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Regional Cooperation in Northeast Asia: A Spatial Perspective

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Unlike the European Community or other regional economic blocs, regional cooperation in Northeast Asia will not be easy to materialize because of incompatible political ideologies, different economic systems, and differences in the levels of development. Moreover, the region is burdened with a history of conflicts and frictions. The region, however, with sufficient capital and technology, abundant natural resources, and 300 million in population, provides a great potential for cooperation, through which the countries in the region will benefit greatly. The key for regional cooperation depends on the decisions made by the leaders of each society. For each society is at a crossroads, facing the necessity of reconsidering past economic policies, past political institutions, and past security strategies.

This paper discusses regional cooperation in Northeast Asia mainly in economic terms. After noting some of the basic facts about the region, I review emerging patterns of commodity, capital, and labor flows in the region and examine potential issues associated with these flow patterns. Finally, the paper considers a general strategy of regional cooperation.

ECONOMIC AND SPATIAL SETTING

Recent rapprochement among countries in Northeast Asia, along with the global trend of détente, suggests potential for mutual cooperation among countries with different ideologies and economic systems in the region. It is evident from rapidly increasing commercial relations, cultural exchanges, and even diplomatic relations that there exist sufficient mutual interests in promoting closer economic interaction among these nations. From a simple economic perspective, the region in question has a great potential for development because capital and labor—the two key elements of regional development—are sufficiently available in the region as a whole. Capital, if artificial barriers are removed, is likely to gravitate toward places with abundant labor and resources.

Economic complementarity between China, the Soviet Far East, and to a lesser extent North Korea, on the one hand, and South Korea and Japan

on the other has often been suggested to be the natural basis for economic cooperation among the countries in the region. Geographical proximity adds another rationale for regional cooperation. This section briefly accounts for the region's economic and geographical setting.

Population and Economy

The Northeast Asian region had about 316 million people in 1989, ranging from Mongolia's 2 million to Japan's 123 million (Table 2.1). (Northeast Asia, if broadly defined, includes China, Mongolia, Japan, North Korea, South Korea, and the Soviet Far East. The narrow definition adopted here includes only Northeast China, Japan, North Korea, South Korea, and the Soviet Far East.) The contiguous mainland portion of the region has a market size of 192 million that would be large enough for regional cooperation to economies of scale for mass-produced low-cost consumer goods, the equipment to produce them,

Table 2.1 Population of Northeast Asia

Subarea	Area (1,000 km²)	Population ('000s)	Density (persons/km²)
Soviet Far East (1989)	6,216	7,941	1.3
Kamchatka	472	466	1.0
Magadan	1,199	543	0.5
Amur	364	1,058	2.9
Sakhalin	87	709	8.1
Maritime	166	2,260	13.6
Khabarovsk	825	1,824	2.2
Northeast China (1989)	1,970	119,110	60.5
Heilongjiang	454	35,100	77.3
Jilin	187	24,030	128.2
Liaoning	146	38,760	266.0
Inner Mongolia	1,183	21,220	17.9
Mongolia	1,565	2,000	1.3
North Korea (1989)	125	21,370	170.6
South Korea (1990)	99	43,520	439.5
Japan (1988)	378	122,783	329.3
Total	10,353	316,724	30.6

Sources: Sallnow (1989) for the Soviet Far East; State Statistical Bureau (1990) for Northeast China; World Bank (1990) for Mongolia; National Unification Board (1989) for North Korea; Economic Planning Board (1990) for South Korea; and Management and Coordination Agency (1989) for Japan.

and the materials they will use. Since per capita incomes of China and North Korea are low (Table 2.2), however, the effective demand of the region is yet too small for major Japanese and South Korean firms.

The Soviet and Chinese portions of the region represent a very large landmass and one rich in mineral and forest resources, whereas Japan and North and South Korea are relatively small in terms of area. Population density figures indicate that the Soviet Far East is underpopulated and very land-rich, although most of the area is permafrost. As land has become a critical development issue in Japan and South Korea recently, the vast land in the Soviet Far East and to some extent Northeast China could be an important attraction for land-intensive activities that are being driven out of the two countries by skyrocketing land prices.

