

Keynote Address

"The Global Financial Crisis and Subregional Economic Cooperation in Northeast Asia"

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Today, I would like to talk about the impact of the global financial crisis on Northeast Asia, and the medium-to long-run implications of the crisis for the subregion, particularly the need to step up subregional cooperation to achieve sustained economic growth, prosperity and peace in the post-crisis period.

Economic Characteristics of Northeast Asia

Northeast Asia has witnessed impressive economic development and growth over the last three decades. Following Japan's success in the 1960s and 1970s, the Republic of Korea (South Korea) embarked on outward oriented policies, and the People's Republic of China (China) accelerated its economic reform and opening in more recent years. The integration of the core Northeast Asian economies—Japan, China, and South Korea—with other East Asian economies has also been an important factor for this remarkable achievement. Northeast Asia consists of Japan, China, South Korea, the Democratic People's Republic of Korea (North Korea), Mongolia, and the Russian Far East.

The output share of Northeast Asia in the world economy has risen over the last three decades. The GDP share of Japan, China, and South Korea in world GDP, measured in purchasing power parity (PPP) values, increased from 11% in 1980 to 17% in 2000 and then to

20% in 2008 (Table 1). According to IMF projections, this share will rise to 24% in 2014. Adding Mongolia, North Korea, and the Russian Federation (instead of the Russian Far East due to the lack of consistent subnational data available) to these core countries would not change the general trend and the five countries—excluding North Korea where GDP estimates are hard to come by—would account for 27% of the world economy in 2014. If measured in nominal GDP (in US dollars), Northeast Asia has experienced some stagnation during the 2000s, but the overall trend is still a rising weight of Northeast Asia in the world economy.

Northeast Asian economies are diverse not only in political systems but also in economic characteristics—e.g., economic size, population, industrial structure, openness, and stage of economic development (Table 2). Japan and South Korea are advanced economies with OECD membership, while China, Mongolia, North Korea, and Russia are transition economies. Mongolia is the most open Northeast Asian economy in trade and inward foreign direct investment (FDI), while North Korea is a highly controlled, closed economy without a functioning market system. Russia and North Korea have yet to join the World Trade Organization (WTO).

The degree of human development is a good proxy for a country's stage of economic development. It is captured

Table 1: Share of Northeast Asia's GDP in World GDP (%)

	1980	1990	2000	2008	2010	2014
<i>Purchasing Power Parity (PPP) GDP</i>						
(1) Japan	7.9	9.1	7.6	6.3	5.9	5.4
(2) China	2.0	3.6	7.2	11.4	13.2	16.2
(3) South Korea	0.8	1.4	1.8	1.9	1.9	2.0
(4) Mongolia	0.0	0.0	0.0	0.0	0.0	0.0
(5) Russia	--	4.2	2.7	3.3	3.0	3.0
(1)+(2)+(3)	10.7	14.0	16.6	19.6	21.1	23.6
(1)+(2)+(3)+(4)+(5)	--	19.2	19.3	22.9	24.1	26.5
<i>Nominal GDP (in US dollars)</i>						
(1) Japan	9.1	13.4	14.5	8.1	8.6	7.8
(2) China	2.6	1.7	3.7	7.1	8.7	11.1
(3) South Korea	0.6	1.2	1.7	1.5	1.4	1.6
(4) Mongolia	0.0	0.0	0.0	0.0	0.0	0.0
(5) Russia	--	0.4	0.8	2.8	2.3	2.8
(1)+(2)+(3)	12.3	16.3	19.9	16.7	18.7	20.4
(1)+(2)+(3)+(4)+(5)	--	19.4	20.7	19.5	21.0	23.3

Source: IMF, *World Economic Outlook*, October 2009, database.

