

論 説

*The Northeast Asian Economic Area, Reconsidered**

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Abstract

In this essay I will dwell briefly on the political and economic situations in Northeast Asia (NEA) since the 1990's, highlight the relatively higher economic growth in the region as a whole, and outline the policies of each country to promote economic cooperation. I would refer to 'my country first' policies based on continued disequilibrium after the Lehman shock. I would like to conclude highlighting the importance of the Northeast Asian Economic Area (NEAEA) especially during the current rise of narrow nationalism.

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Keywords

Northeast Asian Economic Area, Disequilibrium in the World Economy, 'America First', Inter-regional trade, Intra-regional trade

1. A new environment that favours building the NEAEA

A new environment that favours building the NEAEA has been emerged, aided by drastic changes in political situations around the Korean Peninsula in 2018. In the beginning of 1990's, immediately after the end of the Cold War, we had discussed the formation of a

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new economic area in NEA, such as the Tumen River Development Plan, and the Japan Sea Rim Economic Sphere. However, we could not make a significant progress at that time because of the uncertainties about politics and economies in NEA, such as the economic crisis of the Democratic People's Republic of Korea (DPRK) in the 1990s, the economic turmoil in Russia after the aggressive marketization, the burst of the bubble economy in Japan in 1991, the Asian Monetary and Financial Crisis of 1997-1998, and the Lehman shock in 2007-2008.

NEA economies have continued growing and economic relations among them have developed in this century, as discussed below. In contrast the political situation around DPRK, which is located in the core area of NEA, has not basically changed and it has obstructed further development of economic relations and cooperation within NEA. However, the situation changed dramatically in 2018, when the country held bilateral summit meetings with Republic of Korea (ROK), China, and for the first time with US. We can also add the Japanese prime minister's visit to China for the first time in seven years, and the discussion about the Peace Treaty between Japan and Russia. We have a chance to clear unresolved problems originating from the second World-War and modern imperialisms in NEA. By pushing the current positive changes forward, we will be able to approach building the NEAEA.

2. NEA's higher economic growth than the world average

While there still exist many challenges in NEA, similar to the world, the economic growth of NEA was higher than the world average. Real GDP (measured in 2010 US dollars) increased 4.4 times in China, 3.2 times in Mongolia, 1.9 times in ROK, 1.8 times in

Table 1 GDP in NEA

(Values in USD at constant prices (2010) in billion)

	1970	1980	1990	2000	2010	2017	
China	210.8	398.2	937.8	2,390.7	6,323.1	10,476.1	HK, Macao included
Taiwan	26.1	70.4	155.1	296.7	446.1	528.5	
ROK	58.5	141.1	362.9	710.0	1,094.5	1,344.6	
DPRK	6.7	13.5	16.3	12.4	13.9	15.1	
Mongolia	1.3	2.3	3.9	3.8	7.2	12.4	
Russia	768.0	1,224.4	1,934.9	951.6	1,524.9	1,652.5	USSR before 1991
Japan	1,923.6	2,976.7	4,682.8	5,348.9	5,700.1	6,143.3	
NEA total	2,995.1	4,826.5	8,093.7	9,714.1	15,109.9	20,172.5	
World	19,006.9	27,917.0	38,047.7	50,073.5	66,010.2	79,913.4	

Source : UNCTAD Stat, <http://unctadstat.unctad.org>, 14/01/2019 download

Table 2 GDP Indices in NEA (2000=100)

	1970	1980	1990	2000	2010	2017
China	8.8	16.7	39.2	100.0	264.5	438.2
Taiwan	8.8	23.7	52.3	100.0	150.4	178.1
ROK	8.2	19.9	51.1	100.0	154.1	189.4
DPRK	54.3	108.8	132.0	100.0	112.6	122.1
Mongolia	34.1	59.7	100.4	100.0	187.4	323.0
Russia	80.7	128.7	203.3	100.0	160.3	173.7
Japan	36.0	55.6	87.5	100.0	106.6	114.9
NEA total	30.8	49.7	83.3	100.0	155.5	207.7
World	38.0	55.8	76.0	100.0	131.8	159.6

Source : Calculated from Table 1

Table 3 NEA Economic Development 2000-2017

(Values in USD at constant prices (2010) in billion)

