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NORTHEAST ASIA SINCE 2012 – POLITICAL AND ECONOMIC ANALISYS

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Moscow 2022

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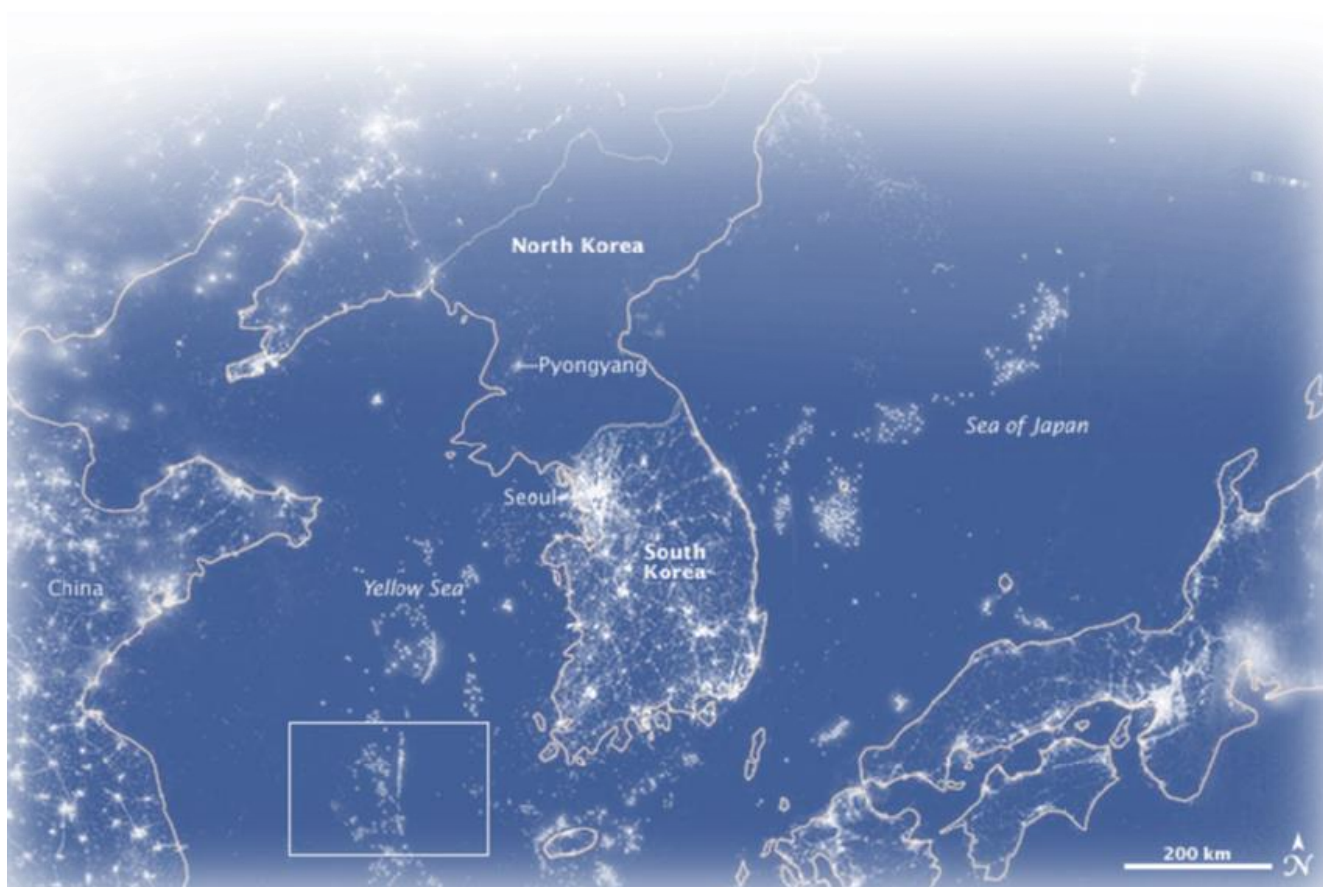
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Abstract

The article focuses on the political and economic aspects of Northeast Asian states. A wide range of interests in Northeast Asia is determined by both the region's critical importance in global affairs and the Northeast Asian countries' role in the world economy. The asymmetry of economic growth, each country's vector of politics combined with other factors of a global nature form the characteristic features of the regional interaction, its place in broad international processes. Economic relations in Northeast Asia are developing in parallel with the intensification of the rivalry between nation-states, based on their strategic goals.

Keywords: Northeast Asia, Economic Relations, Regionalism, International Conflicts.



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Introduction

Nowadays, Northeast Asia (NEA) is possibly one of the key trend-setting regions in the world considering the economic and political aspects. It is home to one fifth of global population and accounts for 25% of world gross domestic product [9]. NEA is a region of dynamic development and international innovative pushes.

These circumstances affect the directions of world economic development including business production partnerships, information and communication networks, trade promotion, encouragement of innovation and technology transfers.

Under the influence of various factors of economic competition Northeast Asian countries' relations have seen tremendous ups and downs. Economic cooperation inside the region becomes more complicated because of the political climate. NEA is an area of strong political tension and a crossroads of global strategic interests. Challenged by historical memory problems, ambiguity over the territorial claims, military race, nowadays the foreign policy decisions and the economic interests of Northeast Asian countries have a significant influence on regional and international affairs.

