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**NORTHEAST ASIAN ECONOMIC COOPERATION
IN THE POST-COLD WAR ERA:
ECONOMIC RELATIONS BETWEEN
CHINA, THE ROK, THE DPRK, JAPAN, AND RUSSIA**

by Lu Zhongwei

I. OVERVIEW

The vision for economic cooperation in Northeast Asia (i.e., the three provinces in Northeast China, the Korean peninsula, the Russian Far East, and the Japanese coast on the Sea of Japan) arose in the mid-1980s. The general view of the rationale for an envisioned Economic Zone in Northeast Asia is that the combination of Japan's and the Republic of Korea's (ROK's) capital, technology, management and sales channels, China's and the Democratic People's Republic of Korea's (DPRK's) labor and market, and Russian resources, scientists, and technicians would establish a beneficial division of labor in trade and the economies as a whole for all three parties.

The disintegration of the Soviet Union has brought about great changes in international political and economic patterns, most directly in Northeast Asia. Japan, Russia, China, the DPRK, and the ROK have made new steps in their foreign and economic policy to enhance their national strength and improve their overall position in the world. Generally speaking, each has three goals: first, to turn the Cold War sea into a peace sea; second, to turn their undeveloped areas into development magnets; and third, to improve their maritime access to the Pacific.

China, by making its economic construction the centerpiece of its national policy, has been determined to carry out its policy of reform and opening to the outside world. As a vast and populous country with long borders, China should consider each of its six economies—i.e., coastal, valley, border, hinterland, overseas Chinese, and defense—in its economic development plans. China's economic reform and opening to the outside world on the eve of the 21st century will be omnidirectional. The economic and trade cooperation of China's Liaodong peninsula, Shangdong peninsula, and Northeast China (i.e., Beijing, Tianjin, and Tangshan) with Japan, Mongolia, the DPRK, the ROK, and Russia will substantially increase. Russia, with Yeltsin's visits to the ROK, China, and India, has begun a new oriental diplomacy. Its current purpose is to stabilize its borders, while its mid-term purpose will be to enter into the economic cooperation zone in the region. Improving relations with Northeast Asia is the first step in Russia's Pacific strategy, and obtaining credit, loans, and advanced technology from Japan and the ROK is Russia's first priority.

The DPRK has been strengthening its economic cooperation with the outside world since it promulgated the law on joint ventures. The North has laid the foundation for entering into economic cooperation in Northeast Asia over the past ten years, though it has not had great success. To promote its national development, the DPRK government has decided to establish free economic and trade zones in

Najin and Sinpo, the total size of which is 621 square kilometers. The ROK has also put a great amount of capital into its development of the west coast. For example, it plans to invest 21,300 billion won by the year 2001 to establish a U-shaped coastal industry belt from Inchon to Puhang.

From the Japanese view, establishment of the Northeast Asian economic zone, including China and Russia, is relevant to the economic revitalization of the underdeveloped prefectures on the Sea of Japan. Japan's former prime minister, Kiichi Miyazawa, suggested creating "a prosperous and open Northeast Asia" in his speech to the ROK parliament in 1992.

II. THE FORMATION OF SUBREGIONAL ECONOMIC ZONES

The geoeconomic patterns of "one big, three small, one heated" prevail in Northeast Asia. "One big" refers to the general economic cooperation in the region; "three small" refers to the Bohai Sea Subregional Economic Zone, the Yellow Sea Subregional Economic Zone, and the Sea of Japan Subregional Economic Zone; and "one heated" is the Tumen River International Cooperation and Development Zone.

The Bohai Sea Subregional Economic Zone. This zone covers China's "golden" coastal areas of Liaodong peninsula, Shangdong peninsula, and the Yellow River Delta in Northeast Asia (which comprises the coastal parts of Hebei Province, Beijing, and Tianjin). The coastline from Dandong in the north to Qingdao in the south is 5,800 kilometers long. Eighteen prefectures and cities with a population of 70 million are located in this 170,000-square-kilometer area. It borders with the DPRK: Dalian faces Pyongyang, while Inchon faces Weihai and Yantai. It takes twelve to thirteen hours by ship from Weihai to Inchon. This area is sometimes called a "one-day economic zone" or "several-hour economic zone." Conditions for

establishing a regional economic cooperation zone are ripe in science, technology, and production, as well as in resources, labor, and market access.