	2000	2010	2017	2010-2000	share (%)	2017-2010	share (%)
China	2,390.7	6,323.1	10,476.1	3,932.5	24.7	4,152.9	29.9
Taiwan	296.7	446.1	528.5	149.4	0.9	82.4	0.6
ROK	710.0	1,094.5	1,344.6	384.5	2.4	250.1	1.8
DPRK	12.4	13.9	15.1	1.6	0.0	1.2	0.0
Mongol	3.8	7.2	12.4	3.4	0.0	5.2	0.0
Russia	951.6	1,524.9	1,652.5	573.4	3.6	127.6	0.9
Japan	5,348.9	5,700.1	6,143.3	351.2	2.2	443.2	3.2
NEA	9,714.1	15,109.9	20,172.5	5,395.8	33.9	5,062.6	36.4
EU	14,792.1	16,997.9	18,785.7	2,205.8	13.8	1,787.8	12.9
US	12,810.2	15,062.8	17,403.5	2,252.5	14.1	2,340.7	16.8
World	50,073.5	66,010.2	79,913.4	15,936.7	100.0	13,903.2	100.0
NEA/World	19.4	22.9	25.2				

Source: UNCTAD Stat, <http://unctadstat.unctad.org>, 14/01/2019 download

Taiwan, 1.7 times in Russia, 1.2 times in DPRK, and 1.1 times in Japan between 2000 and 2017 (See Table 1 and 2). The GDP of NEA as a whole increased 2.1 times, which is higher than the world average of 1.6.

The share of NEA economic growth was very high in the global economic growth. It was 33.9% in the growth from 2000 to 2010, and 36.4% from 2014 to 2017. (See Table 3)

Japan

The Economic growth of Japan has remained below the world average. However, the living standard of Japanese people has improved. Overseas investment by Japanese firms has

largely expanded since the Plaza accord of 1985. They have established the international production networks mainly in East Asia. The number of overseas visitors from NEA countries to Japan has rapidly increased recently, enhancing their understanding of Japanese culture and society.

China

While economic growth is slowdown after three decades of high economic growth, Chinese economy has still maintained a high to middle growth of 6-7% contributing to the economic development of NEA and the world. The One Belt One Road initiative was introduced in 2013. It has been often explained as Chinese policy to strengthen economic and political influence in surrounding countries. However, we should also understand it as an extension of the regional development policy of China herself. In 2016 China introduced the New Strategy to 'Revitalize the Old Northeast Industrial Bases', which is a renewal of the strategy introduced in 2003 to encourage development of Northeast China, one of the core area for economic cooperation in NEA. Along with the New Strategy Liaoning province, which accounts for half the GDP in Northeast China, built the Liaoning Free Trade Experimental Zone in 2017 to develop foreign trade and investment. It also introduced the Master Plan for building the Liaoning 'One Belt One Road' Total Experimental Plan.

ROK

The idea of the New Economic Map of the Korean Peninsula presented by President Mung Jae Yin in 2017, which was driven by the Yellow Sea Lim and the East Sea Lim, will promote economic cooperation and relation in NEA. The Korean government has also formulated the New Economic Policy since 2017, and made efforts toward sustainable and equal development of ROK.

DPRK

DPRK continued trying to attract foreign investment and to develop foreign trade. It introduced the Economic Development Zone Act in 2013 that aimed to build 21 more development zones. Currently, there are 26 development zones, mainly along the coast and the country's border, although those haven't yet to receive considerable foreign investment because of the economic sanction. In February 2018 the central committee of the leading party, the Worker's Party of Korea, declared the successful completion of 'the dual strategy', and decided to concentrate all efforts on economic development.

Russia

Russia invested substantial money in infrastructures in the Vladivostok area to prepare for the Asia-Pacific Economic Cooperation summit meeting in 2012. President Putin ad-

dressed in 2013, 'we put top priority of state on development of Siberia and Far East'. In the Far East and the Vladivostok area TORs, preferential zones for socio economic development, and Free Trade zones were built in 2015. In August 2018 a Special Administrative Region was built in the Russky Island, Vladivostok.

