

Closing Remarks (Summary)

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The Northeast Asia International Conference for Economic Development (NICE) held yesterday and today tackled many important issues from various perspectives, and all the presentations and discussions were very useful. I would like to express my gratitude to the speakers and panelists as well as to the participants from the floor who had excellent questions and comments. I believe many key issues have been clearly identified.

Welcome and Guest Opening Addresses

On the first day of the conference Dr. Ryuichi Yoneyama, Governor of Niigata Prefecture, and Mr. Akira Shinoda, Mayor of the City of Niigata, kicked off the event by providing welcoming addresses, which were followed by guest opening addresses from Mr. Toshihiro Aiki, Deputy Director-General, European Affairs Bureau, Ministry of Foreign Affairs of Japan, and Mr. Akihiko Tamura, Deputy Director-General for Trade Policy, Trade Policy Bureau, Ministry of Economy, Trade and Industry. In particular, Mr. Aiki made a presentation on the progress in Japan–Russia economic cooperation which has intensified since last year based on the “eight points for economic cooperation”. Mr. Tamura talked about the progress in Japan’s economic partnership agreements (EPAs) and East Asian Regional Comprehensive Economic Partnership (RCEP) negotiations, focusing on Japan’s relations with the nations of Northeast Asia.

Keynote Addresses

Next, there were two keynote addresses. First, Dr. Barry Bosworth, Senior Fellow, Brookings Institution, provided a keynote address on the prospects and challenges for US economic policy under the new Trump Administration. According to Dr. Bosworth, the Trump Administration has proposed a variety of policies from the perspective of “America First”, with the aim of promoting US economic growth and employment, particularly through reductions in corporate and personal income tax and an expansion of investment in infrastructure. That combination, however, has the possibility of raising interest rates further and leading to a stronger US dollar. In addition, because the Federal Reserve System, the US central bank, is considering further raising the policy interest rate, the dollar will be even stronger and will likely increase the US trade deficit.

According to Dr. Bosworth, however, this outcome is not consistent with the Trump Administration’s mercantilist view regarding trade imbalances. Attempting to reduce bilateral trade

deficits, the administration has taken a position of withdrawing from the Trans-Pacific Partnership (TPP) and of reconsidering the North American Free Trade Agreement (NAFTA), and is also considering the introduction of a border adjustment tax. Dr. Bosworth indicated that there could be a trade war with some Asian nations, particularly China, with which the United States has large trade deficits.

Subsequently, Mr. Haruhiko Kuroda, Governor of the Bank of Japan, made a keynote address entitled “The Next Growth Model for the Asian Economy: Beyond the ‘Workshop of the World’”. Over the past few decades in Asia, economies like the Republic of Korea (ROK), Hong Kong and Singapore have become high-income economies, and other developing economies have also grown rapidly. With the spread of the global value chain and accession to the World Trade Organization (WTO) in 2001, China has rapidly developed and industrialized its economy, expanded its trade and inward foreign direct investment, and gained prominence in becoming the world’s factory.

However, Governor Kuroda argued that the global financial crisis changed the global trade outlook. Although world trade temporarily recovered in 2010 from the sharp decline experienced in 2009, the growth in the volume of world trade has weakened since then, especially in comparison to the growth of global real output. Looking to the future, Governor Kuroda predicted that the growth of trade in goods would continue to stagnate even in Asia, and if this were the case, the importance of trade in services would increase.

According to Governor Kuroda, for trade in services to expand, the competitiveness of countries’ service sectors should rise, but the problem in Asia is that the productivity of service sectors, in particular modern service sectors (i.e., medical and care services, and company-oriented specialist services, etc.), is low. Consequently, Governor Kuroda emphasized that for Asia to maintain sound economic growth through trade, the region would need to promote free trade and investment systems, focus on trade in services, and enhance the productivity and international competitiveness of service sectors. This would require substantial liberalization and structural reforms in service sectors, including the opening of those sectors to foreign competition and the entry of firms through foreign direct investment.

Session A

In Session A, “The Development Strategies and Structural Reforms of the Nations of Northeast Asia and International Cooperation”, experts undertook analysis of the economic structural problems facing each of the Northeast Asian nations

and the needed structural reforms, and explored the possibilities for Northeast Asian economic cooperation toward supporting structural reforms and addressing domestic economic problems. The issues taken up in Session A were consistently linked to the following Sessions B and C.

