4.1
	Total	5,644	7,450	8,529	9,933	4.1
China & Japan	China - Japan Japan - China Total					
Total						

Note: CAGR refers to a compound annual growth rate.

Source: Korea Civil Aviation Development Association, each year

Renewed Emphasis on Intra-Regional Cross-Border Investment

Economic Profile of East Asia in the World (2008)

	Population	GDP	Trade	FDI (inflows)
East Asia	30.7	21.1	22.1	11.8
Northeast Asia	22.2	18.6	16.0	8.3
ASEAN	8.5	2.5	6.1	3.5
EU	7.3	28.4	37.0	29.7
NAFTA	6.6	28.4	15.0	22.6
Other	55.4	22.1	25.9	36.0
World	100	100	100	100

Note: 1. FDI (2008).

2. East Asia is defined as ASEAN plus three (China, Japan and South Korea).

3. Northeast Asia is defined to include China, Japan and South Korea.

Sources: Global Insight [online]; UNCTAD FDI STAT [Online]; WTO Trade Database [Online].

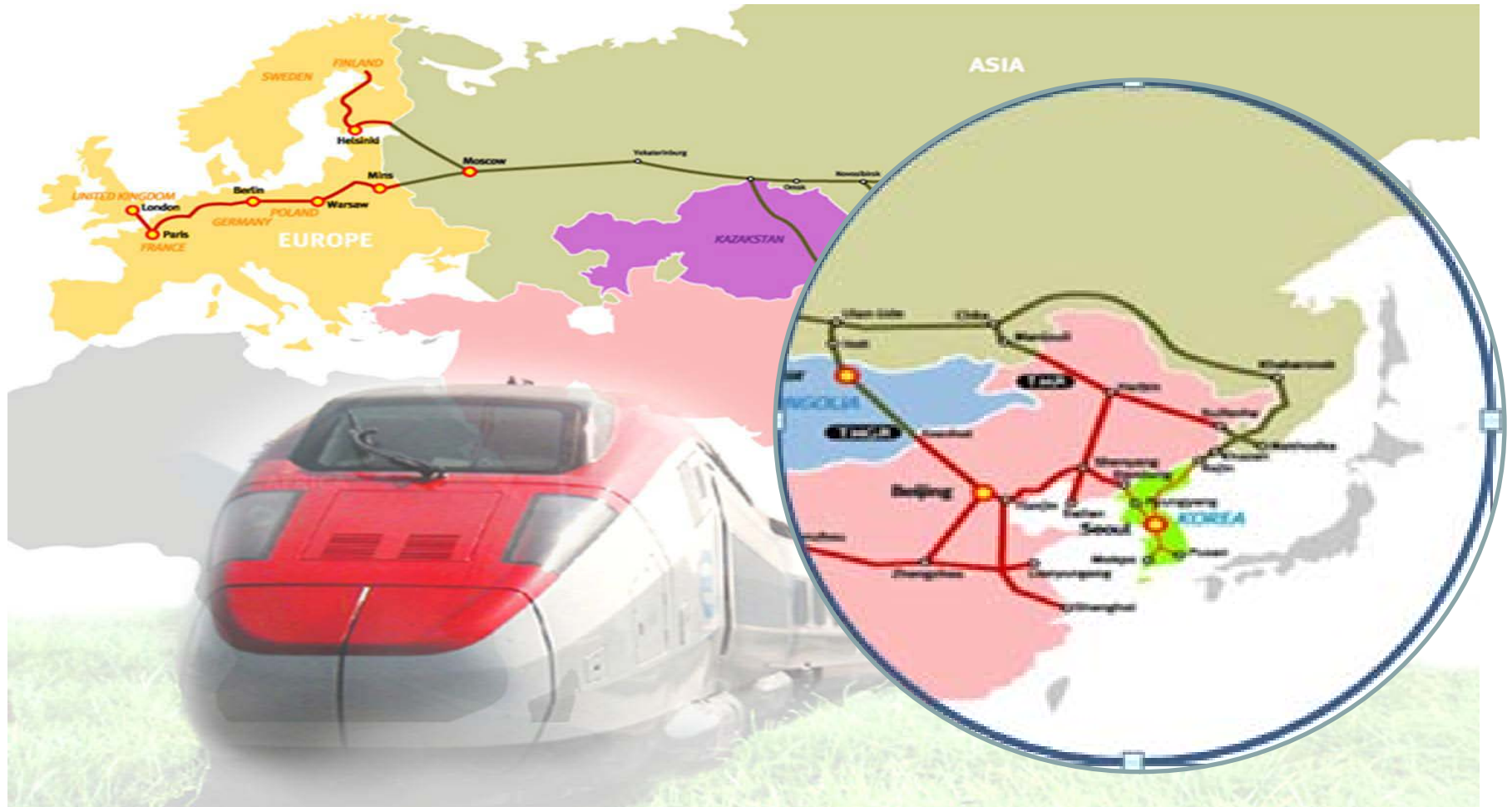
➤ **Intra-regional FDI inflows have been very low compared to EU and NAFTA and Intra-regional trade linkages.**