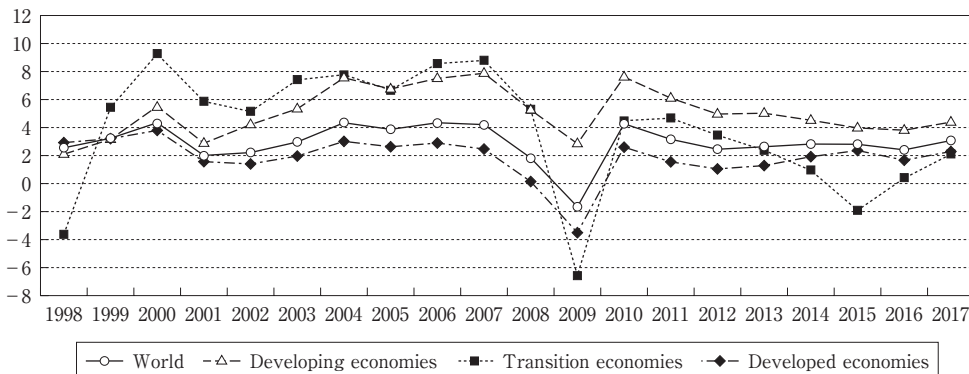
3. Continued Disequilibrium in the World Economy and "My Country First" of the Power

The above mentioned higher economic growths of NEA countries were achieved in a state of continued disequilibrium of the world economy. This state was the result of liberalism, deregulation, and globalism that occurred since the end of 1970s, and triggered the Lehman Shock, the Global Financial Crisis of 2008 (2008 GFC).

We are realizing that the world economy has shifted to a new stage that is more unstable and has led to lower economic growth, particularly in developed countries (Figure 1), while we could manage to evade economic collapse as 1930s by unprecedented expansion of money supply and financial expenditure of G20 countries. Table 4 shows that the 10-year average world economic growth dropped from 3.4% before the 2008 GFC to 2.4% after it. The growth dropped from 2.6% to 1.1% in developed countries causing unemployment and socioeconomic decline in certain regions. The disequilibrium in the world economy has continued, represented by the contrast between a huge current deficit based on trade deficit in the US and a huge surplus in China and Japan (Table 5).

It was under these circumstances, coupled with a weakening status of the US in the world economy, that Mr. Trump came to the power in 2017, propagandizing 'America First'. To strengthen his popularity in the US and maintain the US-led international economic order, Mr. Trump introduced protectionist measures, left from the negotiating table of the Trans-Pacific Partnership Agreement, and renegotiated and concluded a new treaty

Figure 1 GDP Growth Rate 1998-2017, %



Source : UNCTAD stat, 10/07/2019 downloaded

Table 4 GDP Growth Rate in the World
— before and after Lehman Shock — (%)

	98-'07 Ave.	08-'17 Ave.
World Economy	3.4	2.4
Developing Economies	5.3	4.9
Transitional Economies	6.1	1.5
Developed Economies	2.6	1.1

Source: UNCTAD Stat, 10/07/2019 downloaded.

Table 5 Disequilibrium in Balance of Payments, before and after Lehman Shock
(USD billion)

	US		China		Japan	
	Ave. '05-'07	Ave. '15-'17	Ave. '05-'07	Ave. '15-'17	Ave. '05-'07	Ave. '15-'17
Current account	△754.1	△429.9	239.1	233.8	185.5	178.4
Goods and services	△727.1	△517.6	213.9	276.9	72.2	18.3
Goods	△813.8	△773.5	219.2	513.7	107.6	29.2
Services	86.6	255.9	△5.3	△236.8	△35.4	△11.0
Primary income	55.3	206.1	△4.4	△31.7	123.3	178.4
Secondary income	△82.2	△118.4	29.7	△11.3	△9.9	△18.3
Capital account	3.9	8.2	3.7	0.0	△4.6	△3.8
Financial account	△724.2	△347.6	256.2	15.3	170.2	204.0

Source: IMF, BOP, 22/06/2019 download.

to replace NAFTA. He has introduced additional custom duties on import of iron and steel, imposed huge tariffs on goods imported from China, and made decision to limit import of automobiles and their parts. The negative effects of these self-interested measures introduced by the powerful country are now getting manifested in the form of shrinking world trade.