First, Dr. Zhang Yuyan, Director, Institute of World Economics and Politics, Chinese Academy of Social Sciences, pointed out several structural problems of the Chinese economy and presented his views on the necessary structural reforms. According to Dr. Zhang, the Chinese economy has entered a phase of L-shaped economic growth, and that has become the “new normal”. In response, many supply-side structural reforms have been undertaken to raise potential economic growth. More specifically, he identified the following reforms: reform of the labor market; reform of the education system; reform to promote technological innovation; reform to heighten the role of the market; reform of state-owned enterprises (SOEs); reform for reducing the excess production capacity and excessive debt of firms; and reform of the taxation system. Finally, Dr. Zhang emphasized that regional cooperation in Northeast Asia is linked to the support and backing of these reforms.

Professor Lee Jong-Wha, Director, Asiatic Research Institute, Korea University, gave a talk on the declining economic growth rates in both the ROK and Japan, and measures to raise the potential growth rate in the ROK. Professor Lee said the productivity of ROK service industries was particularly low and ROK demographics were becoming unfavorable, following the Japanese pattern, and suggested the need for reforming the labor market, strengthening small and medium-sized enterprises, and raising the fertility rate. Finally, he explained that regional economic cooperation was necessary, particularly the ROK–China–Japan FTA and RCEP, which would support the structural reform of the ROK economy, and he also discussed the issue of the integration of the two Koreas.

Professor N. Batnasan of the National University of Mongolia talked of the economic difficulties in Mongolia following the collapse of the Soviet Union, i.e., the great contraction of the country’s manufacturing industry, and the resulting rise of mining and agriculture as major industries. He pointed out Mongolia’s major problems: Mongolia is a landlocked country surrounded by China and Russia and therefore it is vital to coordinate with those neighbors; the scale of the market is small; transportation costs are high; infrastructure is insufficient; and the budget deficit is extremely large. He also mentioned that Mongolia was heavily dependent on China in terms of trade (dependent on China for 90% of exports and 30% of imports), that the growth of the Mongolian economy declined sharply with the slowdown of the Chinese economy, and that Mongolia was now actually negotiating a loan from the IMF. As regards Mongolia’s strategy, Professor Batnasan said that in order to diversify its export destinations, such as exporting mineral raw materials and mining resources to Japan, the ROK, and other Asia–Pacific nations, there was a need to further introduce foreign capital, undertake resource development and raise its supply capacity. He emphasized that regional cooperation with China and Russia in the transportation sector would be essential

to raise the country’s international connectedness.

Dr. Pavel Minakir, Director, Economic Research Institute, Far Eastern Branch of the Russian Academy of Sciences, explained Russia’s “turn to the east” strategy. Russia’s trade ratio with Europe was once high, but in recent years the trade ratio with Asia–Pacific nations has been increasing. According to Dr. Minakir, Russia’s structural problems are that: strong manufacturing industry is absent; the financial sector is weak; the quality of infrastructure is low; and the management capability of the economy as a whole is low. He pointed out that the Far Eastern region needed to: reverse the population decline and increase the population; export natural resources by intensively undertaking the development of the natural resource sector; and develop the processing industry utilizing natural resources. While joint projects have been pursued since last year at the Japan–Russia intergovernmental level, he shared the view that some projects would be successful, but some would not go well.

During the question and answer (Q&A) section of Session A, it was pointed out that regional economic integration would have great advantages, yet for political and economic reasons sufficient economic cooperation had not been furthered. For example, even though the economic benefit of the China–Japan–ROK (CJK) FTA has long been acknowledged, it has not moved forward to date. Messrs. Zhang and Lee pointed out that reasons as to why the CJK FTA has not moved forward included that: Japan had overly concentrated on the TPP; the political relations between Japan and China, and Japan and the ROK had not been good; the respective liberalizations of the agricultural sectors in Japan and China had been difficult; for the ROK the problem of trade deficits with Japan had been a concern; and due to the large volume of direct investment from Japan into China, the room for China’s manufacturing industry to promote liberalization had narrowed.

Session B

In Session B, “The Connectedness of Transportation Infrastructure: The Significance and Challenges Thereof”, on the second day, experts introduced the initiatives of each country toward the strengthening of freight transport traversing national land borders in Northeast Asia, while seeking the significance of this issue for Japan.

Dr. Li Yuwei, Director, Transport Division, United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), pointed out the importance of transportation connectedness for the countries of Northeast Asia. He said that not only China’s “Belt and Road Initiative”, but also the concepts of the ROK’s “Eurasia Initiative”, Russia’s “Trans-Siberian Corridor”, and Mongolia’s “Steppe Road” initiative had been set forth, and that the Northeastern Asian countries would have to strengthen transport connectivity in a way which integrates these various initiatives and concepts. In particular, Russia and Mongolia, where transportation costs are high, would have to reduce transportation costs via investment in transportation infrastructure. Dr. Li suggested that a useful,

concrete approach would be to construct an overland transportation infrastructure network, to heighten the connectedness of multimodal transportation, and to further facilitate customs and border-crossing procedures.