Geo-Political Challenge due to N. Korea

- **Inducing North Korea into East Asia's open regionalism**
 - **Inter-Korean hostilities and North Korea's long-standing isolationism proves the biggest stumbling block, serving as a huge geographical vacuum for SOC connectivity in East Asia**
 - **Intra-Regional Railway System and Gas Pipeline proposal all stop in N. Korea**
- **UNDP based Tumen River Basin Development needs to be reevaluated to provide a multi-lateral binding project**

Trans-Asian Railway Network for Logistic Connectivity



- ☞ **Trans-Asian Gas pipelines is also seriously discussed.**
- North Korea is the stumbling block for intra-regional connectivity.**



Korea-US • Korea-EU FTA: Macroeconomic Effects, GDP, and Welfare

		Static Effect	Capital Accumulation Model (long term)	
			Increase in Productivity Not Included	Increase in Productivity Included
GDP Growth Rate (%)	Korea-US + Korea-EU FTAs	0.48	2.83	7.61
	Korea-US FTA	0.32	1.28	5.97
Welfare Growth Rate (billion USD)	Korea-US + Korea-EU FTAs	3.0	11.2	27.7
	Korea-US FTA	1.7	4.0	20.9

Source: Today's Global Economy(2007-32), KIEP

- Figures regarding Korea-US FTA are on the premise that the annual average of additional FDI inflow will reach 3 billion USD
- In case Korea-US • Korea-EU FTAs take effect simultaneously, the annual average of additional FDI inflow is expected to reach 4 billion USD
- Capabilities to properly “absorb” FDI need to be enhanced



Major Stakeholders in an Open East Asian Integration

India • Aust • N.Z.