The experience of the 1930s shows that the self-interest measures, which other countries introduced following the US, could not solve the disequilibrium problems that caused the Great Depression of 1929. However, they provided a global opportunity for the new industrialization in the world, particularly in Asia, and lay the foundation of a new international economic order. While measures introduced by Mr. Trump and his followers may shrink the world economy, they offer NEA, home to the second and third largest economies, a chance to strengthen regional cooperation and realize higher levels of economic development in each country.

4. Globalism and Regionalism

Recently the negative elements of globalism have become obvious, and the narrow nationalism has become very popular in some countries. We have to make efforts for minimizing the negative elements and maximizing the positive elements of globalism. A review of history and the current situation shows that this is possible by 'the open regionalism', that is the balanced development between regionalism and globalism, or, the globalism based on regionalism. Regionalism means to prioritize extending and deepening the division of labour and increasing the circulation of goods, services, money within the region as compared with other regions. The word 'open' means that the differences separating one region from the other are not heightened by regionalism.

International regionalism in terms of trade can be assessed by comparing trade within region to trade with other regions. The world trade matrix of 2008 and 2018 presented in Tables 6-11 shows that intra-regional trade has increased in NEA during the decade after the 2008 GFC, although its ratio to the inter-regional trade is very low, and has declined slightly. In terms of export, the intra-regional trade in NEA increased by about USD 200 billion, from USD 600 billion in 2008 (Table 6) to USD 809 billion in 2018 (Table 8), while its ratio to NEA total trade decreased 0.5 percentage points, from 19.3% (Table 7) to 18.8% (Table 9).

It may be noted that Hong Kong trade is excluded in our tables, considering its role in intermediate trade. If exports of China and Japan to Hong Kong are added, which was USD 190,772 million and USD 40,287 million, respectively in 2008, and USD 303,725 million and USD 34,723 million, respectively in 2018, the share of intra-regional trade in total trade

Table 6 Trade Matrix, NEA and World, 2008 A

(USD million)

Export To	From									
	China (*)	Japan	DPRK	ROK	Mongolia	Russia	NEA	US	EU	World
China (*)		124,969	685	91,389	1,636	21,049	239,728	71,457	115,320	984,067
Japan	116,176		0	28,252	28	10,575	155,032	66,579	62,235	672,161
DPRK	2,033	8		0	0	97	2,138	52	145	5,924
ROK	73,905	59,425	0		30	7,794	141,154	34,807	37,677	400,476
Mongolia	907	230	0	238		1,131	2,506	57	296	3,111
Russia	33,011	16,489	13	9,748	86		59,347	9,335	154,451	289,307
NEA	226,033	201,121	698	129,628	1,780	40,647	599,906	182,288	370,123	2,355,047
US	252,786	138,932	0	46,501	114	13,894	452,227		364,759	2,024,624
EU	293,176	110,446	139	58,563	434	263,594	726,352	275,290	3,985,741	6,186,417
World	1,429,338	782,869	1,959	426,763	2,534	459,795	3,103,258	1,300,191	5,944,270	16,052,565

Source: IMF, Direction of Trade Statistics (DOTS), 05/07/2013 download

* China mainland, same as below tables, if not specified.

Table 7 Trade Matrix, NEA and World, 2008 B

(Share in %)

Export	From									
To	China	Japan	DPRK	ROK	Mongolia	Russia	NEA	US	EU	World
China		16.0	35.0	21.4	64.5	4.6	7.7	5.5	1.9	6.1
Japan	8.1		0.0	6.6	1.1	2.3	5.0	5.1	1.0	4.2
DPRK	0.1	0.0		0.0	0.0	0.0	0.1	0.0	0.0	0.0
ROK	5.2	7.6	0.0		1.2	1.7	4.5	2.7	0.6	2.5
Mongolia	0.1	0.0	0.0	0.1		0.2	0.1	0.0	0.0	0.0
Russia	2.3	2.1	0.6	2.3	3.4		1.9	0.7	2.6	1.8
NEA	15.8	25.7	35.6	30.4	70.2	8.8	19.3	14.0	6.2	14.7
US	17.7	17.7	0.0	10.9	4.5	3.0	14.6		6.1	12.6
EU	20.5	14.1	7.1	13.7	17.1	57.3	23.4	21.2	67.1	38.5
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: IMF, Direction of Trade Statistics (DOTS), 05/07/2013 download