The Sea of Japan Subregional Economic Zone. This zone includes the Russian Far East, the three provinces in China's northeast, the North and the South on the Korean peninsula, and Japan's sixteen coastal prefectures on the Sea of Japan—Hokkaido, Aomori, Niigata, Toyama, Fukui, and so forth. It makes up 20 percent of Asia's total land area, and its population is about 290 million, accounting for 10 percent of Asia's total population. Its GNP is about U.S. \$3,000 billion. There are air flights from Niigata to Seoul, from Niigata to Khabarovsk, and from Sapporo to Seoul. Recently, use of the railway between Suifenhe, Grodekovo, and the Nakhodka seaport has been taken into consideration. The different levels of development in this subregion make it fertile ground for beneficial cooperation.

The Yellow Sea Subregional Economic Zone. The Yellow Sea region, with a long history of economic interactions, might also be regarded as an economic cooperation zone between China, Japan, and the ROK. It could include Japan's Kyushu and Yamaguchi areas, and Hiroshima; in China, Lianyungang, Xuzhou, Nanjing, Nantong, Shanghai, and the northeast parts of Zhejiang province. Pusan also belongs to the region. Its boundaries as a distinct economic region, though, are not so clear. For example, an alternative formulation of the zone might extend to northeast China and the ROK's Inchon, Gyeonggi Do, Taejeon, Chong Cheong Nam Do, Jeon Ra Bug Do, and Jeon Ra Nom Do, thus overlapping the Bohai Sea Subregional Economic Zone. In the future, this subregional economic zone will get connected with the coastal economic belt north of the Yangtze River, and integrated into a special zone with the coastal economic belts of Japan and the ROK.

The Tumen River Delta. The Tumen River Delta, at the juncture of China, Russia, and the DPRK, is divided into two triangles, one small and one big. The small one consists of China's Hunchun, Russia's Posyet, and the DPRK's Unggi, and

its area is 1,000 square kilometers. The big triangle, consisting of China's Yanji, Russia's Vladivostok, and the DPRK's Najin, has a population of over one million and contains a stronger economic base.

The Tumen River has very good navigation conditions for shipping. The river's depth from Fangchuan to the estuary is three meters, and its width is 300 to 500 meters. The riverbed is all under the level of the Sea of Japan. The water depth is twenty meters one kilometer off the estuary, and one hundred meters four kilometers off the estuary.

Since China and the former Soviet Union signed an agreement in 1991 defining the eastern part of their borders, territorial disputes no longer hinder economic development in the region. The agreement allowed China to resume the rights to the sea along the Tumen River.

There are several ideal sites for constructing seaports and river ports in the Tumen River region, for example, the DPRK's Chongjin and Najin, China's Fangchuan and Jingxin, and Russia's Posyet and Vladivostok. The city of Hunchun in the lower reaches of the Tumen River is regarded as the center of this region. It is only fifteen kilometers from the village of Fangchuan to the Sea of Japan.

The development projects along the Tumen River were begun under the auspices and coordination of the United Nations Development Programme (UNDP). The Tumen River Region Committee on Projects Administration, represented by China, the DPRK, the ROK, Russia, and Mongolia, recently passed the Draft Agreement on Development of the Tumen River Region in its third meeting. This agreement stipulates that the Tumen River Development Corporation, an independent commercial corporation that includes international investors, will be established. Russia, China, and the DPRK each will lease a plot of land to the corporation, and an international zone for free trade and export-oriented processing industries will be established, for which the capital will be raised by the UNDP.

III. ECONOMIC RELATIONS BETWEEN THE MAJOR COUNTRIES

Economic and trade relations in Northeast Asia are mainly between Japan, the ROK, China, Russia, and the DPRK. Economic relations between Japan, the ROK, and China are tighter and have increased substantially in recent years. The Russian Far East has sped up its economic interaction with the three countries—a sign of deepened Russian economic relations with the Asian countries.

Sino-Japanese economic and trade relations. Japan and China have made rapid strides in their economic and trade relations in the 1990s. Japanese investment in China increased to U.S. \$2.17 billion in 1992, compared with U.S. \$440 million in 1989. The remaining sum of Japan's total investment in China at the end of 1992 was U.S. \$6.0 billion. Japan's investment in the Yellow Sea Economic Zone (43.2 percent) is basically equal with its investment (43.4 percent) in the southern coastal region. Trade between China and Japan has attained good momentum: the volume was U.S. \$25 billion in 1992 and is expected to be U.S. \$30 billion for 1993.