All of the factors listed above forge the specific alignment of regional development and regionalization processes that we can observe inside of the time frame of our project topic: between years 2012-2020.

In 2012, political leadership changes took place in many countries of the region: Shinzo Abe became a prime minister of Japan, Xi Jinping came to power in the People's Republic of China, Park Geun-hye won the presidential election in the Republic of Korea, Vladimir V. Putin was voted for to be the president for his second consecutive in the Russian Federation, Kim Jong-un succeeded his father just the year before in the Democratic People's Republic of Korea. Since this time, an increase of the influence of internal national factors can be revealed in the foreign policy and decisions of the countries of the region. This trend is reflected in the processes taking place in the region. Another time boundary of the study period is the year 2020 when various elements of national systems, including economy, health care, social sphere, have been tested for resilience because of the COVID-19 pandemic. The situation has also impacted greatly the internal processes in the countries and the regional interaction in NEA.

In the paper, we focused on the main characteristics of Northeast Asia while describing the political climate and economic trends, both in the region in general and in the separate countries. We also touched upon theoretical points of regionalization in order to focus our analysis on the problem defined in the project topic.

1. The Northeast Asia: countries and region

A region is a large area which is situated within one country or covers the territory of several countries combined by geographical, economic, political, administrative, or other aspects. In geopolitics aspect, the Northeast Asia region includes the Democratic People's Republic of Korea, Japan, Mongolia, the People's Republic of China, the Republic of Korea, the Russian Federation, the Republic of China. The Sea of Japan, the Yellow Sea, the East China Sea, and the Sea of Okhotsk are sometimes included in discussions of the region.

The region combines countries with different levels of economic development, political traditions, constitutional and legal models, different goals of national interest groups etc. Basic economic indexes and world country ratings show the different stages of countries development in Northeast Asia [16]: Japan is a developed country; the Republic of Korea is a moderately developed country; the Russian Federation has an emerging economy; the People's Republic of China also has an emerging economy; Mongolia is a landlocked developing country; the Democratic People's Republic of Korea is a relatively backward developing country.

The Northeast Asia countries are characterized by differences in their geographical and climatic features. For instance, the Russian Federation stretches on two continents from Europe to Asia, Japan is an island country, while Mongolia is located far inside the Asian continent. However, although countries have those geographic, economic, political and cultural differences, they all face common problems as elimination of natural disasters consequences, reducing poverty and unemployment rate, solving demographical challenges, etc. Thus, the region becomes a space for communication of countries in economies, science, technology, politics, culture etc. This activity promotes regionalization – the process of interaction on the territory of the region. It creates formal and informal ways for cross-border interaction of countries and is the main factor of regional development.

The indispensable basis for regionalization is regionalism. Modern regionalism is a consequence of the efforts aimed at increasing the security, stability, and sustainability of the multi-state international system. Regionalization is a complex process and, therefore, should be studied with a multi-dimensional approach. We aimed at designing our report in functional parts suiting for any type of regionalization process.

Regional cooperation mechanisms can occur in various forms such as top-down (i.e., primarily government-led), bottom-up or civil society, business or subnational organization-led forms. Formal regional governances and coordination are realized by intergovernmental organizations (Trilateral Cooperation Secretariat, Greater Tumen Initiative, Shanghai Cooperation Organization), subnational organizations (Organization for the East Asia Economic Development, Association of Northeast Asia Regional Governments, United Nations ESCAP East and North-East Asia Office), civil society organizations (Economic Research Institute for Northeast Asia, Northeast Asia Economic Forum).

Nonetheless, it seems that in the case of the NEA region, regionalization progressed through the opening of borders to trade, investment supported by the development of regional infrastructure and transport links. In order to enable these links, various forms of technical contacts have been established.

By contrast, there has been a great difficulty in making progress on realizing multilateral governance from the point of view of more top-down regionalism. Thus far, the NEA subregion has adopted a model of regionalism which tends to be a more heterogeneous and multidimensional phenomenon based on economic, cultural, political, security and environmental aspects of market and society as a whole. In addition, a mostly bilateral/trilateral approach to cooperation has been taken [16].

2. Political climate in Northeast Asia

The general atmosphere of regional processes is strongly influenced by the political climate of NEA, which can be characterized by tension and mutual distrust stemming from the historically developed disunity of the countries, the influence of internal political factors and the unfolding geopolitical situation today [13]. The political climate and landscape of the region are shaped under the influence of the following fundamental factors:

2.1. Security architecture of Northeast Asia

The security architecture of Northeast Asia is disconnected and can be characterized by the rapid increase of military potential and defense spending of the countries in the region, as well as by the tendency towards a new regional order, which is happening against the background of serious contradictions in the targets of the main states of the region.

Regional tensions are fueled by unsuccessful attempts at an inter-Korean settlement and a solution to the problem of nuclear non-proliferation. The confrontation in the area of the Korean Peninsula between two powerful groups of the armed forces, the North Korean and the US-South Korean, brings periodical flare-ups of tension in Northeast Asia.