Another key factor of production, namely labor, is unevenly distributed in the region. Northeast China is known to have substantial underemployment. North Korea also appears to have some underemployment. But Japan and, more recently, South Korea have been facing increasing labor shortages, especially in labor-intensive sectors. If political and social barriers are removed and free movement of labor is allowed, there would be considerable redistribution of population in the region, as indicated in substantial differentials in per capita incomes. Obviously, this free movement of labor is not going to be allowed, considering restrictive policies regarding the movement of labor across the border in both potentially sending and receiving countries. In the socialist countries, migration even within their own borders is not free. However, the existence of substantial idle labor in the region suggests that labor is not a constraint as a whole if channels of flow are appropriately installed.

The structure of the regional economies varies from country to country (Table 2.2). China and North Korea have relatively large agricultural sectors because of underdevelopment. There is much room for transfer of labor from agriculture to nonagriculture if regional cooperation provides opportunities. Northeast China and North Korea have relatively large industrial sectors, especially in heavy industry. Some of these capital-intensive heavy industries do not seem to be based on their comparative advantage. Rather they are the result of the closed command economies in both countries. The Soviet Far East is specialized mainly in raw material extraction industries and much less in processing and manufacturing activities. Considering the abundant energy resources in the Far East, there is a great potential for energy-intensive heavy industries. All the socialist economies in the region are underdeveloped in their service sectors, suggesting a need for enhancing these sectors. Opening up and cooperation in the region will provide the stimulus for development of service sectors.

Infrastructure

Infrastructure development in the Soviet Far East and Northeast China lags far behind the others and thus poses a serious obstacle for regional development. In particular, transportation infrastructure is much needed to improve

Table 2.2 Economic indicators of Northeast Asian countries

	GDP (billion$) 1987[a]	Per capita GDP ($) 1987[a]	Employment share (%)		
			Agriculture	Industry	Service
China[b]	555	519	60.1	17.5	22.4
Northeast	na	na	42.2	28.3	29.5
Japan[c]	1,370	11,235	9.3	24.1	66.6
Mongolia	2	1,065	na	na	na
North Korea[d]	25	1,154	37.1	na	na
South Korea[e]	112	2,655	19.5	28.2	52.3
Soviet Union[f]	1,133	4,024			
Far East	na	na	15.4	65.5	19.1

a. In 1980 constant dollars; from UNIDO (1990).

b. The figures for employment composition are for 1989; from the State Statistical Bureau (1990).

c. Employment shares are 1985; from the Management and Coordination Agency (1987).

d. Employment shares for 1986; from Asia Keizai Kenkyuso (1990).

e. Employment shares for 1989; from National Bureau of Statistics (1990).

f. Employment shares for 1980; from Soren Kyokuto Soran (Shabad 1989b).

Table 2.3 Transportation density in Northeast Asia

	Road length (km)	Rail length (km)	Road (km/ 1,000 km²)	Rail (km/ 1,000 km²)
Soviet Far East (no date)	33,100	9,000	5.3	1.4
Northeast China (1989)	127,266	17,088	64.6	8.7
Heilongjiang	41,399	5,045	91.2	11.1
Jilin	16,785	3,488	89.6	18.6
Liaoning	36,152	3,558	248.1	24.4
Inner Mongolia	32,930	4,998	27.8	4.2
North Korea (1989)	23,000	5,024	184.0	40.2
South Korea (1988)	55,778	3,149	561.7	31.7
Japan (1986)	1,095,021	21,375	2,898.4	56.6

Sources: Soren Kyokuto Soran (1989) for the Soviet Far East, SSB (1990) for China, National Unification Board (1990) for North Korea, EPB (1990) for South Korea, and MCA (1989) for Japan.

the region's links with the European continent as well as the Asia-Pacific countries (Table 2.3). Both Northeast China and the Soviet Far East have a potential to serve as a continental bridge between burgeoning Asian economies and Europe. Expansion and upgrading of ports, airports, roads, and railways are essential to carry out this bridge function, and as a result both areas can earn incomes derived from the transport services.

Housing, educational, and cultural facilities are also known to be lagging, requiring substantial investments by the government. The question is whether the central governments of China and the former Soviet Union can spare sufficient funds for the development of the Northeast and the Far East when other more important parts of the country need capital funds for renovation and restructuring. Recent developments in the former Soviet Union—a disintegrating economy and independent republics—appear to make the allocation of substantial funds to the Far East more difficult. Using foreign capital may be a solution, but it would be difficult to attract foreign loans and investments because of the scale of investment and risks involved in such massive construction projects.

