Economic Integration of Russia to the Northeast Asia

Natalia Victorovna Kuznetsova
Far Eastern Federal University, v. Ayaks, Russkii Island, Russia

Abstract: The paper researches the problem of the institutionalization of the integration processes in Northeast Asia in order to build a strong institutional environment for the development of regional economic ties, which will result in the declining importance of political negotiations. The article also evaluates the potential economic benefits for the Northeast Asia countries by expanding the market for the export industries. The role and capabilities of Russia in these processes are examined. The prospects of Russia's relations with the countries of Northeast Asia are analyzed.

Key words: Economic integration • Export • Import • Regional institutionalization • Inter-regional integration grouping • Commodity circulation • Competitive advantages • The cumulative effect • Energy supply • Resource potential

INTRODUCTION

Northeast Asia (NEA) has long held difficulty with the integration process. Domination in NEA was formed through earlier types of bilateral relations, burdened by a legacy of hostility and fundamental political differences which started deflecting only during the past decade. The countries gradually formed a new style of mutual cooperation between each other, characterized by the development of economic relations that go beyond ideological barriers. This style of mutual co-operation took place under the leadership of the private Japan sector, which was followed first by the Republic of Korea and Taiwan and then other countries in the sub-region of Northeast Asia.

However, the question of integration is not simple. Some authors write that the East Asian community does not act in the interests of creating a common identity, but instead pursue objectives of separate countries (Jones D. Martin, M. L.R. Smith 2007) [1]. During different times, authors would note a low level of economic integration in Northeast Asia due to the lack of strong regional institutionalization. The Asia-Pacific Economic Cooperation (APEC) was pointed out as the most successful regional grouping (R. Higgott, 1998; V.K. Aggarwal and Ippei Yamazawa, 2000; J. Ravenhill, 2002) [2; 3; 4].

For many observers of East Asian regionalism, it is clear that such integration is insufficient. The possibility of replacing the formal institutionalization by the regional economic integration is discussed (D. Ernst, 1997; D. J. Encarnation, 1999) [5; 6], both inside and outside of the region (C. Dent, 2003) [7].

The history of the institutionalization of the integration process gives evidence that in post-war East Asia, significant efforts were made to build a strong institutional environment for the development of regional economic ties. Unfortunately, these efforts have not been successful (K. Calder and Ye, 2004) [8]. The idea for creation of the regional cooperation institution with the name “The Council of the Northeast Asia Regional Economic Cooperation” (CNAEC) was first published by Chang Jae Lee (2000) [9].

The reason for extensive economic evaluation is that integration in Northeast Asia could increase the potential economic benefits to countries due to the scale effect, by expanding the market for the export industries (H. Milner 1997; K. A. Chase 2003; J. Pempel 2008) [10; 11; 12], the reduction of transaction costs between the contracting parties and the decline in the importance of political negotiations (V. K. Aggarwal and J. Ravenhill 2001) [13].

The core of Northeast Asia is composed of China, Japan and South Korea. These countries contribute to the framework of the “East Asian Community”, as well as to the security mechanism in Northeast Asia.
Therefore, my interest from the standpoint of Russia should primarily be focused on the analysis of relations with these countries.

Primary factors such as historically established trade relations, the size of the countries and purchasing power are needed for the strong integration processes, on the basis of which strong trade unions are created. The joint participation of the countries in Northeast Asia as one trading unit does not affect the volume of trade between those countries. Over the last decade there have been major changes in the motivation of the integration processes in Northeast Asia.

The Main Part. The pace of economic development and rapid economic growth in the Asia-Pacific region have led to the need to create effective inter-regional integration groups (APEC, ASEAN, ADB, SAARC, ESCAP, ASEM, ARF). Yet, the operational success of the currently existing organizations could be called into question. The analysis showed that the stated objectives have not been fully achieved by any of the organizations. Moreover, if in the social, political and cultural spheres there was work to a larger extent, there is still minimal cooperation in the economic sphere. To date, the institutions of international cooperation are the basis for the development of theoretical solutions and strategies for cooperation among states. However, the region has no organizations engaged in an effective and timely implementation of practical projects adopted by existing institutions. Those organizations are often considered areas for increased political influence and not a tool for achieving economic benefits.

Nevertheless, the leading countries of NEA are seeking to expand the number of integration agreements with developing countries in Asia, the implementation of which can be large in size and achieve faster economic advantages such as strengthening political influence in the region. China has signed 15 free trade agreements, including with ASEAN (2002), Hong Kong (2002), Macao (2003), Thailand (2003), Chile (2006), New Zealand (2008), Peru (2008) and Singapore (2008). In September 2010, the framework agreement on economic cooperation between China and Taiwan was signed, being extremely important for both parties.

