

The Global Financial Crisis and Subregional Economic Cooperation in Northeast Asia

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Northeast Asia has witnessed impressive economic development and growth over the last three decades. Following Japan's success in the 1960s and 70s, Korea embarked on outward oriented policies, and China accelerated its economic reform and opening in more recent years. The integration of other economies in wider East Asia with the Northeast Asian economies has also been an important factor for this remarkable achievement. The global financial crisis severely affected Northeast Asia, by sending Japan and Korea into recession and causing a growth slowdown in China. Given that economic recovery in the United States and Europe is likely to be weak over the medium term, it will be necessary for the Northeast Asian economies to expand domestic and subregional demand through concerted policy efforts.

To achieve long-run sustainable growth, the Northeast Asian countries need to deepen sub-regional economic integration. In Southeast Asia, the 10 ASEAN countries have been working hard to accelerate economic integration through the establishment of the ASEAN Free Trade Area (AFTA), the ASEAN Framework Agreement on Services (AFAS), and the ASEAN Investment Area (AIA), and are now heading towards the establishment of an ASEAN Economic Community (AEC) by 2015. The three Northeast Asian countries—China, Japan and Korea—have implemented their respective plurilateral free trade agreements (FTAs) with ASEAN as part of the so-called ASEAN+1 processes, but have not agreed on FTAs between themselves. Obstacles to such agreements include the presence of sensitive sectors, remnants of historic animosities, national rivalries, and a lack of community spirit.

A subregional cooperation mechanism in Northeast Asia would be a big boost to institutional economic integration in wider East Asia, as such a mechanism could eventually connect Northeast Asia with ASEAN. A China-Japan-Korea FTA should be the first target to reach in forming a Northeast Asia FTA (NEAFTA), and these three countries should undertake various economic cooperation initiatives, including those for crossborder infrastructure development and for energy and the environment. Mongolia may also participate in the trilateral cooperative initiatives. For Russia to be a member of the NEAFTA, it may need to join the WTO first.

Subregional infrastructure will have to be geared more towards connecting the economies through transport, energy distribution and IT systems in order to support subregional trade and investment. Infrastructure investment and development is a key instrument to enhance competitiveness, sustain economic growth, improve social conditions, and promote peace and prosperity. Critical efforts are needed to make transport and energy investments more environmentally friendly and, in particular, to mitigate their impacts on environmental degradation and climate change. A shift toward a low-carbon society in the subregion calls for a set of market-oriented policies to encourage energy efficiency and a wider mix of energy sources, complemented by strong social protection policies and supported by international assistance for financing, technology transfer and capacity building.

In these uncertain times, Northeast Asian economies' efforts to forge ahead with the challenging—and the immensely rewarding—task of integrating this diverse subregion can bring about massive benefits. Once the potential for such substantial benefits—due to sub-regional cooperation in trade and investment, infrastructure development, and energy and the environment—is shown, these efforts would provide strong incentives for North Korea to open up and cooperate with these economies. This would strengthen

the prospects of a peaceful Northeast Asia and the drive for further integration in wider East Asia. To achieve this, exemplary and visionary leadership, as well as firm and unflinching commitment, will be needed.