Spatial Setting

Japan and South Korea are peripheries according to MacKinder's "heartland/rimland" concept. While the heartland economies of China and the former Soviet Union have been facing systemwide difficulties, the peripheral economies of Japan and South Korea have been growing fast and have reached a stage where they can export capital, technology, and marketing know-how to those heartland economies. In other words, conventional geopolitical relations are changing in Northeast Asia, although the military balance is still tilted toward heartland countries in the north.

In terms of regional and international relations, China's northeast occupies a central location and forms a continental wedge between Asia and Europe. The transport network that was developed in China's northeast in the first half of the twentieth century is oriented toward a single gateway port: Dalian. In other words, a north-south axis has been relatively well developed in comparison with east-west connections. China's open-door policy in the 1980s as well as Russia's interest in connecting the Soviet Far East with the Asia-Pacific region suggest the need for expanding physical linkages through the refurbishment of the existing transport and communication network. The Tumen Delta—the zone of confluence among Northeast China, the Soviet Far East, and North Korea—provides an important hinge through which the existing transport network can be reorganized to accommodate emerging needs.

The Yellow Sea Rim on the China side has already five open coastal cities performing various gateway functions (Figure 2.1). With the stimulus derived from further regional cooperation, many more coastal cities can be opened up to form a chain of nodal points whereby interactions across the sea can be facilitated. Dandong and Shinuiju, located at the mouth of the Apnok River,