Table 2: Key Economic Indicators of Northeast Asian Countries, 2008

	GDP	POP	GDP/ POP	Inv/ GDP	Sav/ GDP	Industrial Structure			Exp/ GDP	Imp/ GDP	FDI/ GDP
						Agr	Ind[Man]	Serv			
						Bill.US\$	Mill	US\$			
Japan	4,909.3	127.7	38,443	24.0	25.2	1.5	30.1[21.4]	68.4	16.1	14.8	4.1
China	4,326.2	1,325.6	3,263	42.6	49.2	11.3	48.6[34.4]	40.1	35.0	28.4	8.7
South Korea	929.1	48.6	19,115	31.4	30.2	2.5	37.1[28.1]	60.3	52.9	54.1	10.7
Mongolia	5.3	2.6	1,998	40.2	38.8	23.0	41.5[4.5]	35.6	64.3	65.7	37.3
North Korea	--	23.9	--	--	--	--	--	--	--	--	9.4
Russia	1,607.8	141.8	11,339	25.3	36.3	4.8	38.5[19.0]	56.8	33.4	22.5	12.8

Note: Inv = investment, Sav = savings, Exp = export, Imp = import, FDI = stock of inward FDI.

Source: IMF, *World Economic Outlook*, October 2009, database; World Bank, World Development Indicators; UNCTAD, *World Investment Report*, 2009.

Table 3: Human Development Index in Northeast Asia

	1980	1990	2000	2007
Japan	0.887	0.918	0.943	0.960
China	0.533	0.608	0.719	0.772
South Korea	0.722	0.802	0.869	0.937
Mongolia	--	--	0.676	0.727
North Korea	--	--	--	--
Russia	--	0.821	--	0.817
EU27	0.856	0.866	0.894	0.921
USA	0.894	0.923	0.949	0.956

Note: Data for EU27 are averages for the 27 countries for which data are available.

Source: UNDP, *Human Development Report* (2009).

by the Human Development Index (HDI) constructed by the United Nations Development Program (UNDP), which is a composite indicator measuring the average achievements in three basic dimensions of human development: a long and healthy life, knowledge, and a decent standard of living. These HDI indicators show that Japan and South Korea performed as well as or slightly better than the European Union average of 0.92 in 2007, whereas China, Mongolia, and the Russian Federation (representing the Russian Far East) lagged behind (Table 3).

Trade integration in Northeast Asia has increased during the last decade. The share of intra-Northeast Asian trade in the subregion's total trade with the world has risen from 15% in 1992 to 23% in 2008. Most of this intra-Northeast Asian trade is due to trade among Japan, China, and South Korea. The share of trade among these three core countries in their total trade with the world was 14% in 1992 and 22% in 2008. During this period, Japan and South Korea became increasingly dependent on trade with China (Table 4), shifting their focus away from the US and Europe. Although China's trade dependence on Northeast Asia declined, the overall trade integration among the three Northeast Asian countries has deepened robustly.

The Russian Far East's trade dependence on Northeast Asia may be high, but the lack of data cannot confirm it; the available data for the Russian Federation shows that its trade dependence on Northeast Asia has been low, at around 12% in 1992 and 14% in 2008. The trade dependence of Mongolia and North Korea on other countries in Northeast Asia is much higher but declined during the same period

Table 4: Trade Dependence of Individual Countries on Northeast Asia (%)

	1992	2000	2008
Japan	10.9	16.6	25.1
China	22.2	26.7	20.1
South Korea	23.5	26.0	32.0
Mongolia	78.2	67.6	75.5
North Korea	54.1	34.0	35.7
Russia	12.5	8.1	14.4

Source: IMF, *Direction of Trade*, online.

from 78% to 76% and from 54% to 36%, respectively. Overall, trade links between the three core countries with Mongolia, North Korea, and Russia to date have remained minimal. This can be explained by both economic and non-economic factors: economic factors include a low degree of marketization in North Korea, low levels of trade-related foreign direct investment in North Korea and Russia, and a weak physical infrastructure; and non-economic factors include security tensions in the case of North Korea and geographic remoteness for Mongolia and the Russian Far East. This suggests that there is still huge potential for further trade integration in Northeast Asia.

Developing a positive environment conducive to business is crucial for attracting the required investment for sustainable growth of the subregion. The current performance of Northeast Asia's business environments, as measured by the World Bank's Doing Business Index, is mixed (Table 5). Surprisingly, China's Doing Business Index is not high, despite the large size of inward FDI. Russia faces a formidable challenge of improving the quality of its business environment, while North Korea is not in the position to attract investment though no data are available.