Table 8 Trade Matrix, NEA and World, 2018 A

(USD million)

Export	From									
To	China	Japan	DPRK	ROK	Mongolia	Russia	NEA	US	EU	World
China		144,053	209	162,168	6,506	56,079	369,014	120,341	247,495	1,876,434
Japan	147,565		n.a.	30,595	26	12,536	190,722	74,967	76,208	686,648
DPRK	2,239	n.a.		n.a.	1	32	2,272	n.a.	7	2,629
ROK	109,524	52,482			21	17,887	179,914	56,344	58,598	517,195
Mongolia	1,651	518	0	308		1,602	4,078	121	529	5,203
Russia	48,074	7,297	2	7,476	86		62,935	6,668	100,593	228,069
NEA	309,052	204,351	211	200,547	6,640	88,136	808,936	258,441	483,430	3,316,178
US	480,689	140,664	n.a.	73,314	8	12,743	707,416		480,498	2,469,805
EU	411,943	83,740	3	57,917	253	204,672	758,528	319,654	4,145,385	6,413,267
World	2,501,334	738,044	634	605,708	7,012	449,185	4,301,918	1,664,238	6,467,927	19,384,842

Source: IMF, Direction of Trade Statistics (DOTS), 18/08/2019 download

Table 9 Trade Matrix, NEA and World, 2018 B

(Share in %)

Export	From									
To	China	Japan	DPRK	ROK	Mongolia	Russia	NEA	US	EU	World
China		19.5	32.9	26.8	92.8	12.5	8.6	7.2	3.8	9.7
Japan	5.9		n.a.	5.1	0.4	2.8	4.4	4.5	1.2	3.5
DPRK	0.1	n.a.		n.a.	0.0	0.0	0.1	n.a.	0.0	0.0
ROK	4.4	7.1	0.0		0.3	4.0	4.2	3.4	0.9	2.7
Mongolia	0.1	0.1	0.0	0.1		0.4	0.1	0.0	0.0	0.0
Russia	1.9	1.0	0.3	1.2	1.2		1.5	0.4	1.6	1.2
NEA	12.4	27.7	33.3	33.1	94.7	19.6	18.8	15.5	7.5	17.1
US	19.2	19.1		12.1	0.1	2.8	16.4		7.4	12.7
EU	16.5	11.3	0.5	9.6	3.6	45.6	17.6	19.2	64.1	33.1
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: IMF, Direction of Trade Statistics (DOTS), 18/08/2019 download

Table 10 Trade Growth, NEA and World, Ten Years after Lehman Shock, Ratio of values in 2018 to 2008

(%)

Export To	From									
	China	Japan	DPRK	ROK	Mongolia	Russia	NEA	US	EU	World
China		1.15	0.30	1.77	3.98	2.66	1.54	1.68	2.15	1.91
Japan	1.27			1.08	0.96	1.19	1.23	1.13	1.22	1.02
DPRK	1.10	n.a.			27.40	0.33	1.06	n.a.	0.05	0.44
ROK	1.48	0.88	n.a.		0.71	2.30	1.27	1.62	1.56	1.29
Mongolia	1.82	2.25	0.00	1.29		1.42	1.63	2.11	1.79	1.67
Russia	1.46	0.44	0.15	0.77	1.00		1.06	0.71	0.65	0.79
NEA	1.37	1.02	0.30	1.55	3.73	2.17	1.35	1.42	1.31	1.41
US	1.90	1.01	0.00	1.58	0.07	0.92	1.56		1.32	1.22
EU	1.41	0.76	0.02	0.99	0.58	0.78	1.04	1.16	1.04	1.04
World	1.75	0.94	0.32	1.42	2.77	0.98	1.39	1.28	1.09	1.21

Source: IMF, Direction of Trade Statistics (DOTS), 18/08/2019 download

Table 11 Trade Growth, NEA and World, Ten Years after Lehman Shock, 2008-2018

(USD million)