Thus, the security architecture of Northeast Asia is polarized. Moreover, it is driven by China's rise and Sino-American strategic competition. Considering the multifaceted nature of the Sino-American strategic competition, it is embodied in the Indo-Pacific agenda.

As the National Security Strategy of the United States (2017), stresses, the Indo-Pacific marks "the geopolitical confrontation of a free and repressive vision of the world order" [8]. Hence, "Free and open Indo-Pacific", promulgated by S. Abe in 2016, has become a framework for the regional participants' attempts of pursuing their own view of the international order in Asia [3]. The cooperation between 'like-minded' states – the U.S., India, Japan, and Australia – is aimed at the promotion of the "rules-based international order" [5].

Both the Indo-Pacific and the Quadrilateral Security Dialogue, or the Quad, were claimed by China as "an Asian NATO", which reflects the trend of block polarization of the region due to the Sino-US confrontation. This situation became another factor of instability in NEA, which involves more participants from the surrounding countries in the regional security architecture circumstances. Furthermore, the strategic instability in Northeast Asia is complicated by the lack of a dispute settlement structure on the joint platform in general.

2.2. The problems of the Korean Peninsula

The current situation of confrontation in the Korean Peninsula is influenced by a range of problems that have accumulated over decades. In addition, there are no authoritative mechanisms for preventive diplomacy and no dispute for conflict resolution. At the same time, it should be noted that none of these problems can be fully solved in the foreseeable future, not only because of the incompatibility of the positions of the parts involved, but also because it seems unrealistic to "isolate" each of the existing problems from the general series and solve them separately. The main reason is that they are all closely interrelated and represent different aspects of one multidimensional problem, which can be conditionally designated as "the Korean Peninsula problems".

This conflict situation of the Korean Peninsula escalates the level of political tension in NEA in general. It is thus anticipated that this factor will not be excluded from the regional agenda in the nearest future.

2.3. Territorial disputes

State borders and territorial frames of the countries in Northeast Asia are regulated by international law. However, the regional political tension in NEA is often manifested by the waves of aggravation of territorial disputes which are included in the configuration of historical conflicts.

Such acute dynamics of territorial claims have a foundation, rooted in the historical controversies. Contested interpretations of the historical events nowadays present an arena gaining momentum for political rivalry, and its fundament lies in the domains of identity, values, sovereignty, and territory.

Some vivid examples are the Paracel Islands and Spratly Islands disputes in the South China Sea between the [People's Republic of China](#) and the ASEAN states; the Liancourt Islands (Dokto/Takeshima) disputes between Japan and the Republic of Korea; the [Lesser Kuril Chain](#) Islands disputes between the Russian Federation and Japan; the Pinnacle Islands (Senkaku/ Diaoyutai) dispute between the People's Republic of China, Japan, and the Republic of China respectively.

However, the discourse on the disputed territories does not enter the active phase in the zone of military conflicts as in the Middle East. The project participants see the solution in the creation of peace parks on disputed territories to take them out of the international political discussions.

2.4. Humanitarian problems of the historical past

Humanitarian problems of the historical past are another aspect of the fundamental conflicts in the region, lying at the same time in the fields of law, justice, morals and identity.

The "comfort women" issue, or Japanese military sexual slavery during World War II still impedes the developments of the Japan-Korea ties. Despite the Japan-ROK Foreign Ministers' Meeting in 2015 resulting in a temporary agreement on "resolving the issue", current academic discussion focuses on settling it by highlighting differences and justifying various positions rather than maximizing the minimum shared understanding for reconciliation. According to this project's members, it may be possible to mitigate the tension around this topic by bringing the discussion to the issues at a greater

scale. For instance, the problem of sexual slavery can be altered to the role of women in the modern world in general.

It is expected that all these factors of the political environment will not be disregarded in the regional agenda any time soon.

3. Economic trends

Economy is the main platform for regionalization. Economic regionalization is a process of creating stable international economic ties and an economic complex in any combination between countries or within-country areas' connections. Countries in the region try to combine their economies to improve efficiency and growth, as well as to solve political issues.

Among the factors that influence regional economic processes are the following:

- Politics on local, regional, and national levels could play an important role in the decision-making related to regional processes.
- National, regional, and global strategies of countries and economic participants.
- The level of development in economic and infrastructure sectors, availability of natural resources.
- Human resources.
- Level of risk (natural disasters, etc.).
- The presence of complementary economic structures of countries.
- The commonality of economic and other problems that the countries of a particular region face.
- The architecture of regional economic processes can be based on the following features: trade, investment, money and finance, infrastructure, humanitarian exchange in the region.

3.1. Trade

Trade is the most fundamental linkage among countries of NEA and a platform where formal regional integration takes place most frequently. Intraregional trade shares of Northeast Asian economies show intensive and close economic ties [16].