Problems areas in Northeast Asia include: "dealing with construction permits" (Russia, China, and Mongolia); "trading across borders" (Russia and Mongolia); "starting a business" (China, Russia, and Japan); "employing workers" (South Korea, China, and Russia); "paying taxes" (China, Japan, and Russia); "closing a business" (China and Russia); and "protecting investors" (China and Russia). The Northeast Asian economies are encouraged to work on these areas for improvement.

Table 5: Business Environment Rankings of Countries in Northeast Asia, 2010

Index Factor	Japan	China	South Korea	Mongolia	Russia
Overall Ranking	15	89	19	60	120
Starting a Business	91	151	53	78	106
Dealing with Construction Permits	45	180	23	103	182
Employing Workers	40	140	150	44	109
Registering Property	54	32	71	25	45
Getting Credit	15	61	15	71	87
Protecting Investors	16	93	73	27	93
Paying Taxes	123	130	49	69	103
Trading Across Borders	17	44	8	155	162
Enforcing Contracts	20	18	5	36	19
Closing a Business	1	65	12	110	92

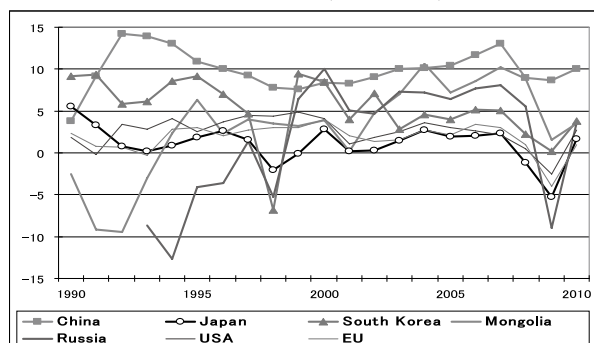
Source: World Bank, *Doing Business Index* Database 2010

Impact of the Global Financial Crisis on Northeast Asia

The impact of the global financial crisis on the world economy and trade has been generally more severe for advanced economies. According to the most recent IMF estimates, the global economy contracted last year by 0.8%, which was the first decline in world output in the post-WWII era. Advanced economies contracted by a total of 3.2%, while emerging and developing countries grew by 2.1%. The volume of world trade in goods and services saw an estimated drop of 12.3%, with a sharper contraction in manufactured product trade.

As a result of sharp export contraction, GDP growth rates in Northeast Asian economies were significantly affected (Figure 1). However, not all economies saw negative growth in 2009; growth performance was mixed. Russia suffered the most in the wake of the global financial crisis, having likely registered a negative growth rate of 9.0%, followed by Japan with a likely negative growth rate of 5.3%. South Korea was also impacted severely in the first half of the year, but began to recover strongly in the second half and, as a result, registered a 0.2% growth rate for the year 2009. China grew by 8.7% last year so did Mongolia at the likely rate of 2.8%. This year Japan is expected to recover at 1.7%, and China is expected to continue to grow robustly at 10% according to the IMF. Due to the economic recovery, trade among these Northeast Asian economies is expected to perform better than world trade generally.

Figure 1: Real GDP Growth Rates of the US, EU, and Northeast Asia (1990-2010)



Source: IMF, *World Economic Outlook*, October 2009, database.

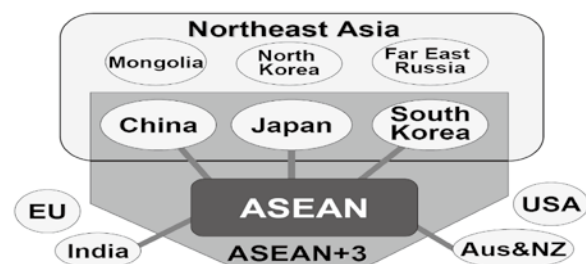
It is still too early to draw definite implications of the global financial crisis for the longer run growth prospects in Northeast Asia. However, given that economic recovery in the United States and Europe is likely to be weak over the medium term, it will be necessary for the Northeast Asian economies to expand domestic and subregional demand through concerted policy efforts. They must rebalance sources of growth away from excessive dependence on external demand in the US and Europe towards domestic and subregional demand. To achieve this, they need to further invigorate trade and investment and integrate their economies into a larger subregional market so that they can benefit from a scale economy and thus produce and spend more.