(ASEAN + 6)
East Asia Summit



EU



Environ.
Energy, Transp,
CMI, AMBI



Functional
Integration

ASEAN + Japan • China • Korea



Korea + China + Japan



ASEAN + Korea
ASEAN + China
ASEAN + Japan

Trade , Investment



N. Korea

East Asian Community



Korea-
U.S. FTA

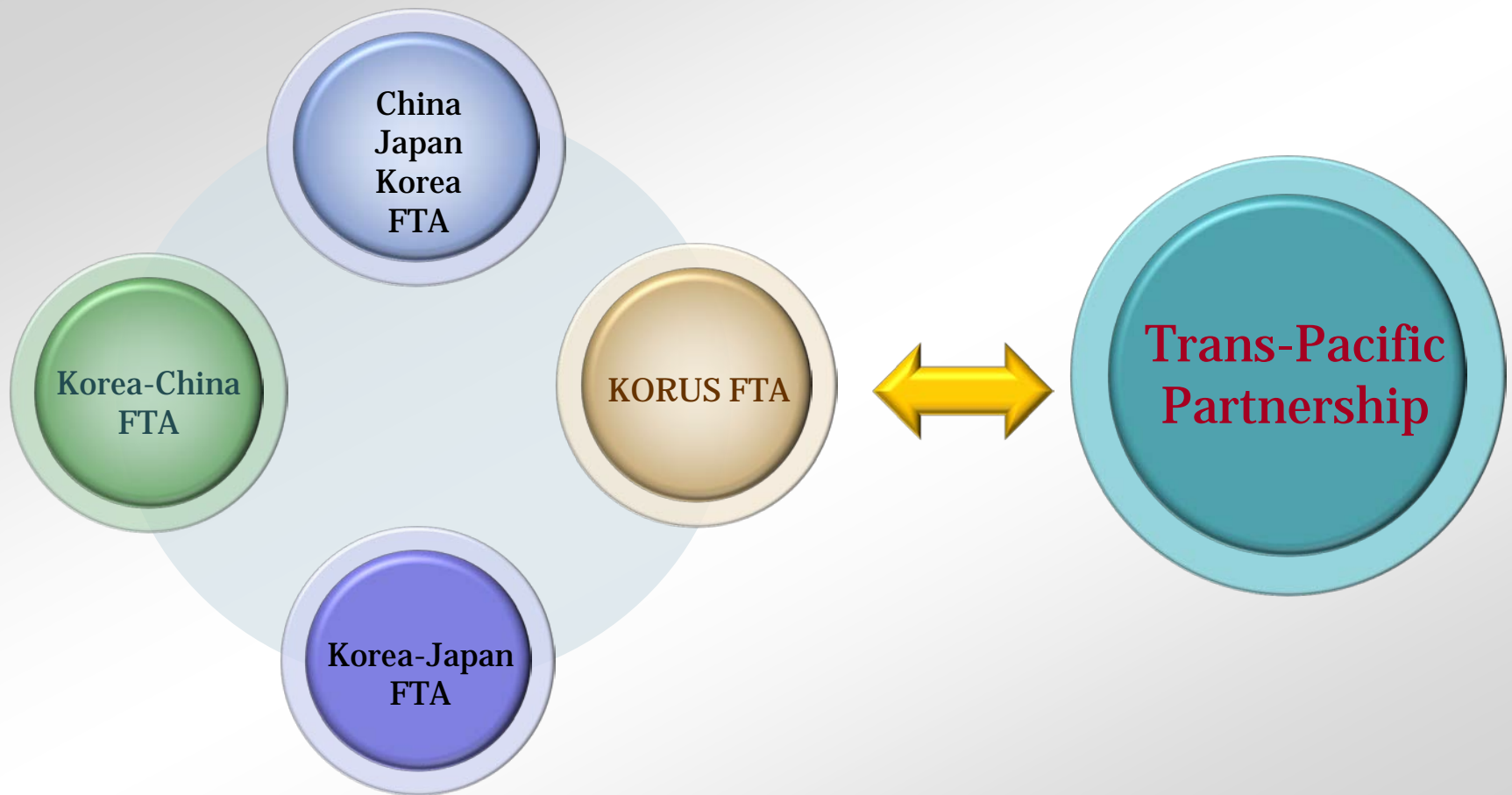


NAFTA
(U.S.,
Canada,
Mexico)

Effective Balancing in East
Asian Integration Process



An “Economic Alliance” between the US and Korea can trigger an open East Asian regionalism





From “Security Alliance” to “Economic Alliance” between the U.S. and Korea

- KORUS FTA is the most significant transpacific FTA agreement between No. 1 and No. 13 economies in the world
- For the U.S., given the functionally and institutionally integrating East Asian economies, the KORUS FTA is an effective link to East Asian Regionalism.
 - ☞ Korea needs to be viewed as a “regional as well as global partner”
- For Korea, the KORUS FTA leading to economic alliance allows for Korea to play a significant role in balancing the economic rivalry between rapidly rising China and Japan in East Asian Regionalism.
- Korea as a middle “soft-power” needs to promote inducing a soft-landing for East Asian Regionalism toward creating building blocks to multilateralism under the WTO

C, J, K Collaborations in increasingly Integrating East Asia

- **Given the newly emerging geo-political landscape, C, J, K should enhance the role of the trilateral secretariat's office in Seoul for constructive engagement.**
- **CMI has increased the currency swap limit much higher than original limit at the inception time**
- **East Asian momentary cooperation is likely to take a new momentum, given huge pool of foreign exchange rate reserve and flexible exchange rate system of Chinese Yuan**
- **Three countries should recognize that increased cross-border connectivity at various levels has been a catalyst in accelerating the EU and NAFTA movement.**
- **Enhanced connectivity between two countries in electricity and other energy resources, logistics, and transport service proved absolutely necessary in the case of natural disaster and in search of efficiency gains**
- **Bottom-up and cross-border collaborations to develop region specific projects such as green growth projects, cross-border industrial and R&D clustering, cloud computing, student exchanges and promotion of tourism with low-cost carriers under an open sky agreement**



Korea's Position Among China, Japan and the U.S.

China: Simultaneous spurt in L/T, M/T, H/T

- Space industry, Logistics, Bio-industry ahead of Korea
- Human Wave Tactic” for high powered brains:
 - 👉 2,100 Chinese Ph.D. in Science & Engineering from major U.S. universities but Korea only 700 in 2002

Japan: Korea's structural dependence on parts and components from Japan

- Korea registered the biggest ever trade deficit of US\$ 29.9 billion in 2007
- Japan's global leading SMEs
- Hybrid cars and leading climate industries

Korea-U.S. Economic Alliance:

- Effective way of escaping the nut-cracker position on the part of Korea
- Effective way of linking economically the U.S. and East Asia on the part of the U.S.