Sino-Russian economic and trade relations. Economic and trade relations between China and Russia have improved continuously from the normalization of relations between China and the Soviet Union in 1989 through President Yeltsin's visit to China in 1992. Trade volume reached U.S. \$3.8 billion in 1992 and reached U.S. \$3.68 billion in the first half of 1993, surpassing the level of the Soviet period. It is expected to reach U.S. \$6 billion for 1993, equal to the trade volume between China and the ROK in 1991. It might well reach U.S. \$8 billion by the year 2000.

There are two reasons for the rapid development of economic and trade cooperation between China and Russia. First, China has set border economic cooperation zones specially established with Russia in Manzhouli, Heihe, Suifenhe,

and Hunchun to actively carry out production and investment cooperation as well as barter trade. Second, factories, equipment, and machines imported from or made with the help of the former Soviet Union now need renewal. There are also reasons to believe that regional border contact between China and Russia will increase. Supplies of special-purpose goods will likely grow. It is possible that Russia will participate in the construction of China's large-scale projects, such as subways and power stations, including nuclear and hydroelectric.

Sino-ROK economic and trade relations. The establishment of diplomatic relations between China and the ROK in August 1992 was a turning point in their economic and trade cooperation. The cumulative sum of the ROK's investment in China was U.S. \$370 million before the establishment of diplomatic relations, i.e., before June 1992. From July 1992 to June 1993, the ROK overcame its long-time trade deficit with China; its direct exports to China increased by 57.3 percent and its imports from China dropped by 5.8 percent from the previous year. China is now the ROK's third largest market, and the trade volume between the two countries in 1993 will reach U.S. \$10 billion.

In addition to the increase in trade volume, the structure of imported and exported goods has changed substantially. The ROK exports primarily steel, metal products, machinery, fiber products, chemical products, and plastic machinery. The great increase in the ROK's exports to China stemmed from China's rapid development and from the bilateral trade agreement signed in 1992, under which the ROK's goods enjoy special tariff preference. The ROK imports mainly agricultural, forestry, and aquatic products (30 percent), and chemicals and mineral products. It can be said that trade between China and the ROK has both vertical and horizontal dimensions.

In the first half of 1993, the number of projects in which the ROK invested increased 140 percent, and investment volume increased 120 percent in the second half of last year. The ROK's investment in China's large-scale projects, especially in

heavy and chemical industries, has increased since the establishment of diplomatic relations, particularly in 1993 (compared with an average of only U.S. \$970,000 per project previously).

The littoral region of the Bohai Sea in northern China has become paramount to the ROK's investors, who have put 70 percent of their total investment in this area alone. By the end of March 1993, ROK investors ventured U.S. \$420 million in 543 enterprises in such sectors as construction materials, textiles, clothing, leather garments, shoes, electronic products, food, toys, machine-building, chemicals, domestic electric appliances, and aquatic processing.

ROK-Russian economic and trade relations. Over the past several years, the ROK has begun to implement its "North Policy," and more recently, the former Soviet Union has also tried to develop Siberia and the Russian Far East. The ROK and the former Soviet Union improved to certain degree their economic and trade relations afterward. In trade with Russia, the ROK exported approximately U.S. \$642 million in goods, imported U.S. \$580 million in goods, and invested U.S. \$114.2 million.

Japanese-Russian economic and trade relations. Economic and trade relations between Japan and Russia developed quickly during the late 1980s, with their trade volume reaching a record level of U.S. \$6.9 billion in 1990. It slacked off over the next two years, with the volume for 1992 decreasing sharply to U.S. \$3.5 billion, but then clearly rebounded in the first half of 1993. Japanese exports to Russia were U.S. \$780 million for this six-month period (154.1 percent that of the first half of 1992), and imports were U.S. \$1.32 billion (110.1 percent that of the first half of 1992). At that rate, the trade volume between Japan and Russia in 1993 is expected to exceed U.S. \$4 billion. The main products Japan exports to Russia are iron and steel, television sets, and automobiles, and the main products it imports from Russia are timber and aluminium alloy.

IV. PROBLEMS IN NORTHEAST ASIAN ECONOMIC AND TRADE COOPERATION

Establishing and developing an economic cooperation system in Northeast Asia can be compared to undertaking a long-term and gigantic engineering project. It is by no means easy. The following problems need to be addressed to create an atmosphere conducive to greater economic cooperation:

(1) This region is the focus of numerous conflicts and contradictions of various kinds. The complex political configuration in the region resulted from different social systems, different modes of economic development, and the influence of the Cold War. Each of these impedes the smooth development of economic cooperation.