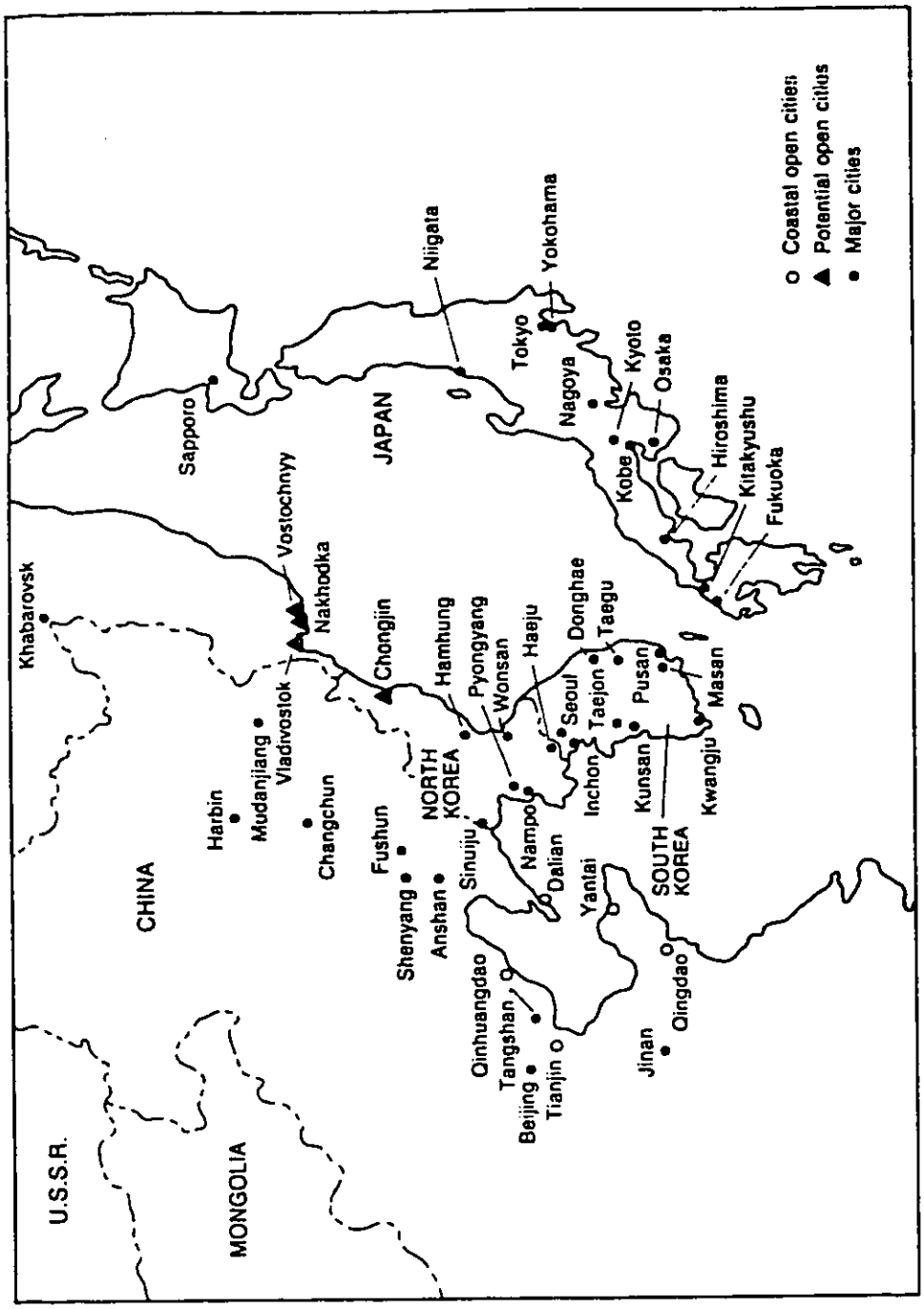

Figure 2.1 Open coastal cities and major cities in Northeast Asia

could be an important addition to the ring of open cities in the Yellow Sea Rim. South Korea's west coast development plan—including a highway spanning the west coast, ports, and industrial estates—closely corresponds to China's coastal development strategy. The Yellow Sea Rim with its established

industrial bases and relatively well developed infrastructure has great potential for industrial growth, especially for labor- and skill-intensive industries, if international division of labor is properly arranged (Kim 1991). In contrast, linkages across the Sea of Japan are underdeveloped. Major links in the Sea of Japan are currently Nakhodka–Niigata, Nakhodka–Muroran, and Pusan–Muroran. If Chongjin or Najin is developed as an entry point to Northeast China, the Japan Sea Rim would have a major link: Chongjin–Niigata. Nakhodka and Vladivostok have been considered as free economic zones in the Soviet Far East. Posyet and Khasan belong to the zone of confluence in the Tumen Delta. The Japan Sea Rim compared to the Yellow Sea Rim has less population density, an underdeveloped infrastructure, and far less manufacturing activity. On the other hand, the Japan Sea Rim because of this very underdevelopment and untapped natural resources offers great potential to jointly develop the rim without being constrained by past development history.

EMERGING REGIONAL RELATIONS AND POTENTIAL ISSUES

The fortune of a region depends on its endowment of resources and its external relations, which are represented by flows of commodity, capital, labor, and information (including technology). Efforts to bring about regional cooperation include measures to redirect these flows. This section reviews regional relations in Northeast Asia in the 1980s and discusses potential issues associated with these relations.

Trade

As shown in Table 2.4, trade volumes between countries in Northeast Asia have increased substantially in the 1980s except Japan–USSR trade. It should be noted that some of the bilateral trade flows—between South Korea, on the one hand, and China, Mongolia, North Korea, and the former Soviet Union, on the other—were nonexistent before 1980. Even though trade volumes among Northeast Asian countries are still small compared to these countries' trade with non–Northeast Asian countries, the rapidly growing intra–Northeast Asia trade supports the claim based on economic complementarity and moreover provides a clue for emerging issues in intraregional trade.

Trade imbalance, for example, continues to be a problem, especially between the command economies and the market economies in the region. Moreover, the nature of trade relations between the relatively underdeveloped socialist economies of China, Mongolia, North Korea, and the former Soviet Union (the Soviet Far East at least) and the relatively prosperous market economies of Japan and South Korea would be problematic if the current vertical trade pattern continues—the former group supplies raw materials to the latter group, which in return exports manufactured goods to the former (Rehbein 1989; Chon 1989; Bradshaw 1988). This vertical relationship, which is often disadvantageous to the underdeveloped countries exporting raw materials, is

Table 2.4 Export-import matrix of Northeast Asia (US$ million)

Origin	Destination					
	Japan	USSR	China	ROK	DPRK	Mongolia
Japan						
1981	—	3,253	5,076	5,640	290	1
1989	—	3,069	8,477	16,491	196	7
USSR						
1981	2,020	—	154	10	387.9	1,066.6
1989	2,990	—	1,945	392	1,735.6	1,861.6
China						
1981	5,283	123	—	148	300	3
1989	11,083	1,699	—	1,705	362	20
ROK						
1981	3,395	20	205	—	0	0
1989	12,931	208	1,438	—	0	0
DPRK						
1981	140	348	232	0	—	na
1989	294	882	184	22	—	na
Mongolia						
1981	4	341.3	2	0	na	—
1989	38	668	8	na	na	—

