

## Opinion paper

### Northeast Asia Economic Integration: the Way Ahead

Zhang Jun

*Director, China Center for Economic Studies, Fudan University*

1. From China perspective, interdependence between Northeast Asian economies and China has been increasing, which is evidenced both by the rapid growth of trade between China and Northeast Asian countries and by increasing inflow of foreign direct investment to China which accounts for about 12 % of total FDI inflow in China.
2. Japan is the biggest trade partner of China, and China is the second most important trade partner of Japan. Bilateral trade between China and Korea has been up from 5 billion USD in 1992 to something like 36 billion USD in 2000. About over 5 billion USD has been invested in China by Korean business community. Chinese trade with Russia and DPRK are also developing at faster pace.
3. A perfect ladder structure of economic development and complementarities exists in Northeast Asian economies. This ladder structure is not seen in Southeast Asia. Japan is a highly developed and industrialized country with abundant capital and technology, and Korea is a newly industrializing country with an increasing cost of production. China and DPRK are rich in cheaper labor, human capital and the market potentials, while the Far East region of Russia and Mongolia are abundant of natural resources.
4. The opportunity for structural shift and technology transfer within this region is enormous, thus will create the huge economic benefits to the economies concerned in this region.
5. However, the multilateral or intra-regional trade has been still relatively small and slow. For example, about half of Japanese investment is in Europe and about one quarter in the United States, while its FDI to China and Korea was only less than 2 per cent, respectively.
6. Absence of financing in development may account for the slow process of economic integration, and of course, the cold war residue in this region still checks the cooperation and induces the distrust among countries in this region. But I believe the lack of political will is the most conceivable explanatory variable.

7. The simultaneous existence of different political and economic systems, ranging from mature market-democratic system (Japan and Korea), transition economies or emerging market economies (China, Russia and Mongolia) to Socialist System (the DPRK), has created a diversified way of thinking in dealing with economic interests, not mention the legacy of the past history during the WWT.
8. There will be the increasingly shared common interest in this Northeast Asia if the deregulation and liberalization process of local economies have gained their continuous momentum. Generally, the institutional change in political system that is obviously occurring in some of the countries in this region will also help shape up the mainstream idea of regionalism in Northeast Asia.
9. For instance, China has already emerged as new market economy and the political will to the regional integration has been increased, thanks to the accession of WTO and to the 3<sup>rd</sup> session of 16<sup>th</sup> Party Congress. Japan and Korea have realized the fragility and stickiness of their economic systems and have shown their commitment to the deregulation of their economies.
10. Even the most closed economy, DPRK, has recently begun its partial liberation of the economy and more change would be expected to happen in the not long future. These are all positive sign for the enhancement of political will to economic cooperation in this region.
11. Chinese Northeast Area has been recently selected by Chinese government as the new initiative and momentum for China's future growth, and this strategy provides Northeast Asia with a platform for political dialogue and a forum for business involvement in Northeast Asia.
12. This generation of Chinese government will attach much importance to Northeast Asia Cooperation and its role in promoting the development of Chinese three provinces in Northeast China.
13. In short, the Northeast Asia economic cooperation calls for the necessity of building up political wisdom of the countries concerned, especially China, Korea and Japan, to enhance their mutual understanding and trust. The mutual trust and political will are extremely important for Northeast Asian economic integration. In this regard, Japan, China and Korea should play more active role in the process of new Asian regionalism.