It should be taken into account that Japan entered the path of integration processes later than the rest of the countries. The first agreement was signed in 2002 with Singapore. It resulted in the military and political reasons behind the disagreement from a number of states in the region (China, Republic of Korea) for Japan to become a leader of economic integration in NEA. In total, Japan signed 13 economic integration agreements with the Asia-Pacific Rim countries.

Prerequisites for a strong economic union are very real, according to the trade complementarity index (TCI) of NEA. The TCI shows how trade between certain countries is more effective than world trade as a whole. Therefore, trade between China, Japan and the Republic of Korea is sufficiently intense and may contribute to the integration process in the sub-region.

The geographical prerequisites for integration include the availability of natural resources, human resources, capital, technology and entrepreneurial spirit in the region. Even at the most superficial level, it is notable that Japan has apparent excess endowment with financial and technological resources, China with human resources and Russia with natural resources. Consequently, these countries are complementary economies.

Trade in East Asia grew strongly in the first years of the XXI century. The leading countries of the region (the Republic of Korea, Japan and China) have become more open than at the end of XX century. The growth of the trade turnover between these three countries from 2000 to 2009 was twice the growth in trade with all other countries. Today, the concentration of trade in the region is higher than in the EU. This is despite the fact that there is no mutual relations legislation between countries in NEA, which severely hampers the development of trade.

Today, China is one of the centers of the regional subsystem which seeks to expand the regional sphere of influence and promotion to become a global leader with its own sphere of influence. China is the consistently leading partner of Russia. It’s facilitated by a common border between the countries, as well as the complementarity of the economies at present. Progressive economic development of China cannot help but to have an impact on the economic development of Russia, especially in areas next to the border. However, Russia, in building its relationship with China, should take into account some aspects of Chinese development and factors that may create a risk of occurrence and development of threat to the economic expansion of the neighboring states. The cumulative effect of decades of growing internal problems in China can have devastating consequences.
China’s economy, as a result of the lack of systemic transformations, faces a number of challenges. It is becoming much harder to find the factors raising the rate of economy growth; there is considerable hidden unemployment, the imbalance of budget revenues and expenditures, the banking system’s problems and a sharp wealth disparity of the provinces. The irrational structure is the main cause of deterrent competitiveness in Chinese industries. They cannot and will not be able to find the international comparative advantage in all sectors, which is exacerbating the problem of China’s low energy supply.

Thus, the accumulated problems of the Chinese economy cannot help but create a threat of instability, both in the economic relations of Russia and China as well as in the increase in problems of economic security in Russia and the Russian Far East.

Japan is the second largest economic and trade partner of Russia in NEA. However, the extent of these relationships are insignificant in every way. In contrast to relations with China, trade and economic relations between Russia and Japan are in a stagnate state. Bilateral relations with Japan experienced a prolonged stagnation for several reasons. The Japanese business community has not yet shown interest in the development of a strategic, long-term relationship with Russia and the procurement of commodities does not imply additional infrastructure investments.

An equally disappointing situation is with Japanese investments in the Russian economy.

The third main economic partner of Russia in Northeast Asia after China and Japan is South Korea. South Korea has advanced into the top 15 major partners of Russia in the global market.

It should be taken into account, though, that most countries are now experiencing a slowdown in economic growth and the painful process of structural reforms in the economy. This makes the prospect of significant growth in demand for commodities unlikely. Finally, most exports from the Russian Far East can be relatively easily replaced with similar products from other Pacific Rim countries.

Today, the importance of Russia for NEA is determined by its huge resource potential, although Russia cannot effectively use its advantages in NEA. For example, the system of international transport corridors in the Far East and Trans-Baikal, including the two Eurasian Corridors - the Trans-Siberian Railway (subject to connect to the Trans-Korean Railway, “The Great Northern Silk Road”) and the “Northern Sea Route”.

Russia is also working on the active promotion of a number of energy projects: Sakhalin oil and gas, electric power projects for large bridges such as “Eastern Siberia - Pacific Ocean”, “South Yakutia - Sakhalin - Japan”, “Primorye - North Korea - South Korea” and the connection of the Siberian and Far Eastern gas production centers to the Unified Gas Supply System.

In this situation, Russia, taking advantage of its geographical proximity to major energy consuming countries in NEA, can realistically become the largest supplier of energy products for their needs.
Russia is interesting for its partners due to resource potential in the Russian Far East and the favorable geo-economic and geo-political situation in the region. It’s also in proximity to one of the most important and fastest developing macro-regions of the world. The Russian Trans-Asian gas and oil network, with many directions and access to China, Japan, South Korea and Southeast Asia, will enhance their energy security.