Sources: Mainly IMF, *Direction of Trade Statistics Yearbook 1981–1988* and *Direction of Trade Statistics Yearbook 1990*. Other sources: (1) USSR–South Korea and China–South Korea trade figures are from EPB (Economic Planning Board of Korea), *Economic White Paper* (in Korean), 1990; (2) 1981 North Korea–USSR trade figures are from Ha-Cheong Yon, *Economic Policy and Management in North Korea* (in Korean) (Seoul: KDI, 1986); 1989 North Korea–USSR trade figures are 1988 values from North Korea: Country Profile No. 2, 1991; (3) 1989 North and South Korea trade figures are from the National Unification Board of Korea, reported in *Hankuk Ilbo*, 11 April 1991; (4) 1981 USSR–Mongolia trade figures are from *National Statististical Yearbook of USSR*, converted from ruble values at the exchange rate of $1.535 per ruble—but these are 1980 trade figures; 1989 USSR Mongolia trade figures are actually 1988 values taken from the same source and converted at the 1988 exchange rate of $1.646 per ruble.

definitely not a relationship that Chinese, North Koreans, and Soviets desire in the long run.

Capital

The need for comprehensive regional development with a substantial processing basis, rather than simple extraction of raw materials, in the Soviet Far East and Northeast China has already been clearly stated in Chinese and Soviet policies and proposals (Bradshaw 1988; Dienes 1988; Shabad 1989a and 1989b; Granburg 1989; Christoffersen, 1988). Both the Soviet Far East and Northeast China need a massive infusion of capital investment and technology from Japan, South Korea, and other countries to achieve comprehensive regional development. The willingness and interest of Japan, South Korea, and other countries seem to be the key for regional cooperation. The current capital flows and their characteristics—in particular, direct foreign investment (DFI) from Japan and South Korea—are briefly examined here to assess the likelihood of their interests in the continental part of Northeast Asia.

The pattern of Japanese direct foreign investment over the last three decades reveals a tendency to move away from resource development. The share of commerce and services in the total Japanese DFI has increased over time, whereas manufacturing has taken about one-third of the total Japanese DFI. The primary destination of DFI for resource development has been in Southeast Asia, especially Indonesia and the Philippines (*Far Eastern Economic Review*, 3 May 1990). Manufacturing investment has been flowing into North America and Southeast Asia. Japanese DFI in China has been concentrated in two major sectors: services and manufacturing (mostly electric machinery). Northeast China, which has historical ties with Japan, received a substantial portion of Japanese manufacturing DFI in China (Sekiguchi 1991).

Japanese interest in resource development in Siberia and the Soviet Far East has waned over time. After the second oil shock, the Japanese economy has been transformed into a less energy-consumptive structure, and its need to secure a stable supply of raw materials has become less acute because of international competition and lower prices of fuels and raw materials.

South Korea's DFI pattern shows the importance of resource development in its overseas investment (Hong and Yim 1991), although manufacturing and services are gaining more significance in recent years. The primary destinations of South Korean DFI are Southeast Asia and North America. South Korea's DFI in Southeast Asia is concentrated in manufacturing, which takes advantage of cheap labor and resource development (primarily in Indonesia), whereas its DFI in services is mostly concentrated in developed countries.

South Korea's DFI in China reveals that China's low-cost labor is the major attraction for South Korean firms (Table 2.5). Most of these joint-venture products are for export, although a few cases of investment (such as joint ventures in consumer electronics) are clearly aimed at securing China's domestic market (Kim 1991).

Table 2.5 South Korea–China joint ventures in operation: 1990

Company	Product line	Amount (US$1,000)	Location
Hans Trading	Toys	144	Guangzhou
Chosun Trading	Toys	250	Shenzhen
Lucky Gold Star	Toys	460	Beijing
Semo Co.	Toys	600	Zhuhai
Jinwoong	Tents	400	Xiamen
Shinil Leather	Leather goods	850	Yingkou
Sinjoo Industry	Ski gloves	60	Zhuhai
Kangjin Trading	Ski gloves	1,000	Yingkou
Handoo Seafood	Seafood	1,500	Shantou
Handoo Seafood	Seafood	1,600	Qingdao
Daeyoung Fishery	Seafood	740	Huilai
Jewon Seafood	Seafood	1,000	Guangzhou
Jeonghan Seafood	Seafood	2,000	Shantou
Seonbong	Starch	200	Shenyang
Jeongi Industry	Lamps	60	Qinhuangdao
Korea Toflon	Speakers	450	Qingdao
Hanmi Brush	Brushes	200	Yingkou
Dong-A Pharmaceut.	Glass bottles	1,000	Qingdao
Songbang Industry	Souvenirs	450	Beijing
Lucky Metal	Magnets	1,225	Tianjin
Daebong Wire	Wires	2,000	Shenyang
Samsong Trading	Color TVs	1,140	Shenzhen
Daewoo Electronics	Refrigerators	6,034	Fuzhou
Hanjung Stone	Mining	300	Dalian
Doosan Industry	Restaurant	619	Beijing
Chinro	Restaurant	1,250	Beijing
Total		25,532	

Source: Adapted from *Hankuk Ilbo*, 21 October 1990.