Mr. Sergey Khidirov, Programme Officer, Tumen Secretariat, Greater Tumen Initiative (GTI), UNDP, introduced initiatives for the Greater Tumen Concept by the GTI Secretariat. He explained the six transportation corridors that had been planned, and emphasized the importance of continuing to make connections, comprising multimodal overland and maritime routes. He explained the pilot project to transport freight originating in Mudanjiang, China, via Vladivostok in Russia and Donghae in the ROK, and reaching Sakaiminato in Tottori Prefecture. This initiative can concretely tell us how many actual days the freight transportation takes and what obstacles there are to international freight transportation, and can provide some solutions to improve cross-border freight transport. Such a project would be extremely useful in identifying various problems associated with transport connectivity and in providing useful policy recommendations.

Dr. Song Zhiyong, Director, Institute of Asian Studies, Chinese Academy of International Trade and Economic Cooperation, Ministry of Commerce, pointed out that as the “Belt and Road Initiative” (BRI) moved forward based on Chinese domestic needs, it could equalize the differences in levels of domestic economic development across different parts of China and bring more balanced domestic economic development, and at the same time it could also strengthen economic links between China and other nations along its route by strengthening international connectivity. As the ROK, Russia, and Mongolia have created their respective initiatives, Dr. Song said that the coordination between these and the BRI should progress well. He also pointed out the significance of regional cooperation for energy transportation routes and information highways.

Ms. D. Gerelnyam, Senior Officer, Policy Planning Department, Ministry of Road and Transport Development of Mongolia, talked about the connectedness of Mongolia’s domestic and international transportation, and introduced the unique Mongolian concept, the “Steppe Road” initiative. According to Ms. Gerelnyam, the “Steppe Road” initiative consists of five pathways: roads (such as the Asia Highways); railways; electricity transmission lines; gas pipelines; and oil pipelines. Finally, she presented the concept of continuing to access the Port of Tianjin in China and Russian ports from Mongolia, utilizing the Mongolia–China–Russia Economic Corridor program.

In the Q&A section of Session B, Dr. Song pointed out that as the eligibility for participation in the BRI was open, the ROK and Japan could also become members. Dr. Li reiterated that it was necessary to continue harmonizing the entirety of all countries’ initiatives, including those of China, the ROK, Russia, and Mongolia.

Session C

In Session C, “The Economy of China’s Northeast and the Future Prospects for Trade and Investment”, experts focused on the economy of China’s Northeast (including Liaoning, Jilin and Heilongjiang Provinces) which is at a major turning point, searched for the positioning of this region within China, and explored the possibilities for Northeast Asian cooperation.

The economic difficulties observed in the three northeastern provinces can be observed in China as a whole, and they seem to occur in the three northeastern provinces in condensed form. In this sense, it is useful to focus on what is happening in the three northeastern provinces. As we all know, the Chinese economy is now in the process of rebalancing, firstly moving from traditional manufacturing, in particular from heavy-chemical, large manufacturing industry, to technology-intensive manufacturing industry and service industries. Japan, following the first oil price shock in the 1970s, transformed its economy from “heavy and large” manufacturing industry to “light and compact” manufacturing industry. Similarly, the Chinese economy is also under pressure to move from “heavy and large” manufacturing to “light and compact” manufacturing and service industries. Secondly, the Chinese economy is shifting from being investment-led to consumption-led. The whole of China faces tremendous challenges in reducing the excess production facilities and debts of firms, weeding out zombie firms, and doing so in an orderly manner, while the three northeastern provinces actually face these challenges in a magnified, condensed way. Therefore, whether these provinces can successfully address their challenges should be of vital interest to the whole of China.

Dr. Shen Minghui, Deputy Director, Center for APEC and East Asian Cooperation, Chinese Academy of Social Sciences, said that since China’s WTO accession, efforts had been made on trade liberalization, including liberalization through FTAs with partner countries. However, according to Dr. Shen, the proportion of trade coverage via FTAs in total trade is still low and it is desirable to tie up many more FTAs. He indicated three concrete ways to promote Northeast Asian economic cooperation: intensifying Northeast Asian regional infrastructure cooperation; strengthening trade and investment relations, in particular continuing to further strengthen the China–Japan–ROK investment agreement (which already exists); and creating a cooperation platform for Northeast Asia.