All of this in the situation of modern development threatens the economic security of Russia and does not make it a full-fledged partner. For the Far East of Russia, those factors make its economy into a mono-economy.

Since the relative advantages of owning natural resources gave way to the benefits of those who can buy and use them, there is a question of if Russia should focus on the integration vector and if it will slow down the pace of Russian economic development.

Unfortunately, in the aforesaid list, there are no high-tech and informational projects which are key figures for performance of the new economy in post-industrial society. Consequently, it is still an important obstacle to full economic integration that the partners in the integration of Northeast Asia are imbalanced in the size of the market and level of technological development.

Today, the interests of Russia in cooperation with China lie in the field of scientific and technical cooperation such as space and biotechnology, electronics, communications systems and engineering. The trade of manufactured finished goods and modern technology can also significantly improve the structure and volume of Russian exports to the Republic of Korea. Another important area of economic cooperation between Russia and the Republic of Korea (as well as between them and North Korea) is efforts to link the Trans-Korean Railway and the Trans-Siberian Railway. In the trade and economic relations with Taiwan, Russia has high hopes for their development by enhancing bilateral relations in the fields of scientific and technical exchange.

However, we know also that the Japanese economy is increasingly shifting towards the development of high-tech industries and therefore the scale of imports of raw materials in the country are reduced. China, on the other hand, increases imports of raw materials and is most interested in developing cooperation with Russia to gain access to the resources of Siberia and the Far East.

However, the export-oriented model is equally inherent to China and Japan and the neighboring giant markets, undoubtedly, are of great interest to them. The question, rather, is whether these countries, Japan in particular, are prepared to continue opening their own markets for the products of neighbors.

Russia should be integrated only on the basis of strong positions. This will allow Russia to dictate the terms of mutually beneficial cooperation. However, so far it has not worked; sufficient internal balance between economic and social processes should first be achieved, sustainable growth should be assured, the processes of capital accumulation should be normalized, etc.

Formally, Russia participates in the inter-governmental and business organizations of Asia-Pacific and East Asia, but does not play any significant role in the trade and investment cooperation with them.

Breakthroughs in quantitative terms of the Russian economic development predefined by active foreign economic activity is an indicator of integration. However, talking about the growth of GDP and on the basis of the growth of the economy, we forget that modern developed countries are guided by other priorities not quantitative, but qualitative: the movement of jobs, the dynamics of employment and unemployment and, of course, the increase of competitiveness. These figures for Russia do not indicate growth.

Russia is trying to integrate in Northeast Asia through the Russian Far East. However, it is clear that this region has very serious socio-economic problems:

- The presence of significant imbalances in industrial development areas.
- An uneven dispersal of human, technological and natural resources in the region.
- The contradiction between the availability and consumption of raw materials.
- Sufficiently low innovation potential of the economy of cities of the Russian Far East.
- Poor development of the financial infrastructure and high financial dependence on the federal budget.
- In the Far East region of Russia remains difficult social and demographic situation.

The Russian Far East has the most favorable factors for Russia’s entry into the economy of Northeast Asia, but it cannot develop a large-scale integration process. The potential of the region is still not implemented. The economy of the “southern” border regions is 70% focused on the countries of Northeast Asia, which is the result of geographical proximity, but not integration. The limiting factor is the lack of economic development of the areas immediately adjacent to the state border.

The main reason for the problems of integration in the region of Northeast Asia is a gap in the development of
the region, as we have said above. It is clear that the economy of the Russian Far East is far behind its main partners of NEA to cooperate effectively in this market. Unfortunately, the weak development forms and increases the threat of socio-economic development of the Russian Far East.

CONCLUSION

Received and systematic data analysis suggest that, among the countries of Northeast Asia, there are clear leaders in economic development; there are also countries that are not able to provide competitive goods and products to the market. The study showed that on the basis of common cultural, religious and linguistic characteristics, the region traditionally closely interacts with countries such as Japan, China, South Korea, Taiwan and Hong Kong. North Korea operates in isolation, as a relatively closed state, thus preventing interaction with other countries.

If we consider the position of the Russian Far East, it can be concluded that the region, despite its prime location and huge resource potential, remains the weakest member of the interaction between the countries of the region. Neighboring countries prefer to strengthen their relations with the European Union and the United States, going around the Far East. This happens for several reasons; among the most important are poor infrastructure, weak competitiveness of sectors of the economy, especially the agricultural sector and the slow speed of industry.

REFERENCES