(2) Many subnational areas in this region belong to the so-called “shadow belt” in their respective country’s economies because they are located far away from national trade and commercial centers. Without sunshine radiated from the prosperous “sun belt,” it is almost impossible for these areas to boost themselves economically.

There is a high concentration of state-owned heavy industries in the Chinese provinces of Hei Longjiang, Liaoning, and Jilin. These industries have suffered from heavy losses and low efficiency, giving rise to the “Northeast phenomenon,” which is unique in China’s economic development. In the northeastern part of China, the market is less developed and the level of expansion is lower than in the coastal areas.

Japan’s sun belt—in which the high-technology enterprises are concentrated and the manufacturing industry is highly developed—is located on the Pacific coast near the main international shipping route, and is often called Outer Japan;

conversely, Inner Japan, which comprises sixteen prefectures on the east of the Sea of Japan (such as Niigata, Kanazawa, and Hakodate), is scarcely populated and economically backward.

In South Korea, the expressway from Seoul to Pusan built by South Korean troops when Park Jung Hi was in power stimulated economic development in the southeast area, while the west coast lagged behind economically due to poor communications and a single-product industry.

In the far east of Russia, the “shadow phenomenon” is apparent as well. One-third of the technical personnel in Vladivostok and Khabarovsk at any one time will not live there more than three years because of low living standards and shabby infrastructure.

To sum up, it is understandable that every country in this region is eager to accelerate the economic development of its own shadow belt through regional development and cooperation, but it seems that such an undertaking cannot be sustained with full vigor if it is confined to such a narrow area.

(3) The absence of an overall balanced mechanism makes it hard to bring about genuine and vital cooperation.

An overall balanced mechanism has been essential to any successful regional cooperation since the Second World War. Two cases stand out. One is the European Community. A horizontal labor division mechanism established between Germany, France, Great Britain, and Italy based on the same industrial, technological, and trading level brought about a balanced trade expansion among them. The other is the “Pacific Trading Triangle” between the United States, Japan, and Asia. This triangle works in the following way: The developing countries in Asia import machines and equipment from Japan and export them to the United States after assembling and processing, which enables them to compensate for their trade deficit with Japan by running a trade surplus with the United States.

Yet in Northeast Asia such a mechanism of trade circulation does not exist; that is to say, within the whole region there does not exist such a mechanism to absorb a “total commodity export” large enough to unleash the potential productivity of this area. Of course, Japan could function as a “commodity absorber” instead of the United States. Nevertheless, the hub of market activities in Japan is not concentrated on the coast of the Sea of Japan, and whether the whole Japanese market can bear the heavy trade pressure from the U.S., the four small Asian tigers, and South China is still in question. In a nutshell, in the absence of a balanced mechanism it is impossible to bring into full play the overall advantage of the key elements of production.

(4) Some unsettled issues in bilateral political and economic ties hamper the development of investment and economic cooperation in a comprehensive way.

In the political field, territorial disputes between Russia and Japan still remain a problem in their bilateral ties. For the time being, the *ostpolitik* pursued by Russia has been unable to break the territorial bottleneck, even though Russia wants to improve its relations with Japan and attract Japanese investment. Recently there has been some progress on the Korean peninsula, but nevertheless, the time is not ripe for large-scale and direct trade between North and South Korea nor between North Korea and Japan.

In the economic field, the problems are far more complicated. Japan and South Korea are enthusiastic about finding markets for their capital and technology—as is China, with its surplus labor force, overcapacity in processing, and abundant light industry products. But Russia and North Korea face many problems, such as a foreign exchange shortage, low financial reputation, and poor investment circumstances. Hokkaido Takugin International, a bank in Japan that specializes in studying Russia’s economy, at present concludes that doing business

with Russia is too risky because Russia has an outstanding foreign debt of U.S. \$65 billion. Under those circumstances, even national investment will not be forthcoming, let alone commercial and direct investment. In addition, the time- and capital-consuming exploration of the forest lands, and particularly the gas fields, in the Russian Far East will not produce any commercial benefits in the short run.

