



Will Northeast Asia's Functional Economic Integration Lead to Institutional Regional Economic Integration?

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Korea Institute for International Economic Policy

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Chang Jae Lee

KIEP Korea Institute for International
Economic Policy



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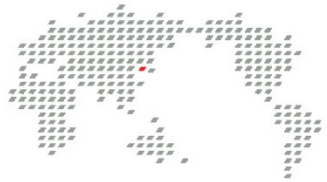
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Uniqueness of Northeast Asian Economic Integration

- ◆ **Huge gap between functional and institutional economic integration**
- ◆ **Overall, functional economic integration seems to have been proceeded rather robustly.**
- ◆ **Japan, South Korea and China belatedly joined the worldwide regionalism.**
- ◆ **They formed many bilateral FTAs, but still no FTA between them**



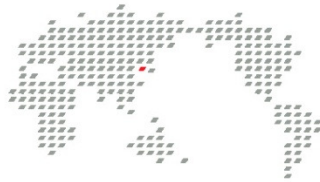
Functional Economic Integration in Northeast Asia I

Table 1. The share of Intra-regional Trade

(%)

Northeast Asia	1992	2000	2007
Group A	14.0	20.3	22.2
Group A+B	37.7	41.5	41.4
Group A+C	15.3	20.7	23.2
Group A+B+C	37.9	41.1	41.1

Note: In Group C, the trade of Russia was used instead of that of the Russian Far East.

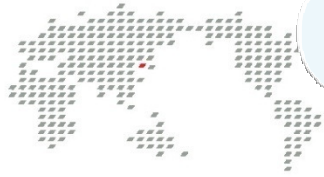


Functional Economic Integration in Northeast Asia II

Table 2. Trade Dependency of Each Country on Northeast Asian Economies

(%)

	1992	2000	2007
China	58.1	42.6	37.7
Japan	25.6	32.8	37.6
South Korea	31.9	37.3	42.3
North Korea	61.9	38.5	46.4
Russia	14.3	12.1	10.2
Mongolia	80.0	70.0	77.9



Functional Economic Integration in Northeast Asia III

◆ **Functional economic integration gap between groups**

(Group A and Group C)

◆ **In General: The functional economic integration has proceeded rather robustly.**

◆ **In reality:**

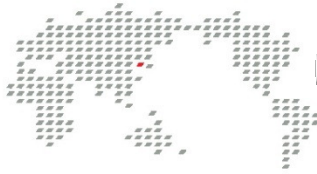
- **True among Group A countries (China, Japan and South Korea)**
- **Group C (North Korea, Mongolia and the Russian Far East) remain isolated from regional economic integration**



Institutional Economic Integration in Northeast Asia I

◆ Concluded FTAs

- **Japan: Singapore, Mexico, Brunei, Indonesia, Malaysia, the Philippines, Thailand, Vietnam, ASEAN, Chile, and Switzerland**
- **South Korea: Chile, Singapore, the EFTA, ASEAN, the United States, and India**
- **China: Hong Kong, Macao, Chile, Pakistan, ASEAN, New Zealand, and Singapore**



Institutional Economic Integration in Northeast Asia II

◆ Ongoing negotiations

- **South Korea: Japan, Canada, Mexico, the European Union, the GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the UAE), Peru, Australia, and New Zealand**
- **Japan: South Korea, Australia, India, and the GCC**
- **China: Australia, the GCC, Iceland, and Peru**

◆ Many FTAs under study or preparation involving **China, Japan, or South Korea**



◆ **Recent Developments related to Institutional Economic Integration in Northeast Asia**

- **Trilateral Summit gathering since November 1999 during the ASEAN+3 Summit**
- **Trilateral Joint Research between DRC, NIRA(IDE-JETRO) and KIEP since 2001**
- **Independent Trilateral Summit: First meeting in Fukuoka in December 2008**



Prospects for a Northeast Asia FTA I

◆ Related Ongoing FTA process

- **Korea-Japan FTA: Negotiations (December 2003 ~ November 2004)**
- **Korea-China FTA: Official Tripartite Joint Study since March 2007**
- **CJK FTA: Trilateral Joint Research between DRC, NIRA (IDE-JETRO), KIEP since 2003**
- **CJK Investment Agreement: Negotiations since March 2007**

◆ Region-wide FTA in East Asia

- **Joint Expert Group on an EAFTA Feasibility Study (2004 ~ July 2006)**
- **EAFTA Phase II Study: May 2007 ~ August 2009**
- **CEPEA Track II Study: June 2007 ~ August 2009**



Prospects for a Northeast Asia FTA II

◆ Most likely scenario for achieving a Northeast Asia FTA

- CJK FTA → Northeast Asia FTA

◆ Scenarios for formation a CJK FTA

- Trilateral Joint Research → Official Tripartite Joint Study → CJK FTA
Negotiations → CJK FTA

- Korea-China FTA/ Korea-Japan FTA → CJK FTA

- EAFTA (de facto CJK FTA)



Prospects for a Northeast Asia FTA III

◆ Obstacles

- **Economic factor: Sensitive sector**
- **Non-economic factor: China-Japan relationship**

◆ Relationship between a CJK FTA and a region-wide FTA in East Asia (EAFTA)

- **If a CJK FTA is formed first, it is likely to facilitate the formation of an EAFTA.**
- **If an EAFTA is formed first, it will create a de facto CJK FTA, but it might weaken the possibility of forming a Northeast Asia FTA.**



Future Tasks for Achieving a Northeast Asia FTA I

- ◆ **Reduce the dual gaps**
- ◆ **Reduce the gap between functional and institutional economic integration**
 - **Form a CJK FTA.**
- ◆ **Reduce functional economic integration gap between the groups of countries**
 - **Integrate the isolated group (North Korea, Mongolia and the Russian Far East) to the core group by providing infrastructure (market mechanisms and transportation facilities)**
 - **Would require more time**



Future Tasks for Achieving a Northeast Asia FTA II

◆ Need for a regional economic cooperation entity

- Council for Northeast Asian Economic Cooperation (CNAEC)
- Start first with China, Japan and South Korea
- At the council, the three countries would discuss various ways to enhance economic cooperation among themselves as well as Northeast Asia as a whole in such areas as trade, investment, environment, telecommunications, transportation, energy, finance, and macroeconomic policy coordination.
- Once the council is established and meets its initial expectations, its membership will be open to other regional countries which are ready to join.
- Furthermore, for certain areas of economic cooperation like energy development, countries outside of the region could be granted special status and participate in the activities of the council.



Thank you