South Korea's investment in the former Soviet Union started quite recently, and only a few projects have actually been implemented. The list of intended or agreed projects between South Korea and the former Soviet Union reveals that the major emphasis is on resource development (Table 2.6). Consumer goods, import-substitution industries, and services are also the target of South Korean DFI in the former Soviet Union. If Soviet Far East development is implemented as envisioned by the New Development Program (Dienes 1988), there will be increasing participation of the Korean construction industry and consequently large investments from South Korean businesses.

Table 2.6 South Korea's investment in the former USSR: 1990

Company and project	Amount of investment ('000s)	Remarks
Hyundai Trading and Hyundai Timber Svetlaya Forest	US$200 (50%)	30-year contract (12/28/89) Chinese/Korean labor
Hyundai Trading Nakhodka soap	US$1,000 (50%)	memorandum (12/18/89) compensation by timber
Hyundai Construction Nakhodka Trade Center	US$200 (50%)	memorandum (8/26/89) implementation by Nakhodka city
Hyundai Electronics Vladivostok PC joint venture	US$400-500 (50%)	memorandum 120,000 PCs sales in USSR
Hyundai Group Parzansk coal		jointly with Daesung Coal
Slavianka shipyard		contract (1/5/90)
Tovlsk petrochemical		jointly with US Combustion Engineering
Nakhodka fish processing		jointly with Donbang wonyang
Power plant/aluminum refinery		consideration
Vladivostok Apt.		memorandum
Yakutsk natural gas		feasibility study
Daewoo Co. Hotel in Moscow	US$22,253 (49%)	joint venture
Daewoo Group Electronic range parts	US$20,000	contract signed
Far East Apt.	US$5,000	800 units
Textile plant in Black Sea	US$5,000	consideration
Siberian timber		memorandum
Shipbuilding		jointly with USSR Shipping
Samsung Construction Moscow sports hotel renovation	US$300 (67%)	memorandum (5/89)
Jindo Fur factory	US$96 (50%)	construction
Samsung Group Electronic parts	US$10,000	contract signed

Table 2.6 *(continued)*

Company and project	Amount of investment ('000s)	Remarks
Light industry	US$400	contract signed
Fishery	US$300 (50%)	memorandum (2/8/90)
Siberia timber		jointly with Nishoi in Japan
Color TV tube		jointly with import co.
Hotel in Nakhodka	US$1,000	consideration
Pulp/sugar		consideration
Cable TV plant export		securing share for compensation
Lucky Gold Star Refrigerator		consideration for 1 million production capacity
Soap, toothpaste, consumer goods		jointly with Mitsubishi
Petrochemical complex		jointly with Bechtel
Hotel in Far East		consideration
Housing		consideration
Sunkyung Light industry		agreed
Shoe leather		consideration
Videotape		consideration
Resource development		consideration
Basic chemical materials		consideration
Samhwan Bricks		agreed
Sakhalin port	US$2,000	consideration
Apt. construction		memorandum
Sakhalin timber processing	US$200 (49%)	memorandum (12/1/89)
Hyosung Heavy electrical machinery		consideration
Leather		consideration

Table 2.6 *(continued)*

Company and project	Amount of investment ('000s)	Remarks
Timber		consideration
Ssangyong Trade center and hotel in Moscow		consideration
Hanil Synthetic Uzbek shoes		consideration
Synthetic fiber		consideration
Hanjin Hotel		consideration
Koryo Synthetic Apparel		consideration
Daelim Petroleum technology import		consideration
Kumho Petro Synthetic rubber technology import		consideration

Source: *Hankuk Ilbo*, 2 June 1990.

Capital in general flows toward places where the rate of return is highest. Low-cost labor attracts capital because of higher profits or lower production costs. In this regard, Northeast China and North Korea have an advantage. Resource frontiers also attract capital provided that extracted raw materials are in sufficient demand and can be sold at competitive world prices. The Soviet Far East, Mongolia, and part of Northeast China clearly have potential for attracting investments. The high costs of construction and labor in Siberia and the Soviet Far East, together with the uncertain demand for the resources in the region, make it necessary for the Soviets to provide incentives sufficient to compensate for high development costs and risks.