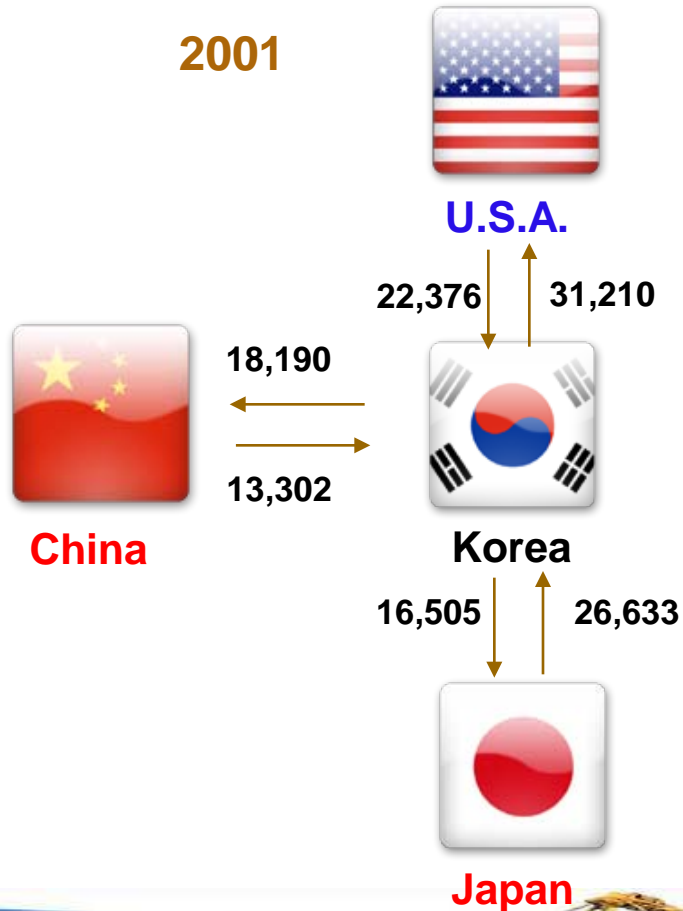




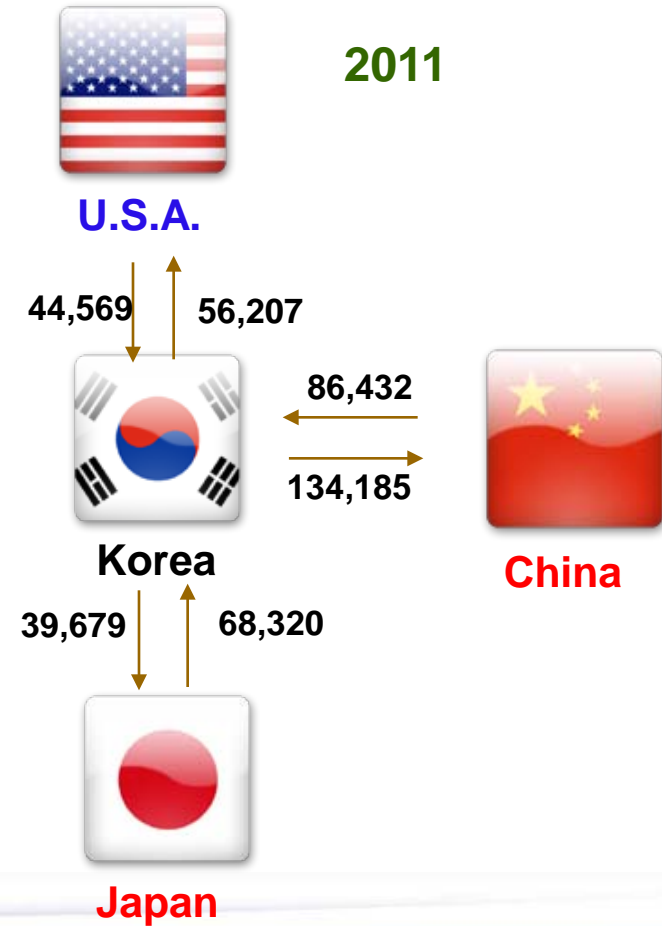
Changing Trade Trend Among Korea's Major Trading Partners