Dr. Liang Qidong, Deputy Director, Liaoning Academy of Social Sciences, pointed out many problems the economy of China’s northeastern provinces faces. According to Dr. Liang, these problems are that: the presence of central government-led state-owned enterprises is extremely large, and the size of local firms and industry is small; the industrial structure is “old, heavy, and surplus” (the old heavy industry is in excess); and the presence of private firms is low. He suggested directions for reform in the following areas: the reform of central government-led SOEs; the promotion of private firms; and more extensive use of market-driven policy. He also pointed out the importance of manufacturing industry and recommended: transforming

manufacturing from heavy-chemical to light industry; eliminating excess production capacity; promoting innovation; promoting the construction of homes for those on low incomes; creating a favorable business environment; and resolving systemic problems (such as reducing corruption and red tape). Creating a favorable business environment is certainly one of the most important challenges for the northeastern provinces of China.

Mr. Zhao Zhexue, Executive Vice President, Yanbian Korean Autonomous Prefecture Business Federation, explained the Tumen River development from the viewpoint of China's three northeastern provinces. Mr. Zhao said that through the Changchun–Jilin–Tumen Development and Opening-up Pilot Area, the Tumen River initiative had contributed to the development of the three northeastern provinces, and he suggested the need for continuing development within bilateral cooperation programs, including China–DPRK, China–Russia, and China–Mongolia relations.

Dr. Da Zhigang, Director, Northeast Asia Research Institute, Heilongjiang Provincial Academy of Social Sciences, spoke on the development of the economy of China's Northeast from the viewpoint of BRI cooperation, and advocated that the three northeastern provinces should continue expanding trade and investment in cooperation with neighboring countries while actively participating in the BRI. He said that the Northeast Asian countries should align the BRI concept and the respective initiatives of the ROK, Mongolia, and Russia, and within that these initiatives combined could contribute to the development of the three northeastern provinces.

Finally, Professor Shuji Matsuno, Senior Visiting Researcher, Institute of Social Systems, Ritsumeikan University, presented the prospects for the development of China's northeastern economy by taking Japan's viewpoint into consideration also. He identified the central problem of the northeastern economy as the presence of large SOEs, and he pointed out the need to continue to: reduce the SOE sector and expand the private sector; change the industrial structure; and further promote opening-up to the outside world. Professor Matsuno explained the changing pattern of Japan's current account balance and its composition: that is the trade surplus has begun to shrink and the income surplus from outward direct investment has begun to rise steadily. His view was that income from foreign direct investment has been supporting the Japanese economy and that investment income from China has been rising to a high level. He said that Japanese firms such as Toshiba and the Nissan Motor Company, Ltd., have contributed to the industrial acceleration of China's northeastern provincial economies. He suggested that for further economic development the three northeastern provinces needed to further

open their economies to the outside world, carry out structural reform in cooperation with the likes of Japanese firms, and build win–win relationships with foreign partners.

In the Q&A section, several questions were raised from the floor. One of them was the question of how the reduction of excess production facilities is proceeding, in the iron and steel industry for example. Dr. Liang responded by saying that it was proceeding gradually. Another question was on the future prospects of Japanese investment into China, which had been decreasing perhaps due to the rising wages and non-wage costs in China and the political difficulties between Japan and China. More analytical work would be needed to identify conditions and policies that would encourage the three northeastern provinces to receive more and continually expand direct investment from Japan, the ROK, and other countries.

Conclusion

To summarize, at this year's NICE we took up the economic structural problems of the Northeast Asian nations, the nature of desirable structural reforms at the national level, and the usefulness of regional economic cooperation to support national efforts. I strongly believe that the idea that regional economic cooperation in Northeast Asia can bring great benefit has been shared by all the participants, and such cooperation includes countries jointly strengthening the connectivity of the freight transportation network and energy transportation infrastructure, and forging free trade and investment agreements. On regional infrastructure connectivity, it was pointed out that we needed to consider all countries' initiatives and concepts, such as China's "Belt and Road Initiative", the ROK's "Eurasia Initiative", Russia's "Trans-Siberian Corridor" concept, Mongolia's "Steppe Road" initiative, and the GTI's "Greater Tumen Development" program, in an integrated manner, rather than considering them as being separate. This view was an extremely fresh way of looking at the issue. Overall this conference provided a great deal of insight.

Although many important issues were identified, there are also many unanswered questions. We would like to return to such questions and issues in future seminars and conferences.

Based on the outcomes of NICE this year, ERINA would like to continue its research activities for the sake of Northeast Asian regional economic development, cooperation and integration, with the strong conviction that those activities will contribute to peace and stability in Northeast Asia. I would like to ask you all for your continued support in the future.

[Translated by ERINA]