Export To	From									
	China	Japan	DPRK	ROK	Mongolia	Russia	NEA	US	EU	World
China		19,085	△476.81	70,779	4,870	35,030	129,286	48,884	132,174	892,367
Japan	31,388		n.a.	2,343	△1	1,960	35,690	8,388	13,973	14,486
DPRK	206	n.a.			1	△65	134	n.a.	△137	△3,295
ROK	35,619	△6,943	n.a.		△9	10,093	38,760	21,537	20,921	116,719
Mongolia	744	288	△0	70		470	1,572	64	233	2,092
Russia	15,062	△9,192	△11	△2,272	△0		3,587	△2,668	△53,858	△61,238
NEA	83,019	3,229	△487	70,919	4,860	47,489	209,030	76,153	113,307	961,131
US	227,902	1,732	n.a.	26,813	△107	△1,151	255,189		115,739	445,181
EU	118,768	△26,707	△136	△646	△181	△58,922	32,175	44,364	159,644	226,850
World	1,071,996	△44,824	△1,324	178,945	4,477	△10,610	1,198,660	364,046	523,657	3,332,276

Source: IMF, Direction of Trade Statistics (DOTS), 18/08/2019 download

of NEA would increase to 26.8% and 26.7% in these years. However, they are quite small as compared with the EU's figure of 67.1% in 2008 and 64.1% in 2018 (Table 7, 9).

Within NEA China plays an overwhelming role as a driving force. Export from China to NEA and vice versa in 2008 were USD 226 billion and USD 240 billion respectively (Table 6), and together aggregated to USD 464 billion, accounting for a share of 77.6% of the intra-regional trade in NEA. These figures increased to USD 309 billion and USD 369 billion in 2018 (Table 8), accounting to a share of 83.8% of the NEA intra-regional trade. The exports of NEA to China were greater than China's export to NEA during both 2008 and

2018. Between 2008 and 2018 ROK increased exports to China by USD 70.8 billion, Russia by 35.0 billion, and Japan by USD 19.1 billion (Table 11). The ratio of NEA export to China in 2018 to that in 2008 was 1.54, larger than the figures for China's export to NEA, and the NEA intra-regional trade (Table 10). On the other hand the share of NEA in China's export declined from 15.8% to 12.4% during the same decade (Table 7, 9). China's inter-regional trade, particularly export to the US has expanded far more than its export to NEA, which is the intra-regional trade (Table 11).

The reason for these developments is the existence of production networks which I referred to in the 2013 Tumen River Forum.²⁾ Japan and ROK export intermediary goods and machines to China, and China exports final products to the US and Europe. The network has been built through improvement in hard and soft infrastructure, increasing foreign direct investments, abundant supply of qualified workers, etc. The division of labour across national borders has developed and enhanced productivity in manufacturing industries. China has become 'the Factory for the World' and NEA countries have profited,³⁾ leading to their socioeconomic development. However, such a trend is approaching the limit of development, and we have to make efforts to rebalance inter-regional trade with intra-regional trade through greater expansion of the latter. In this new scenario NEA would enjoy more the fruits of high productivities in its own region. We, the people in NEA must consume more final products that are made in the region, for instance, by increasing our income. Through such measures, the current structure of the world economy, where China and NEA depend too much on the inter-regional trade, particularly on the US market, which induces huge disequilibrium in the world, can be substantially rebalanced. It is a chance to realize a new world economy that enables us sustainable development and provides the benefits more widely.

NEA countries face common challenges, such as lower number of young people, increasing elderly population, maintaining social security, improving environment, and building of economic and social infrastructure. Per capita GDP is still below the world average in China, DPRK, and Mongolia, implying the possible development opportunities of the NEA region. Economic development and increase in income in the region will enhance the circulation of people, goods, money, and information, improving the possibility of forming the NEAEA.

Notes

- 1) Data source is *Direction of Trade Statistics*, IMF, downloaded on 18/08/2019.
- 2) 'Standing at the crossroads: rethinking of economic cooperation in NEA after the Global Financial Crisis' *Tumen River Forum 2013*, Oct. 22-23, Yanbian Univ., Yanji, China.
- 3) Japanese FDI to China has received higher returns than in the US according to the data from the Balance of Payments of Japan.