Lessons from ASEAN for Northeast Asia

Following the 1997-98 Asian financial crisis, East Asia has been the main driver of regional economic integration, without much involvement from the three non-core Northeast Asian countries. Although Japan, China, and South Korea have increasingly integrated among themselves and with Southeast Asian economies and the rest of the world, other Northeast Asian economies have not witnessed any significant integration. The main challenge is how to integrate Mongolia, the Russian Far East, and North Korea with the core countries of Japan, China, and South Korea, and with wider East Asia.

Over the past 25 years, the major drivers of East Asia's outward-oriented economic growth and integration have been market-driven trade, FDI and finance, and the formation of regional production networks and supply chains linked to international markets. The expansion of intra-East Asian trade has been remarkable compared with those of the North American Free Trade Area (NAFTA) and the European Union. Due to the slow progress of WTO-led multilateral trade negotiations, there has been an increasing worldwide trend towards regional integration through free trade agreements (FTAs), and Asia has been no exception. Most East Asian economies embarked on FTA negotiations with partners inside and outside East Asia.

East Asian economies have also intensified other types of cooperation such as infrastructure development, energy security, environmental protection, and finance. Such cooperation has been based on subregional

Figure 2: ASEAN, ASEAN+3 and Northeast Asia

Source: Author.

cooperation initiatives. The most successful example of subregional cooperation is that of the Association of Southeast Asian Nations (ASEAN), which is composed of Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. These countries have been working hard to accelerate economic integration through the establishment of the ASEAN Free Trade Area, the ASEAN Framework Agreement on Services, and the ASEAN Investment Area, and through infrastructure, energy and environmental cooperation. They are now heading towards the establishment of an ASEAN Economic Community by 2015.

As a result of these efforts, ASEAN is now the *de facto* hub for East Asian economic integration; it has established a series of ASEAN+1 processes, particularly in the form of ASEAN+1 FTAs such as those with China, Japan, South Korea, India, Australia and New Zealand, and others. It is now the core group of the ASEAN+3 process that puts together the 10 ASEAN members plus China, Japan, and South Korea (Figure 2).

Northeast Asia can learn from the experience of ASEAN integration and cooperation to enhance its own subregional integration and cooperation in areas such as trade and investment, infrastructure development, energy security, environmental protection, and finance. To achieve further economic growth, it is of utmost importance to enhance Northeast Asian integration and facilitate it becoming a competitive economic zone. ADB's 2008 study entitled, *Emerging Asian Regionalism: A Partnership for Shared Prosperity*, concluded that "emerging Asian regionalism is good for individual economies, good for the region, and good for the world". Northeast Asia as a key subregion of East Asia has an important role to play in this

process.

Northeast Asia as a Key Subregion

To achieve long-run sustainable growth, Northeast Asia needs to deepen subregional economic integration as well as integration with the rest of East Asia and the other world economies. A subregional cooperation mechanism in Northeast Asia would boost institutional (or policy-driven) economic integration not only for the subregion, but also for wider East Asia, as such a mechanism could eventually connect Northeast Asia with ASEAN. One of the principal goals of Northeast Asia's integration is the peaceful reunification and integration of North and South Korea so that a more peaceful, stable, and prosperous Northeast Asia can be realized. For this to be possible, North Korea must normalize its political relationships with South Korea, Japan, and the international community at large and embark on serious economic reforms and open-door policies. A peaceful Northeast Asia is an essential public good for the entire East Asian region as well as for the whole world.