Most NEA economies adopt manufacturing export-oriented development strategies. But NEA does not have a strong intergovernmental platform to steer regional cooperation processes in trade. In the absence of a subregional or multilateral mechanism of trade and little progress on global trade talks, despite the tactical and strategic differences between the countries of Northeast Asia in their approaches to free trade, NEA economies have turned into the most common format of the economic integration architecture in the region: bilateral and multilateral Free Trade Area, based on Free Trade Agreements [16]. Furthermore, the nations of Northeast Asia are currently actively promoting regional economic cooperation. For example, the Republic of Korea has already signed an FTA with China; China, Japan and the ROK are proceeding with FTA negotiations; Mongolia and Japan have signed an Economic Partnership Agreement (EPA). Consequently, the space for cooperation in the Northeast Asian region will have a possibility of an extension in the future. However, it is very probable, that the agreements, such as Trans-Pacific Partnership (2016), which was later changed to Comprehensive and Progressive Agreement for Trans-Pacific Partnership (2017), and Regional Comprehensive Economic Partnership (2020) will be corrected in the future in trade policy of the region's countries in accordance with internal circumstances and new international environment.

During the time frame of project, a share of the region in global trade has increased significantly making the NEA subregion one of the largest trading blocs in global trade [16]. Nonetheless, the share of intraregional trade in total NEA trade has plateaued and mainly due to the slowdown in trade between China and other economies in the subregion [16]. This came in the wake of rising trade tensions between the US and the PRC along with continued moderation in global economic growth. The pandemic adversely affected trade growth in all economies of the region, but to varying degrees and at different places. Trade volume fell steeply negative at the beginning of February 2020 as the coronavirus disease (COVID-19) pandemic greatly affected the PRC. By May 2020, trade volume contracted by -10.1% and has bottomed out since with the return of growth which stood at 5.3% by September 2020 [1].

Trade tensions between the US and China, the COVID-19 pandemic shock have brought a lot of challenges to the international trade, but also provided the base for the new type of cooperation and

pushed to reconsideration of the previous ties and politics. External and internal factors design conditions for the competition of the People's Republic of China, Japan and the Republic of Korea for the Australian market. Due to the COVID-19 pandemic Australia could not rely on former historical connections with the US or the United Kingdom and was forced to establish a dialogue with neighboring countries both by bilateral contacts and by the ASEAN platform. This situation created a new arrangement in Asia-Pacific. In addition, the need of Australia to recover both from coronavirus and bushfires makes country more eager to be less dependent on agriculture and pay more attention to the high-tech industry. At last, the huge rise of the medical supply and development has proved to be one of the key industry drivers for both Australia's and Northeast Asia's economy.

3.2. Investment

Foreign direct investment (FDI) plays a key role in regional interaction and growth as well as narrowing the development gap among countries.

Investment processes in NEA can be characterized by the following elements. In general, Northeast Asia is in the global investment landscape. As it can be seen from previous research, NEA is one of the leading destinations and sources of FDI in the world, sharing 8.4 and 21.1 per cent of the global FDI inflows and outflows, respectively, in 2015 [16]. FDI inflows into NEA are directed primarily to China, while substantial FDI outflows originate from China and Japan. Chinese companies are proactively pursuing mergers and acquisitions in developed countries. Meanwhile, Japanese multinational enterprises continue to seek growth opportunities abroad.

During the last few years, the cooperation between Russia and China including an investment platform, became deeper. In 2018 companies as Alibaba Group, Mail.ru Group, MegaFon and the Russian Direct Investment Fund created AliExpress Russia joint venture. Furthermore, in 2018 The Russia-China Investment Fund and Tus-Holdings agreed to build Sino-Russian high-tech Innovation Park in Skolkovo Innovation Centre and create Russia-China Venture Fund as a result of close cooperation.

Trends in intra subregional foreign direct investment are characterized by low intraregional FDI among NEA economies despite the magnitude of FDI in the subregion [16]. Despite the global role of Northeast Asian FDI, intra subregional FDI is limited and concentrated on the China-Japan-Republic of Korea supply chains.

Trends in extra subregional foreign direct investment are designed by the fact that some of the NEA economies are part of major economic groups, which constitute a significant share of global FDI and feature remarkable intragroup investment. Major NEA economies continue to expand their presence and role in regional production networks, particularly in the Southeast Asian subregion, while China, Japan and the Republic of Korea are already parties to ASEAN free trade agreements and are among the top investors in ASEAN.

As the NEA economies continue to engage in trilateral and regional negotiation for free trade agreements, the subregion could investigate current investment structure and plan initiatives that could promote intraregional FDI integration. Nowadays open innovations are seen as a driver of international competition and development of cooperation in the globalizing markets and as an integration factor.

COVID-19 pandemic has had a significant effect on the whole global economy. Efforts in containing the virus continue to weigh on economic activities, whether on the supply or demand side. The region's bleak growth outlook will negatively affect inward FDI flows.

Sanctions caused by trade and tech confrontations between the US and China are leading to the "decoupling" trend and "G2" (group of two big markets), including the creation of two separate competing technological ecosystems and two separate supply chains – for Chinese and for American markets. Companies work for two markets: staying in China producing goods for the Chinese market and relocating their manufacturing in order to produce for the US.

Some countries of NEA have national programs supporting companies' relocation out of China. Japan has launched a ¥220 billion (\$2.08 billion) subsidy program to encourage companies to bring manufacturing back home and an additional ¥23.5 billion was allocated to fund moving production to Southeast Asia. Nearly 90 Japanese companies were approved for the subsidies as of July 2021, while more than 1,600 companies have applied for the funds [10]. The Japanese government is incentivizing domestic companies to pivot production away from China and to Japan and Southeast Asia. A list of companies which will benefit from the first round of subsidies was announced, with 57 companies receiving a total of \$535 million to open factories in Japan and 30 others getting paid to expand production in Vietnam, Myanmar, Thailand and other Southeast Asian countries [2].

