

Economic Integration in Northeast Asia: A South Korean Perspective

Soogil Young
Director, Korea Transport Institute
Seoul, Republic of Korea

Recent advancements in transportation and communications are associated with the trend towards globalization of business activities. The end of the Cold War has been accompanied by the advent of an era of economic competition on a global scale, further accelerating this trend. Countries of Europe and North America have responded with "new regionalism." The European countries have strengthened their European Community (EC) under the 1992 Single Europe Program. More recently, they have further transformed the European Community into the European Union (EU). The EU is also being enlarged with many of its neighboring countries trying to form preferential trading arrangements with the EU. Meanwhile, the United States and Canada have launched the U.S.-Canada Free Trade Agreement initiative and then expanded it into the North American Free Trade Agreement (NAFTA) by incorporating Mexico as the third member. This has been paralleled by the emergence of several sub-regional free trade agreements in Latin America. The emergence of the new regionalism reflects the weakening of the multilateral trading system. However, the fundamental driving force behind this recent trend has been the motive on the part of the participating countries to strengthen their collective competitiveness on a regional basis to better cope with intensifying global competition.

Normally, regionalism refers to the institutional integration of economic policies in the form of a trade bloc such as a common market or a free trade agreement. But the term can be broadened to mean regional efforts for economic cooperation, regardless of form. Similarly, the phrase "regional integration" can mean integration of regional economies, regardless of how it is achieved. Thus, regional integration is institutional when it is promoted through a trade bloc, is natural when it is promoted through market forces, and is physical when it is promoted through infrastructural investments. From this perspective, the new regionalism as has been observed in Europe and North America is only a particular brand of regionalism and may be called Euro-American regionalism, relying on institutional regional integration.

With minor qualifications, Euro-American regionalism defined in this manner has not yet taken root in East Asia (Table 1). The ASEAN Free Trade Area (AFTA) which came into effect only one and a half years ago is by its nature a Euro-American scheme. But it is only half-hearted, with a very limited scope, and has been introduced on an experimental basis. The failure of Euro-American regionalism to take root in Northeast Asia is due to two factors. First, at least until recently, the East Asian economies had no reason to fear loss of competitiveness against the rest of the world. Rather, they had been the challengers to the European and North American countries in international economic competition. However, the more fundamental reason for the absence of a major regional integration arrangement in East Asia is the very high barriers to economic integration which exist in the region, making institutional integration ineffective. There seems to be, for the time being, no basis for a trade bloc in East Asia.

Table 1 Income, Population and Area, 1990: Northeast Asia and Other Regions

	GDP (US\$billion)	Population (million)	GDP/capita (\$)	Area (1000 km)
Northeast China	38.2	99.9	382	1,970
North Korea	21.5	21.8	986	121
Russian Far East	19.4	8.0	2,425	6,215
Mongolia	1.9	2.1	919	1,567
Developing NEA	81.0	131.8	615	8,873
South Korea	236.4	42.8	5,523	8,873
DNEA (- South Korea)	317.4	174.6	1,818	8,972
Japan	2,942.9	123.8	23,771	372
Northeast Asia	3,260.3	298.4	10,926	9,344
China (- NEC)	326.7	1,051.4	311	8,605
Hong Kong	59.7	5.8	10,293	1
1997 China (- NEC)	386.4	1,057.2	365	9,562
ASEAN	308.4	316.4	975	3,049
United States	5,392.2	250.0	21,569	9,373
Canada	570.2	26.5	21,517	9,976
Mexico	237.8	86.2	2,759	1,958
NAFTA	6,200.2	362.7	17,095	21,307
EU	5,996.3	327.0	18,337	3,140

Sources: Lee-Jay Cho (1994); KIEP (1994).

Barriers to regional integration can be political, cultural or physical. Differences in political or economic policy goals constitute political barriers. Cultural barriers include linguistic heterogeneity and other barriers to communication and assimilation. Lack of appropriate infrastructure such as efficient transportation and efficient communication systems constitute physical barriers. These barriers are very low in Europe and North America but high in East Asia.

With the advent of new regionalism, however, the East Asian countries have been pressured to undertake defensive measures of their own. The new regionalism poses a threat to these economies in two ways. It is more likely to make the Euro-American economies more competitive vis-à-vis that of East Asia, and it could enhance the protectionist leverage of the Euro-American economies vis-à-vis that of East Asia in sectors where competitiveness fails to improve. Defensive measures have taken two forms. One is the effort to strength the multilateral trading system through active contributions to the successful conclusion of the Uruguay Round. The other is the East Asian promotion of its own version of East Asian regionalism. East Asian regionalism proposes to promote trade and investment through measures which "facilitate" rather than "liberalize" trade. These measures have been widely discussed under the rubric of "open regionalism" at APEC fora. The idea is to avoid discriminatory trade arrangements and to take measures to liberalize foreign investment, harmonize competitive policies as well as standards, coordinate macroeconomic policies, and facilitate dispute settlements.

A special form of these measures unique to East Asia is the formation of sub-regional economic zones (SREZs), also called growth triangles. Instead of promoting trade on a discriminatory basis, growth triangles seek to take advantage of complementarities of economic factors that exist among contiguous countries, pooling factor endowments on a localized scale. They present an incremental and functional approach to regional integration through infrastructural investments and removal of other barriers to resource pooling. The SIJORI growth triangle and the South China economic zones are perhaps the best known examples of this phenomenon.