Northeast Asia is unique in terms of economic integration. Overall, *de facto* (or market-driven) integration through trade and investment among the three core countries has proceeded smoothly. However, other countries in the subregion remain isolated from the movement toward economic integration, and as a whole lag behind other major economic subregions in both *de facto* and institutional economic integration. In Northeast Asia, there is not one single bilateral FTA between subregional countries, let alone a subregional FTA. Although Japan, China, and South Korea have recently signed many bilateral FTAs with countries both inside and outside East Asia, and have implemented their respective plurilateral FTAs with ASEAN as part of the ASEAN+1 processes, they have not concluded any between each other (Table 6). Northeast Asia suffers from dual gaps; one between *de facto* and institutional economic integration for Japan, China, and South Korea, and the other between these three core countries and the remaining countries in terms of *de facto* economic integration.

Several proposals have been made, and some joint studies have been conducted on forming FTAs among Japan, China, and South Korea, but no negotiation has been initiated on a Japan-China FTA or a China-South Korea FTA. Although Japan and South Korea began FTA negotiations in December 2003, no tangible progress was made and negotiations were suspended in November 2004.

Table 6: Free Trade Agreements in Northeast Asian Countries

	Within Northeast Asia	Outside Northeast Asia
Japan	--	ASEAN, Brunei, Chile, Indonesia, Malaysia, Mexico, Philippines, Singapore, Switzerland, Thailand, Viet Nam
China	Asia-Pacific Trade Agreement (APTA)	ASEAN, Chile, Hong Kong, Macao, New Zealand, Pakistan, Singapore, Thailand (Peru signed)
South Korea	APTA	ASEAN, Chile, EFTA, India, Singapore (US, EU signed)
Mongolia	--	--
North Korea	--	--
Russia	--	Armenia, Georgia, Kyrgyz Republic, Ukraine

Source: WTO, RTA database.

Negotiations on investment agreements between Japan, China, and South Korea have been under way since March 2007, but without much progress. It is recommended that the three countries negotiate on a comprehensive economic partnership agreement (EPA), including both trade and investment, as this would provide wider opportunities. For example, if Japan could agree to widen agricultural and fishery trade, China could make commitments to the protection of foreign investment and intellectual property rights, and South Korea could pursue efforts to strengthen the industrial supplier system, then the scope for agreement can be significantly widened.

Obstacles to institutional economic integration and agreements in Northeast Asia consist of not only economic factors but also non-economic factors, such as remnants of historic animosities, national rivalries, and a lack of community spirit. So various types of cooperation—including human and cultural exchanges, policy dialogue, and joint studies on history—could help ease these obstacles and create conditions for institutional economic integration.

Infrastructure Cooperation for Northeast Asian Connectivity

Northeast Asia's diversity is its strength, providing opportunities for trade, investment, and economic growth through enhancing its physical connectivity. An important area for the subregion's cooperation is in binding the economies more closely through efficient infrastructure linkages in transportation, telecommunications, and energy. Economies can flourish when they become intertwined with each other and the rest of the world. International supply chains developed among Japan, China, and South Korea—and ASEAN—take advantage of each country's comparative advantage, but these cannot be developed without the support of cross-border infrastructure connectivity. To address these needs and fill this demand, appropriate financing mechanisms need to be designed.

The global competitiveness of Northeast Asian economies depends heavily on the quality of their infrastructure. Table 7 shows that Mongolia is weak in infrastructure and there is also room for improvement

in Russia and China. It is essential to strengthen infrastructure—particularly in transport and energy—within and between countries to improve the competitiveness of the entire subregion.

As part of a postcrisis agenda, there are five reasons for increasing infrastructure investment, particularly for subregional connectivity, in Northeast Asia. First, infrastructure investment will continue to aid economic development and poverty reduction. Second, infrastructure will increase the competitiveness and productivity of an economy. Third, an increase in infrastructure investment can form an important part of growth rebalancing. Fourth, subregional infrastructure investment provides opportunities for further economic cooperation in other areas and trust building among the countries involved. Fifth, properly designed subregional infrastructure projects—in areas such as railways, wind farms, and hydroelectric grids—could address environmental concerns, climate change, and energy security problems in a collective manner.