However, governmental measures do not always move in the same direction as the development strategy and the reality of companies. Experience in promoting reshoring in recent years shows difficulties with the return of companies.

Most common countries for relocation in the Northeast Asia region are home-countries of the companies (in case of Japan and South Korea it is due to their national programs) and Taiwan. As for other countries, companies can also move to India, Vietnam and Thailand. In fact, the refusal of several tech industry companies to meet the demand in China created new opportunities for competitors to gain (MediaTek Inc., SK Hynix). As for other countries of the region, the Democratic People's Republic of Korea, Mongolia and the Russian Federation, their situation as alternative countries for relocation of manufacturing is more complicated for the reason of sanctions and various export baskets.

3.3. Money and finance

The large gap among countries in terms of financial development and internationalization poses a significant challenge to financial integration in the subregion. In order to make an overview of the financial situation in the NEA region, we examined several main indicators of some areas, including capital market, banking sector and global financial centers.

3.3.1. Capital market

On one end of the spectrum, China's and Japan's stock markets are the largest in the region with 3,777 and 3,704 listed companies in 2019 respectfully [6], while on the other end, Mongolia's stock market has 218 listed companies [7], Russia's has 213 listed companies and the Democratic People's Republic of Korea does not have a functioning stock market yet. Even with the progress made on financial market development in recent years, financial integration and cooperation would merit from closer attention among the NEA countries [16].

Stock market capitalization over GDP and the value of stocks traded over GDP directly measure stock market activity. Japan and the Republic of Korea have the highest ratios of stock market capitalization over GDP in the NEA region, mainly as a result of the high degree of openness of the capital account and, in the case of the Republic of Korea, the strong growth of some of the global conglomerates listed in the stock market.

Regarding the economies of scale in China and Japan, there is still great potential for further stock market development in these countries amid the continuing downward trend brought about by the global financial crisis. As for China, almost half of the market capitalization is held by state-owned enterprises, and the government still exerts strict control over the domestic financial market. The Russian Federation's investment climate has improved recently, but global investors still regard it as a higher risk than China, Japan and the Republic of Korea.

3.3.2. Banking sector

One of the most used indicators for banking sector development is the ratio of domestic credit provided by the banking sector over GDP. In the ENEA subregion, Japan has by far the most developed banking sector. In general, the ENEA countries have a financial system that is more dependent on the banking sector than on capital markets, where the levels of domestic credit provided by the banking sector over the GDP ratio remains higher than market capitalization over GDP. Meanwhile, corporate financing is becoming less dependent on the banking sector, as many of the larger corporations are now able to raise funds through direct financing. As a result, trends in banking services have moved from corporate banking towards retail banking.

Among the NEA countries, foreign banks are located in China, Japan, the Republic of Korea and the Russian Federation. Even in these countries, foreign banks from other ENEA countries are few compared with those from the non-ENEAE countries [16]. The reason for low levels of banking sector integration among the ENEAE countries is twofold. Firstly, the banking services themselves have changed the business structure from corporate banking towards retail banking. Global banks are less attractive to local customers unless the banks provide very privileged services, which are costly and rather profitless for global banks. Secondly, the NEAE countries have very diverse restrictions, which are sometimes discriminatory against foreign banks. These barriers make it difficult for global banks to operate in the ENEAE countries, resulting in the banking sector being less integrated.

3.3.3. The Global Financial Centers Index (GFCI)

Global financial markets have demonstrated resilience. The GFCI has been an important indicator for financial centers to gauge where they stand globally and how they can improve further. In 2021, London fell to only one point ahead of third place Shanghai. Hong Kong moved up a place to fourth,

one point behind Shanghai. Beijing took the sixth place in the rank. Tokyo dropped three places from fourth to seventh [12].

3.3.4. Under the COVID-19 circumstances

One of the main characteristics of most NEA countries in the financial sector is a high degree of intervention by the governments, especially during the crisis period. In response to the COVID-19 pandemic and subsequent financial market stress, authorities implemented measures to navigate economic overhang and ease financial strains. These included fiscal support, policy rate cuts, liquidity support, and credit provisions, among others. Moreover, some emerging market central banks, including the ones in the region, implemented unconventional monetary policy measures through local currency bond purchase programs, including government securities, either to support monetary policy or market liquidity.

In terms of monetary policy, Northeast Asian countries have reduced interest rate and provided liquidity to minimize the negative impact of COVID-19 on the real economy. Apart from the interest rates cuts, central banks have provided liquidity to the financial markets through various measures. For example, the Bank of Japan has increased the size and frequency of Japanese government bond purchases, conducted a special funds-supplying operation to provide loans to financial institutions, and increased the targeted purchases of corporate bonds and commercial paper. The Bank of Korea has launched a new lending scheme “Corporate Bond-Backed Lending Facility” to provide loans to banks and non-bank financial institutions. The Bank of Russia has also introduced a new RUB 500 billion (around USD 6.6 billion) facility for SMEs lending and reduced the interest rate on the existing RUB 175 billion (around USD 2.3 billion) facility (CBR, 2020) [14].