South Korea feels threatened by the Euro-American regionalism and is determined to enhance its economic competitiveness. But, like other East Asian countries, it is not yet ready to seek institutional integration of markets with other economies in the region, let alone those outside the region. Accordingly, it is considering enhancing its competitiveness by pooling its factor endowments with those of neighboring countries. And it finds ample opportunity for such pooling in Northeast Asia where it occupies a central geographic position.

Northeast Asia usually means China, Mongolia, Russia, the Korean peninsula and Japan. Here, however, the term is used in a narrower sense, to refer specifically to the northeastern provinces of China (Heilongjiang, Jilin, Liaoning, and Inner Mongolia), the Russian Far East, the Korean peninsula and Japan, primarily its west coast. Northeast Asia so defined has a very high degree of complementarity in factor endowments. The northeastern provinces of China, the Russian Far East, and Mongolia combine very rich natural resources and an ample labor supply. North Korea also has considerable surplus labor. South Korea and Japan are richly endowed with intermediate to high level technologies. Japan also has capital and, while South Korea has less capital, it nonetheless can mobilize it in the international market at low cost. This region also comprises a market of enormous size.

Unfortunately, such an enormous potential for economic dynamism remains suppressed by political barriers to regional integration (Table 2). With the collapse of the Soviet Union and with the continual opening of China, many of these barriers have diminished. But, one major political barrier still remains—the hostilities that still divide the Korean peninsula. The potential for regional economic dynamism has also been suppressed by infrastructural bottlenecks which are found in lagging socialist economies. For example, the development of northeastern China is being seriously hampered by the lack of an efficient transportation system, including access to the East Sea.

South Korea would like to see the full tapping of such enormous regional potential for economic dynamism—for the benefit of not only the regional economies but also for the rest of the world with which these economies will be trading. To reach this goal, the countries must work together for the removal of the political and infrastructural barriers to integration. An important precondition would be a full integration of the two Koreas into one economy, whether through reunification or a process which is equivalent to it. It is obvious that unification of the Korean Peninsula should occur gradually and with orderliness in order to minimize adjustment costs. For this reason, the South Korean government has proposed a three stage approach to the reunification of the two Koreas, seeking reconciliation and cooperation in the first stage, formation of a Korean commonwealth in the second stage, and achieving full reunification during the final stage.

Unification of the Korean Peninsula, however, does not ensure the removal of infrastructural barriers. This will require a planned approach to the removal of these barriers which must in turn be based on multilateral and international coordination and cooperation in the planning of

infrastructural development, as well as its funding. Without these efforts, the two Koreas may remain divided economically with consequent economic, social and political instabilities, presenting obstacles to the integration of the Northeast Asian region as a whole. From this perspective, it may be appropriate to regard the North Korean region as a growth triangle that must be developed through concerted international efforts. When considering the means to develop the infrastructure of North Korea and the region, the need for a Northeast Asian Development Bank becomes obvious. Such a Bank would resemble the European Bank for Reconstruction and Development.

Table 2 Trade Intensities of Northeast Asian Countries (in percent)

Exporters		Importers					
		South Korea	North Korea	Japan	China	CIS	Mongolia
South Korea	1985		0.0	335.2	0.0	0.0	0.0
	1990		0.3	238.5	31.6	34.5	0.1
	1991		2.9	228.9	45.2	64.3	6.4
North Korea	1985	0.0		57.0	82.1	472.4	NA
	1990	2.4		52.8	56.6	651.6	NA
	1991	44.1		121.5	74.0	347.8	NA
Japan	1985	171.1	35.1		164.2	104.0	0.3
	1990	212.3	21.2		172.7	89.0	2.0
	1991	182.4	52.9		161.8	93.8	25.9
China	1985	24.8	98.5	264.0		115.7	1.8
	1990	56.7	80.4	165.2		144.9	7.9
	1991	60.9	238.8	166.5		156.0	27.6
CIS	1985	0.0	577.7	98.9	64.1		933.9
	1990	12.4	560.0	94.1	166.5		738.3
	1991	24.6	215.3	135.2	135.2		914.4
Mongolia	1985	0.0	NA	5.4	1.2	836.3	
	1990	0.8	NA	6.9	9.7	879.5	
	1991	0.5	NA	23.9	44.9	1,143.0	

Source: S. Kim (1994).

During the last five years, there has arisen through the Northeast Asian Economic Forum a multilateral dialogue which addresses the need to create a growth triangle in the estuary of the Tumen river contiguous to China, Russia, and North Korea. This dialogue has evolved into the Tumen River

Area Development Program (TRADP) supported by UNDP. The smallest area to be developed is the Tumen River Economic Zone—the area in a triangle connecting Hunchun of China, Sonbong and Rajin of North Korea and Posiet of Russia. The larger Tumen Economic Development Area comprises the area enclosed by a triangle connecting Yanji of China, Vladivostok of Russia, and Chongjin of North Korea. The largest zone will be Northeast Asia itself. The present focus of the scheme is the Tumen River Economic Zone, which, when fully developed, will impart its dynamism to the rest of the region. To date, the progress of the multilateral effort has been slow, reflecting the divergent interests of the participating countries. And so long as progress remains slow, Northeast Asian economic integration will remain a dream.