V. PROSPECTS FOR ECONOMIC AND TRADE COOPERATION IN NORTHEAST ASIA

The overall concept for establishing an economic cooperation mechanism in Northeast Asia should break the framework of traditional thinking. To better allocate key production elements and readjust market orientation, it is the overall economic exchange in the Asia-Pacific region, rather than the economic exchange in Northeast Asia alone, that should be taken into account. On the one hand, the high-speed economic growth in the Asia-Pacific is closely linked with the outside world, particularly the market in the United States. In this sense, geographic location is by no means the sole condition accounting for the economic boom in the Asia-Pacific. To a larger extent, the boom was spurred by the expansion of the Euro-American market. On the other hand, the Asian-Pacific economy in the 21st century will witness the creation of “a mechanism characterized by chain reaction and structural change.” The “borderless” operation strategy carried out by multinational corporations and the high-technology revolution will increase interdependency among countries. Accordingly, the way to boost economic cooperation in Northeast Asia should be adjusted, and the scope expanded, according to the steps recommended below.

(1) “Wider Economic Zone” should take the place of “Regional Economic Zone.”

The key that would allow the shadow belts to catch up economically lies in absorbing the sunshine radiated from the sun belt—that is to say, transforming external forces into internal ones. The historic opportunity will slip between our fingers if the above constructive idea is put aside and emphasis instead is laid merely on the integration of several regions formerly isolated from the world market, waiting for the markets to mature.

“The South China Economic Zone,” which experienced a spurt of economic growth in the past decade, has taken note of the risks and limitations of developing its economy by relying on only one region. When making new development plans, one of the central tasks to which Guangdong province commits itself is to diversify its market by expanding its economic exchange with the United States, Europe, and Japan and lessening its one-sided reliance on Hong Kong. Needless to say, problems do exist for local enterprises trying to compete in the international market, but as long as those enterprises work hard to study the laws governing the operation of the international economy, obey international practice, and use the successful experience of other countries for references, many of these problems are not insurmountable. At the present stage, one effective way to enter the market in the developed countries, such as the United States and Japan, is to take advantage of the “internal trade” of the multinational corporations; another is to contract to make components and spare parts for them or carry out horizontal cooperation with the parent company or its subsidiaries.

The ultimate aim of this strategy lies in maintaining a sustained regional economic growth by providing momentum based on international competitiveness.

(2) Try to strengthen air links while also improving maritime ones.

The future of economic cooperation in Northeast Asia rests on the ocean on the one hand and not on the ocean on the other. The former means to make full use of maritime resources and bring into full play the advantage of the maritime

economy. "Those who live off the ocean should live on the ocean." The Sea of Japan Economic Zone, the Yellow Sea Economic Zone, and the Bohai Sea Economic Zone all can be called "one-day economic zones." For example, in the Bohai Sea Economic Zone, it generally takes passenger ships twelve hours to get to Inchon, South Korea, from Weihai in Shandong province, China. Proximity helps stimulate the exchange of key production elements by reducing transportation cost.

Nevertheless, given the developing trend of high technology, preparations should be made for strengthening air links. In the history of modern industrial development, the geographic distribution of industrial cooperation underwent two major transformations: first from the "iron and steel complex" to "the sea-proximity complex," and more recently from "the sea-proximity complex" to "the air-proximity complex." At present, small and lightweight electronic components are transported mainly by aircraft. In view of the scientific and technological superiority enjoyed by Japan, Russia, and China, it is not utopian to imagine to formation of an "Hours-Distance Economic Zone" through air channels linking the electronics-processing zones set up in Tokyo, Osaka, Moscow, Chabarovsk, Ha Erbin, Shenyang, Seoul, and Pusan. Such a strategy aims at maintaining the pioneering position of regional economic growth by instituting cooperative structures based on the vigorousness of science and technology.

(3) The leading role should be given to local governments, with active support from their central governments.

In addition to promoting the full participation of local government, central government should also be required to create "hardware" and "software" conditions for promoting regional economic cooperation. "Software" conditions refer to measures such as deepening reform, offering more favorable financial and monetary policies, signing agreements with investing countries protecting

investment, and so forth. “Hardware” conditions refer mainly to renovating and updating infrastructure.

Steps have been taken in both the “hardware” and “software” aspects in China. On the one hand, local governments at all levels are actively engaged in sponsoring their own development projects. For example, there are some twenty economic development zones under construction and more than a hundred development projects under implementation in an area of about 170,000 square kilometers in the economic region surrounding the Bohai Sea. On the other hand, the central government has also invested in building the railway from Hunchun to Tumenjiang. When the central government cannot give local government enough financial support and sufficient policy discretion, self-development and openness are the chief ways to internationalize the local economy. The central government, however, can still use taxation and other economic and financial leverage to narrow the gap between the shadow belt and sun belt and also foster a prosperous economy in the shadow belt while maintaining economic vitality in the sun belt.