Moreover, incompatible economic systems and the difficulties arising from the incompatibility pose a considerable obstacle for free flows of capital in the region. Private international capital and, in particular, transnational corporations look for infrastructure, labor with the requisite skills and work ethic, currency convertibility, and the repatriation of profits. Bureaucratic red tape, the lack of experienced and professionally trained managers, ingrained work ethics that discount service and entrepreneurship, and a lack of basic business support services in the socialist economies of Northeast Asia will continue to act as brakes on the development of their overseas business relationships.

Labor

Labor, another important factor of production, is abundant in Northeast China and to a lesser degree in North Korea. It is well known that labor moves, in general, toward places with higher wages and benefits. But migration and labor movement are controlled even within the borders of a socialist planned economy. Crossing borders will be almost impossible, even though there are sufficient incentives for the workers to do so, because of political and social barriers between the countries of Northeast Asia.

China, with its estimated 100 million or more surplus labor, is sending increasing numbers of contract workers abroad. About 66,000 Chinese work in this capacity overseas, predominantly in the Middle East, the former Soviet Union, and Africa or on ships. More than 80 percent are low-skilled laborers employed by Chinese companies. More than 9,300 labor contracts with a value of $12.5 billion were signed from 1979 to 1989. Officials are optimistic that labor exports will continue to grow for the country, which has only a tiny 3 percent share of the international labor market (*Far Eastern Economic Review*, 14 June 1990).

Observers point out that the former Soviet Union has a huge demand for Chinese workers in its underpopulated Asian region (*Far Eastern Economic Review*, 14 June 1990). In fact, Chinese labor contracts with the former Soviet Union jumped to $130 million in 1989 from $5 million a year earlier. About 15,000 Chinese are working in the former Soviet Union; Heilongjiang province is expected to be the main supplier (about 9,000 workers). If the Siberian and Soviet Far East development is going to be carried out as envisioned by the planners in the Far East, the Soviets will need to employ a substantial number of foreign workers in the area in the next few years. However, the deteriorating Soviet economy is expected to bring about considerable unemployment. Moreover, the lessening of political tensions in Northeast Asia will result in the demobilization of servicemen stationed in the Far East. These events would certainly help reduce labor shortages in the Far East. Even with the migration of unemployed workers from the European part of the former Soviet Union and the demobilized servicemen, the Far East will still be in need of unskilled or semiskilled foreign workers because of labor shortages in low-wage manual jobs such as construction, services, forestry, fishery, and so forth (Minakir 1991).

South Korea is very much interested in hiring Chinese contract workers, in particular Korean Chinese. Even though it may be difficult to import Chinese workers into Korea, Korean firms, particularly construction firms, are interested in using Chinese labor in overseas construction. As of 1991, Dong-A Construction had hired 106 Korean Chinese in Libyan construction sites and 160 Chinese workers are working in Svetlaya timber for Hyundai Timber Co. (*Hankuk Ilbo*, 14 April 1991).

This form of cooperation in labor utilization is particularly beneficial to all the parties involved in the project. As South Korea's involvement in the Soviet Far East increases, resource development and infrastructure construction will require a large number of contract workers, perhaps from Northeast China.

TOWARD COOPERATIVE REGIONAL DEVELOPMENT

Looking back at the events in the late nineteenth and early twentieth centuries, one recognizes that conflicts of interest such as the Japan–China and the Japan–Russia wars have marked the history of the region. Off and on in modern history, international relations in Northeast Asia have been based on fragmented bilateral relations. Moreover, countries have often relied upon "balance of power" politics—playing off bilateral relations against each other. This historical legacy has resulted in deep-seated mistrust among the countries. "New thinking" that breaks away from the Cold War alignment has yet to be brought about in Northeast Asia. The former Soviet Union's perestroika, China's open-door policy, and South Korea's "northern politique," however, provide an important impetus for fomenting new thinking and alternative perspectives in the region. Here we consider possible strategies for cooperative economic development and some essential preconditions.

