Summary of the Panel Discussion

Edited by Masahisa Fujita

This chapter presents the summary of the panel discussion which took place following the presentation of the three papers on the prospects and tasks of regional integration in East Asia (note: the revised versions of the three papers are contained respectively in Chapters 5 to 7).

In addition to Dr Yu Yongding (China), Dr Young Han Kim (South Korea) and Dr Bhanupong Nidhiprabha (Thailand), Dr Paul Krugman and Dr Anthony J. Venables participated in the Panel Discussion, while Masahisa Fujita served as the moderator.

Dr Masahisa Fujita, President, IDE-JETRO

First I would like to ask Dr Paul Krugman about his reaction to the three presentations, namely China, Korea and Thailand, and also wider issues he would like to address. I also would like to have some dialogue with Dr Venables about his presentation and other presentations from these three Asian countries.

Dr Paul R. Krugman, Professor of Economics and International Affairs, Princeton University

I would like to raise two points – the first point is very much following on Dr Yu’s presentation. One of the really dramatic conclusions is that East Asia as an integrated economic system already exists and China is the assembly point of this system, looking at the data that we have covered and discussed. Although this may be an oversimplification, you have shipped intermediate goods, or components, to China and then assembled in China and exported back to other East Asian countries and the rest of the world. What that means is that we have a very misleading number or a very misleading perception of the world, if you just look at the direct trade data. The very large Chinese trade...
surplus with the United States, now US$120 or US$130 billion annual, is not really a Chinese trade surplus. It is really an Asian trade surplus with the United States. China is the assembly point, or the final stop in this integrated East Asian production system. Actually Japan has been, in a diplomatic sense, a beneficiary of this system. By the numbers, it appears that the bilateral Japanese surplus with the United States has dwindled in relative importance, but actually it is just being laundered through China. So in some sense, it is really just a continuing Asian surplus.

I would agree with Dr Yu that this system is not sustainable; although I am not sure we have quite the same view about the lack of sustainability. I would say there are two issues. One is political. It is really difficult to be sure how serious that is, but certainly whenever the United States job market is weak, we have a lot of protectionist rhetoric. It certainly is reflected in pressure, particularly currency policy pressure on China. The other point is simply the unsustainability of the general current account imbalances. The United States has external deficits of more than 5 per cent of gross domestic product (GDP), rapidly building up of external liabilities, and those liabilities takes the form of debt almost entirely, primarily debt to Asian central banks. Something is going to give here. We will talk about which part of Asia is going to decide to try to get out of dollars before the whole thing collapses, precipitating the collapse.

On both the papers by Dr Kim and Dr Nidhiprabha, there are some issues here involving the prospects for East Asian trade integration.

The first thing to say is that the data show how large the trade flows within East Asia are, considering that it is not that compact an area. Although North America is a large area, in terms particularly of United States/Canadian trade, the distances are relatively short by Asian standards. By European standards, this East Asian area is physically enormous; yet the Asian intra-regional trade is larger than North America now, and it is not too far short of intra-European trade, despite the absence of a formal trade agreement, or East Asian free trade area.

So why should that be the case? I think the answer comes back to the end of Dr Fujita’s talk: the diversity. Although the political economy of integration is easier for a region of very similar nations, the potential gains from trade are larger when the nations are very different. The fact that you have these very large differences in technology, in per capita income, and in resources among the Asian countries, gives rise to a large amount of trade than you have in the other major economic blocks in the world, despite the existence of larger distances, larger geographic barriers. We have this rise of a very important, very