Some Northeast Asian economies are currently undertaking an ambitious infrastructure cooperation initiative, called the Greater Tumen Initiative (GTI), established in 1995. Its objective is to identify and implement subregional projects and programs that encourage economic growth, improve living standards, and contribute to peace and stability in Northeast Asia. Presently, the GTI is a joint initiative of four member countries—China, South Korea, Mongolia, and Russia—and is supported by the United Nations Development Program (UNDP).¹ The Tumen Secretariat has been established to promote subregional infrastructure projects (Table 8) and identify potential investors and donors for funding.

Northeast Asia could further expand subregional infrastructure projects. The successful infrastructure cooperation in the Greater Mekong Subregion (GMS)—Cambodia, Lao PDR, Myanmar, Thailand, Viet Nam and the southern part of China—shows the value of enhancing subregional physical connectivity. The GMS, established in 1992, has aimed at developing infrastructure for economic development, promoting freer flows of goods and people, and encouraging the sharing of the resource base. Similar

Table 7: Global Competitiveness Index and Infrastructure Quality in Northeast Asia

	2001-2002			2008-2009		
	GCI	Infrastructure		GCI	Infrastructure	
	Rank	Rank	Score	Rank	Rank	Score
Japan	15	15	6	9	11	5.8
China	47	61	2.9	30	47	4.22
South Korea	28	27	4.8	13	15	5.63
Mongolia	--	--	--	100	133	--
Russia	63	--	--	51	59	--

Note: GCI = Global Competitiveness Index; Score for infrastructure: 1= poorly developed and inefficient; 7= among the best in the world

Source: World Economic Forum (2001, 2008)

¹ The Greater Tumen Initiative (GTI) originally started as the Tumen River Area Development Programme (TRADP) in 1995, intended to be a regional cooperation mechanism including North Korea also. But North Korea withdrew in 2009.

Table 8: Approved GTI Projects

Projects	No.	Name of the project
Transport	1	NEA Ferry Route Border Infrastructure Framework
	2	Modernization of Zarubino Port
	3	Mongolia-PRC Railway Construction
	4	Resuming Hunchun-Makhalino railway
	5	PRC Road, Harbor Project in the Border Between PRC and North Korea
Energy	6	Capacity Building on GTI Energy at Regional Level
Tourism	7	Capacity Building on GTI Tourism at Regional Level
Investment	8	Training Program for Officials from GTI Member countries
Environment	9	GTI Environmental Cooperation: focusing on Trans-boundary Environmental Impact Assessment (TEIA) in GTR and Environmental Standardization in the Northeast Asia
	10	Feasibility Study on Tumen River Water Protection

Source: GTI (2010).

Table 9: Primary Energy Consumption Needs in North East Asia (million TOE)

	Actual		Forecast		Average Annual Growth Rate (%)		
	1990	2000	2010	2020	1990-2000	2000-2010	2010-2020
Japan	439	525	543	561	1.8	0.3	0.3
China	673	932	1406	2063	3.3	4.2	3.9
South Korea	93	191	262	303	7.5	3.2	1.5

Note: TOE = ton of oil equivalent

Source: ADB/ADBI, *Infrastructure for a Seamless Asia*, 2009.

serious efforts are needed to connect Northeast Asian economies within the subregion, as well as with other economies outside the subregion.

The recent ADB/ADBI study, *Infrastructure for a Seamless Asia*, proposed the creation of a Pan-Asian Infrastructure Forum so that various subregions in Asia can coordinate and prioritize their subregional projects to realize a seamless Asia. The study also proposed the creation of an Asian Infrastructure Investment Fund to mobilize both public and private funds for Asia's infrastructure development. I would like to suggest the establishment of a Northeast Asian infrastructure investment fund to promote and finance cross-border infrastructure investment. This will require a common vision, strong leadership, and a shared commitment by Northeast Asian leaders, as well as support by international and regional development partners and bilateral donor organizations.