First of all, regional cooperation depends greatly on the socialist economies' strategy of external economic relations. China since its reform has adopted a territorial approach to link up with international economies—that is, adopting a market system in selected areas, from special economic zones to open cities and areas. In contrast, the former Soviet Union's strategy appears to be sectorally oriented, following market system and international order in its external economic relations. Whichever strategy these countries follow in the short run, it seems inevitable that they must introduce systemwide reforms to avoid conflicts between domestic and international policies in the medium run. At any rate, the key consideration here is to enlarge the interface between socialist and market economies by adjusting the rules and regulations of socialist economies.

With respect to regional economic cooperation, conventional economic zones that are based on trade creation effects (including trade diversion) or free trade of regional products would neither be feasible nor effective in the region (Saito 1991). The reason is simply that Japanese and South Korean trade is already deeply connected with North American and European markets. Potential investors in the region are, perhaps, less interested in producing goods that will be consumed within the region.

Instead, the key for regional cooperation must be through the movement of factors of production, especially capital, including the transfer of technology associated with capital investments (Saito 1991). Free factor movements facilitate efficient production by enabling firms to find the right combination of factors of production. As mentioned earlier, Japan and South Korea are currently undergoing an industrial restructuring process in which labor-intensive and land-intensive industries tend to move out to offshore locations. The Soviet Far East and Northeast China can provide attractive sites for these industries.

Moreover, these areas have great potential for activities utilizing nonmovable local resources including tourism. If we accept the premise that regional cooperation through capital flows, technology transfer, and labor movement

(contract labor) is more effective than a customs union, free trade zone, and the like in Northeast Asia, rules and regulations governing foreign involvement in China, North Korea, and the Soviet Far East should be developed to facilitate capital and labor movement and technology transfer. Furthermore, to promote international division of labor based on dynamic comparative advantage of constituent areas within the region, institutional infrastructure must be significantly improved. For instance, regulations governing the entry and exit of people, information, commodities, and capital should be simplified greatly to facilitate these movements.

In Northeast China and the Soviet Far East, state enterprises are dominant and their inefficiency is often noted. Foreign investors seeking either fully owned or jointly owned equity require much more freedom of management unencumbered by bureaucratic red tape. Enterprise reform, therefore, becomes an important issue for this region. This issue is closely related to a larger question of decentralization of decision-making power including central/local government relations in command economies. If provinces or subnational regions are allowed more freedom in dealing with external relations, it will certainly expedite the process of regional cooperation. As proposed by a few concerned experts, linkage building starting from subnational levels would be more relevant if local autonomy were allowed in Northeast China and the Soviet Far East.

Cooperative regional development in Northeast Asia can start from a demonstration project for which the Tumen Delta would be a good candidate. Identification of cooperative development projects, however, should meet certain criteria satisfying the goals of regional cooperation in Northeast Asia. Broad goals could be "mutually beneficial growth" and "peaceful coexistence" in the region. From these goals, certain principles can be developed—for example, "nonexcludability," "mutuality of interest," and "equality and partnership in cooperation" can be applied to policies for cooperative economic development.

A strict economic criterion of maximum return on investment may not be adequate for the evaluation of cooperative development projects. A goal achievement matrix can be used to gauge both tangible and intangible benefits and costs of alternative projects. As in interpersonal distribution questions, higher weights can be attached to the benefits accruing to less developed areas, if Northeast Asian participants agree on the goal of reducing the imbalance in economic development.

With regard to the approach to cooperative development, a development pole strategy could be adopted rather than area-wide or sector-specific approaches. The advantage of this approach is that selected areas for investments—such as free economic zones for an open delta—could achieve not only scale economies and agglomeration economies but positive spread effects. The approach is also relevant for the large continental parts of Northeast Asia where investment cannot possibly be thinly spread. In the development of such poles, leasing of land to foreign investors/developers as implemented in China would

relieve the infrastructure construction burden since the developer assumes the full responsibility of improving the land, leasing the improved land to potential investors, and managing the land. The idea of setting up a special industrial estate in Tianjin by leasing the land from China is under serious consideration between Chinese and South Korean business people. This idea can be applied to the Soviet Far East also.

In sum, Northeast Asia (narrowly defined) has a great potential for cooperative economic development. The key question is how to reconcile different interests and lower the political and social barriers among nations in the region. A supranational perspective rather than an ethnocentric view is absolutely necessary to create joint dynamic growth effects—tapping the comparative advantages of each region (like a firm finding the right combination of production factors) and shifting the production possibility curve outward—and to establish a stable and mutually beneficial coexistence in the region. What needs to be done foremost, however, is to build confidence in one another and to cultivate mutual trust and respect.

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