These swift policy actions by authorities, within and outside the region, eased financial conditions greatly and restored investor sentiment by June 2020. Equity prices and exchange rates trended upward after April 2020. In fact, stock prices in Japan, the People’s Republic of China (PRC), the Republic of Korea, Taipei, China traded above their start-of-the-year values as of the end of December. However, for some economies in the region, shares have yet to reach their start-of-the-year values in 2020. The Australian dollar, yen, won, ringgit, peso, NT dollar, and baht surpassed their start-of-the-year values as of the end of December, but several regional currencies did not. The extent to which regional exchange rates reacted was significantly more moderate than during the 1997 Asian financial crisis and

the global financial crisis. Nonresident portfolio equity outflows stopped, and debt inflows resumed by June 2020.

To summarize, the wide disparity in financial growth and internationalization among countries is a substantial impediment to financial integration in the subregion. In the financial sector, one of the key characteristics of most NEA countries is a high level of government intervention, particularly during times of crisis. The NEA countries have a wide range of limitations, some of which are discriminatory toward international banks. These obstacles make it harder for international banks to operate in ENEA countries, resulting in a less integrated banking industry. In terms of economies of scale in China and Japan, despite the global financial crisis's ongoing downward trajectory, there is still a lot of room for additional stock market development in these nations. Although the investment climate in the Russian Federation has improved recently, global investors still consider it to be a higher risk than China, Japan, or the Republic of Korea.

The demand for large-scale financing for infrastructure projects and climate change mitigation projects offers new opportunities for mobilizing funds through the issuance of bonds. A key factor in drawing investors towards financing infrastructure projects, especially in Asia where the bond market is only just emerging, is the need to adequately address the risks, especially those related to uncertain legal and property rights issues and government transparency issues.

3.4. Infrastructure

3.4.1. Energy systems

The main objective of the energy integration in NEA is to improve energy security with the benefits of geographical proximity and the potential of complementarities among neighboring countries, fostering economic growth by facilitating energy trade, optimizing resource allocation across countries, enhancing economic and technical efficiencies. However, energy integration is not an easy process given the sensitive problems of national security, national regulation schemes and even sovereignty issues of the countries.

Energy situation in the Northeast Asia shows us that with the exception of coal, reserves of oil and gas in the NEA subregion are relatively small by comparison to those at the global level, and most

production is confined to China and the Russian Federation. Yet, there are major global energy consumers in the subregion: China (23.0 %), Japan (3.5 %), the Republic of Korea (2.1 %) and the Russian Federation (5.3 %), which together accounted for 33.9 % of the global total primary energy consumption in 2014 [16].

The following facts can illustrate the general situation in the NEA energy sector. China has been a net oil importer although it was the world's largest producer of crude oil. In 2015 China also became a net importer of liquefied natural gas. The low rates of energy self-sufficiency in Japan and the Republic of Korea and the increasing energy demand in China that far surpasses the domestic production capacity resulting in the countries being ranked as the world's top net importers of crude oil. Meanwhile, the Democratic People's Republic of Korea, Mongolia and the Russian Federation are net exporters of energy: the Russian Federation is a net exporter of crude oil and natural gas production, the Democratic People's Republic of Korea and Mongolia are also net energy exporters of coal, mainly to China. Despite being a net energy exporter, the Democratic People's Republic of Korea has difficulties in meeting its own basic energy needs [16].

Nevertheless, during the last years, intraregional energy trade increased gradually [16]. China in particular transformed from an exporter to an importer and has rapidly increased the volume of its energy imports. Large amounts of oil were imported not only to meet growing demand but also to construct strategic petroleum reserves and diversify the sources of oil imports in order to mitigate geopolitical uncertainties.

Some other characteristics of the NEA energy system: energy connectivity (oil pipeline, gas pipeline and power grid) in NEA is relatively low, current cross-border power cooperation projects remain bilateral and small in scale. Meanwhile, national institutions and power corporations have put forward various proposals for power interconnections at the subregional level: the Northeast Asian Region Electrical System Ties, Asian Super Grid, Gobitec and the Asian Super Grid for Renewable Energies in Northeast Asia, etc.

3.4.2. Transport connectivity

Without a doubt the importance of subregional transport connectivity is well recognized in intergovernmental subregional platforms, such as the Greater Tumen Initiative and Shanghai

Cooperation Organisation. But cooperation on cross-border infrastructure investment has not been compared with other subregional mechanisms in Asia for driving forward regional economic cooperation such as the Greater Mekong Subregion Program, etc.

From this point of view the Chinese initiative “One Belt, One Road” can promote strengthening of the reciprocal traffic between China’s interior western region and each country of NEA. At the same time, within each nation’s process for economic cooperation and interchange, they will support efforts for global economic development, provide an engine, and extend China’s influence in the global economy [11].

Currently, each country has formulated an opinion in the direction of relatively positive attitude toward the “One Belt, One Road” initiative, and are hoping for its coordination with the relevant nations’ strategies. For example, there is the “Eurasia Initiative” raised by the Republic of Korea, the “Steppe Road” raised by Mongolia, the “Eurasian Economic Union” initiatives, the China–Mongolia–Russia Economic Corridor, which is being emphasized, among others; the Japanese government and firms are also paying attention to the “One Belt, One Road” concept.