Energy and Environmental Cooperation

Emerging Northeast Asian economies, particularly China, are facing the difficult reality of meeting the increasing demand for energy while lowering the impacts on its environment and climate change in the face of rapid industrialization, urban expansion and development, and increased pollution. Critical efforts are needed to make transport and energy investments more environmentally friendly, protect the environment, and discourage greenhouse gas emissions. It is important that new infrastructure investment, particularly in transport and energy, should target environmentally sustainable projects.

In November 2005, an Inter-governmental Collaborative Mechanism on Energy Cooperation in Northeast Asia was established to facilitate energy cooperation and trade to enhance energy security in

Northeast Asia. Its vision is "improving energy security in Northeast Asia through energy cooperation in a sustainable manner by 2020." The major objectives include: (i) increasing the supply of energy in the subregion by lessening its dependence on energy imports from outside the subregion; (ii) enhancing the economy and efficiency of the supply and use of energy; and (iii) minimizing the environmental impact of energy production and consumption through an improved energy mix and greater energy efficiency.

Northeast Asian economies have already been involved in energy and environmental cooperation under GTI. In 2005, the GTI member countries declared the environment as a cross-cutting theme for priority areas of joint cooperation, such as transport, tourism, energy, and investment. The GTI is also undertaking a feasibility study on "Tumen River Water Protection" to protect the Tumen River from water pollution through subregional cooperation. Effective environmental cooperation would require standardized data and information across countries.

Energy consumption in the three core economies of Northeast Asia, particularly in China, is expected to rise significantly (Table 9). Green energy cooperation to enhance energy security and encourage a shift toward a low carbon society is essential for sustainable economic growth of the subregion. A shift toward a low-carbon society would call for a set of market-oriented policies to encourage energy efficiency and a wider mix of energy sources. As these policies would require reduction of energy price subsidies and/or caps on energy prices, thereby forcing energy prices to rise, strong social protection measures are needed to mitigate the negative impact of price liberalization on the poor and the socially vulnerable. In addition, these policies must be supported by international

assistance for financing, technology transfer, and capacity building.

Toward an Integrated Northeast Asia

In addition to meeting the challenges brought about by the global financial crisis, an enlarged and more integrated Northeast Asian market will contribute to realizing a peaceful Northeast Asia. Although non-economic factors can be important obstacles to Northeast Asian economic integration, closer subregional economic cooperation could help reduce tension, prevent conflicts, and build community spirit. European and ASEAN economic integration, and GMS infrastructure cooperation, provide clear positive examples.

A good place to start the economic integration process in Northeast Asia would be within the core countries of Japan, China, and South Korea. Such integration could then be expanded to include other economies in Northeast Asia. Therefore, a Japan-China-South Korea Economic Partnership Agreement (EPA) should be the first target to reach in forming a greater Northeast Asia FTA (NEA-FTA), and these three countries should strengthen other types of economic cooperation initiatives, including cross-border infrastructure development, energy security, and environmental protection. Mongolia may also participate in the trilateral cooperative initiatives. For the Russian Far East to be a member of the NEA-FTA, the Russian Federation will need to first join the WTO to set conditions for substantial trade and investment liberalization.

To support a subregional FTA in Northeast Asia and promote other types of cooperation initiatives from a

comprehensive perspective, a new institutional body, such as a secretariat for Northeast Asian Economic Cooperation, may be set up. Given the political situation in Northeast Asia, it is realistic for Japan, China, and South Korea to exercise leadership to build this type of economic cooperation body. The Secretariat could encourage Northeast Asian government officials to discuss various economic cooperation and subregional issues, by involving business people, scholars and researchers, and non-government organizations. The fact that the leaders of the three countries have met regularly since November 1999 would facilitate such institutional cooperation.

In these uncertain times, Northeast Asian economies should forge ahead with the challenging—and the immensely rewarding—task of integrating this diverse subregion for the benefit of all its citizens. Subregional cooperation and integration will help to further boost growth and prosperity in Northeast Asia and spread its benefits more widely. It will enhance the subregion's competitiveness and extend its global reach. It will help reduce poverty and promote greater environmental sustainability. Once the potential for substantial benefits—due to subregional cooperation in trade and investment, infrastructure development, energy, and the environment—is shown, these efforts could 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.