Unit : Million US\$

2001



2011



Policy Implications

- **As CMI matures, China, Japan, Korea need to harmonize in exchange rate policy, IPR regime, and labor standard.**
- **At the same time, China, Japan and Korea need to engage in cultivating diverse “public goods” necessary to create an open East Asian economic community**
- **China, Japan and Korea, as global manufacturing houses, must strengthen the natural linkage of supply chains**
- **C, J, K should also open service sector more aggressively, especially in tourism, government procurement, and R&D, through cross-border trade and investment for sustainable and resilient economic advancement.**
- **Cross-border regional cooperation should come hand in hand with strengthened inter-governmental initiatives such as FTAs and CMI**
- **Northeast Asia as “ Natural Economic Territory”(Scalapino 1993) has a great potential to transform itself a robust East Asian community for peace and prosperity**
- **Effective linkage of the U.S. with East Asia is critical towards an open East Asian Regionalism**



Recommendation

Asia Pacific Community

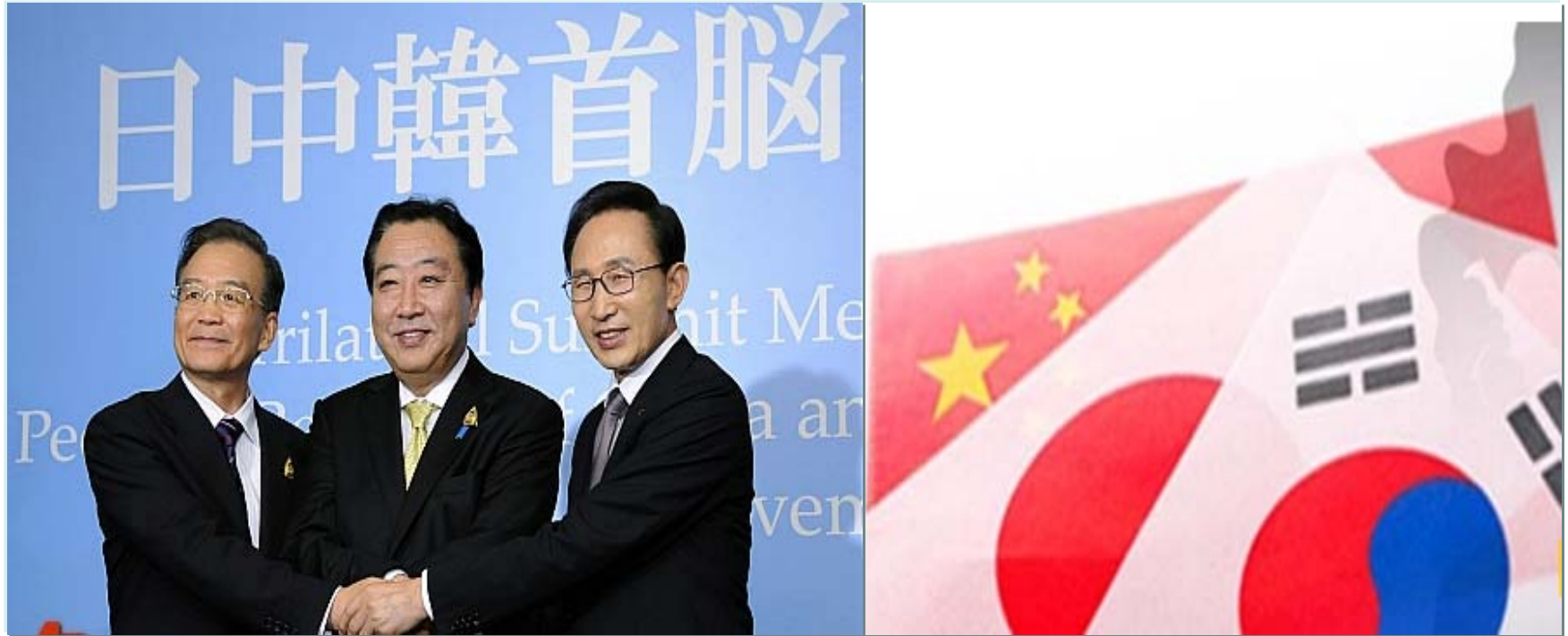
East Asian Community

Top-Down Macro Approach
(Inter-Government FTAs, CMI, ABMI)

Bottom-Up Micro Approach
(Cross-Border Cooperation)

➡ Given the prevailing statism in cross-border local to local cooperation, C, J, K must pursue top-down formal approach as well as bottom-up micro-functional approaches and must be linked to the U.S. and the TPP in the long run toward an open Asian regionalism

Visionary Political Leadership is Critical to set Historical Legacies Behind and to be Forward Looking





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Thank YOU