The Arctic is one more field of cooperation and competition. This area became the crossroad of many growing interests. The countries of the NEA region do not remain on the sidelines. For Russia, China, Japan and South Korea prestige, politics, and navigation play a significant role in the Arctic.

The NEA region has experienced rapid growth in the air cargo traffic and an increase in passengers transported by air, more low-cost carriers entered the market, flight frequencies significantly increased and country investments in new and existing airports increased equally the number of flight arrivals and departures. Specifically, the number of flight arrivals and departures between China and the Republic of Korea and between Japan and the Republic of Korea increased [16]. China and the Russian Federation were connected to all states in the NEA region.

From the geographical disposition of NEA, ocean transportation is an essential logistics and trade path. In fact, in 2014, container port throughput for China, Japan and the Republic of Korea accounted for 33 % of the global total, constituting the largest transportation chain in Asia. The region also has dominated global container handling [16]. It should be noted that the most important liner routes measured by volume, still run from Asia to Europe and North America. However, there has been a

notable increase in intra-Asian shipping, particularly among China, Japan and the Republic of Korea and between them and South-East Asia. Direct shipping services, transshipment and transit operations through hub ports have enabled almost all the subregion's coastal economies to be directly connected. Countries in NEA have made renewed efforts towards port development and management to reduce big infrastructure gaps preventing further connection. For this the NEA countries have started to develop long-term plans to boost port handling capacities in order to offset potential capacity shortages. However, to achieve the level of port investment necessary to continue the region's current pace of economic development, each country's ability to finance its projects will be critical, and failure to respond to capacity demands could create bottlenecks in the trade flows of each country in the region and ultimately constrain the region's economic growth. Traditionally such infrastructure investments have been funded and managed by the public sector. However, renewed efforts have incorporated new approaches, including deregulation measures, improvements in FDI and increased private sector involvement in ports.

Road and railway infrastructure in NEA shows wide variation between countries. Over the past two decades, China has developed its road network into one of the world's largest. In terms of road density, Japan recorded the highest level followed by the Republic of Korea and China [16]. By contrast, Japan and the Republic of Korea recorded negative growth in railway freight traffic.

China and the Russian Federation have played an active role in developing the Trans-Asia Railway system through improvements in their railways in recent years. China has a vital economic interest in developing its railway and its intraregional hubs connecting China to Mongolia and the Russian Federation. The Russian Federation has invested mainly in the Trans-Siberian line and its connections forming global transit links between Asia and Europe. The Democratic People's Republic of Korea's and Mongolia's railway system is less developed than that in other NEA countries.

One of the key issues with rail transport in NEA is the break of gauge caused by countries adopting different track gauges. Another challenge in road and rail transportation of the subregion is the missing links, especially in the Korean peninsula.

The road and railways map regulations should also include planning for documentation, ratification of regional and international transport conventions, strengthening intermodal transport networks, improvement of management.

Further investments in physical infrastructure, particularly climate-friendly transport infrastructure, will be crucial to address transboundary connectivity challenges in the region and enable countries to build back more sustainably and resilient in the post-COVID-19 recovery period [4]. In terms of the current situation for the Northeast Asian region, it is possible to strengthen cooperation in the area of infrastructure. Firstly, via the establishment of a cooperative mechanism for reciprocal traffic, they will promote the coordination of like business actors and the cooperation of enterprises. Secondly, they will create a three-dimensional transportation network, expedite the construction of major routes for road and rail in the border areas and multimodal transportation, and construct a complete air network. Thirdly, they will construct major energy routes, speedily advance the construction of oil and gas pipelines, and open up the construction of cross-border electricity networks. Lastly, they will construct high-speed lines for information, and advancing the spread of the internet, will make information exchange even easier and the cost lower.

3.5. Humanitarian exchange in the region

NEA is a major hub in the world for people flows, and its importance is rising [16]. In the context of the NEA subregion, continuing demographic change, such as ageing of the population and shrinking of the workforce, economic rebalancing towards services-led growth and emerging opportunities in travelling, among other changes, underpins the significance of the movement of people, which can be both an outcome and a factor of economic convergence in the subregion. This is the reason for the inclusion of human dimension within regional processes.

It is possible to highlight two aspects of people flow in NEA: migration and travel.

Migration between countries is driven by a variety of causes, both voluntary and involuntary. The important aspect of migration is labor migration. Labor migration policy has a lot of specific features among the countries of the region, and can be explained by the domestic situation and international contacts activity. The demographic problems make social factors the basis of country development strategy. Migration politics is one part of this.

In a study conducted by the Korea Economic Institute, it was estimated that the Republic of Korea will need to receive 11.8 million immigrants by 2050 to offset the shrinking of the economically active population. Similarly, as the population continues to change in Japan, about 40 million immigrants

would be needed by 2040 which would mean an approximate increase by 30 per cent in the ratio of foreigners in the total Japanese population [16].

In recognizing the contribution of foreign workers in the labor market, some NEA economies have gradually eased their migration policies to facilitate the movement of people, and in the case of China and the Republic of Korea, they did it to woo back their expatriate nationals and their families. The Republic of Korea also improved and diversified access to permanent residence status among professional foreign workers.

In September 2015, Japan approved its Fifth Basic Plan for Immigration Control, which included policy priorities in attracting foreign talent, reforming the technical intern training system and measures against irregular migration and illegal employment of foreigners. In Mongolia, government policy tends to be focused on outward migration as mobility and international migration of Mongolians continue to increase for economic reasons.

Another important aspect of people flows is linked to travelling, which can be done for many reasons: international exchange programs, for example, students or youth exchange, international cultural and sports events, conferences, tourism, etc.

Consumption of travel logistic services, especially from tourism, was booming in NEA. The importance of the tourism industry in the region is noteworthy, particularly in travel services and air transportation. Tourism, as a source of income and employment opportunities, is increasingly becoming an important economic sector in most NEA economies.

The NEA countries are redefining global travel standards as both large outbound market and growing destination. Over the past decade, travel in NEA has grown at incredible speed. The fastest tourism growth has been intraregional. Key intraregional corridors for travelers have been developed between China and Thailand, South Korea and Japan, and China and Japan. The Republic of Korea also eased its entry visa policies to attract tourist arrivals, particularly from China, and in 2013 signed a visa-waiver agreement with the Russian Federation to stimulate tourism and contacts between the countries.

COVID-19 pandemic caused a breakup of people-to-people communication and international people exchanges. The current COVID-19 crisis has led to national quarantines and global travel bans, bringing international travel to a standstill.

As a result, the situation with migration and people flows in the region had dramatically turned. The COVID-19 pandemic outbreak has caused an unprecedented crisis for the tourism sector. The travel restrictions affect not only hotels, camping sites or other types of accommodation, but also restaurants, museums, and other activities frequented by local as well as international tourists alike. The pandemic is also expected to have a longer-lasting effect on international tourism, while other economic sectors might recover more swiftly. It is crucial to closely monitor the situation and provide measures to protect the industry and mitigate the economic impact of this crisis, especially for countries where the national economy relies heavily on the tourism industry. For example, according to the National Statistics Office of Mongolia, in 2019 tourism companies shared 1.3% of the total number of companies in Mongolia; the tourism sector grew by 18.2% and produced 0.2% of GDP. Due to the COVID-19 outbreak, as many as 3500 employees, mostly male workers, have lost their jobs since the end of the fiscal year 2019. The border closure completely stopped the flow of foreign tourists into Mongolia during the second quarter, resulting in an income loss of 642.3 billion MNT. Simultaneously, the Corona Shock deeply affected related industries such as civil aviation, crafts, entertainment, hotel, catering, food, alcohol, and beverages. Especially strong financial losses are observed in air transportation, with its revenue reduced by 98.0 billion MNT (83.9% year-on-year) to 18.8 billion MNT compared to the same period of the previous year; the hotel and accommodation sector saw revenue plummet by 45.5 billion MNT (39.2% year-on-year) to 70.5 billion MNT in the first half of 2020 when compared to figures for 2019 [15].

Conclusion

Overall, since 2012, the Northeast Asian political situation has become more like a regional chessboard, where participants strive to secure their role and incline to block layout. This bloc trend, embodied in the intensification of contradictions between US-centric initiatives, such as the Indo-Pacific region, and China, is spilling over from the political to the economic sphere. Even though the principle of “hot economy and cold politics” still applies to Northeast Asia, the sanctions and trade conflicts are hampering economic interaction in the region. In addition to bipolar confrontation, the bloc tendency is fueled by unresolved historical problems and mutual distrust. Against this background, humanitarian and historical contradictions are aggravated. Given this trend of international polarization, the lack of a united strategy of regional cooperation is striking. Institutions in the region and multilateral commitment are needed to set it up and contain international anarchy.

The prospect of multidimensional institutional integration in NEA is far from becoming a reality. Instead, the subregion should explore concrete ways of strengthening cooperation in key priority areas which are closely aligned with national development policies and where potential benefits of cooperation could be maximized leading to functional integration in these areas. This can be done among other possibilities of moving towards the formation of an integrated market and production architecture; developing connectivity across the region in the areas of transport, energy, information and communications technology; enhancing financial cooperation for closing infrastructure gaps across countries in the region and providing liquidity support; increasing economic and technical cooperation to shared vulnerabilities and risks of economic instability and natural disaster.

Nowadays Northeast Asia is facing some big challenges. The United States and China economic conflict is the most evident one. The conflict is not only affecting the balance of power in Northeast Asia, but it also determines the Asia-Pacific region and other areas of the world. The economic conflict between the US and the PRC changed China’s export flows and created opportunities for other countries to act as alternatives to the PRC in regional value chains. However, these countries have to face competition with other popular alternative locations such as Vietnam, India, Mexico.

The second one is the COVID-19 pandemic shock, which affects many fields in domestic and international spheres.

Another one is connected to regional relations between countries, which refers to the rebuilding and readjustment of the Northeast Asia regional interactions according to new economic reality and country economic conditions. In the first half of 2020 because of the COVID-19 pandemic, almost all the countries of NEA have suffered negative growth. But China's economy has already returned to previous rates of growth in the second quarter of 2020, up by 3.2% year-on-year, yet the recovery path remains bumpy and uncertain. This trend affects the economic balance in NEA.

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