

# **THE PROSPECTS FOR LOGISTICAL COOPERATION IN NORTHEAST ASIA**

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## **ABSTRACT**

Since the 1980s, the continued expansion and in-depth growth of trade and investment between the countries in Northeast Asia have strongly pushed forward the development of its logistics service trade. China, Japan and South Korea have actively participated in the process of economic globalization, continuously regulated the industry structure, rapidly developed into a global manufacturing center, thus becoming a region filled with the greatest vigor and potentialities in world logistics cooperation. With the further fusion of regional economic cooperation, the present times have set more and higher demands for logistics cooperation between the countries in Northeast Asia.

## **KEYWORDS**

Logistics, modernization, integrated logistics system, logistics net

## **MAIN TEXT**

### **I. Current Logistics Development in Japan, South Korea and China**

Early in 1969, Japanese government drew up a macro-regulation plan for a nationwide logistics system. In this plan, Japan was divided into 8 districts, covering the original Hokkaido, Tokyo, Osaka and 43 counties. The arrangement and preparation of logistics facilities were carried out in these 8 districts, thus forming logistics centers and a nation-wide logistics system. Up to now, Japan has set up a highly efficient logistics network on its four islands. This logistics network is made up of railways, super highway networks, trans-ocean bridges, tunnels, domestic shipping routes and a global airline network. Meanwhile, Japanese logistics insiders have made great efforts to keep pace with the information age and the ever-changing demands created by globalization. They have enforced the logistics management; reorganized and integrated the relevant systems which cover the following links: the storehouse, stored goods, delivery,

transportation, allocation, inter-enterprise transportation, order disposal, procurement and the manufacturing plan. Besides, they have even strengthened the product control system, quality control system, cost control system and information communication system as well. In this way, Japanese logistics enterprises have become more competitive in the market. According to the “Yearbook of International Statistics” published by the Chinese National Statistics Bureau in 2003, Japan’s rotation volume of goods transported through highway reached 307.2 billion tons per kilometer in 1999. Transportation volume by railway amounted to 13,048 transportation unit per kilometer in 2000. The volume of international sea transportation is 917.92 million tons in 2001. The rotation volume of goods transported by air was 7.6 billion tons per kilometer and that of passengers was 144.3 billion persons per kilometer in 2001. And the total cargo ship tonnage in 2000 reached 15.26 million tons. Japanese logistics capability and management ranks the highest in Northeast Asia.

The development of South Korean logistics infrastructure construction is very fast in late years, which has set up the main traffic lines in railway, highway, waterway and airway, and so on. And at present, they are making efforts to link the main line transportation with the individual transportation in the area to make the cargo main line transportation in a large scale, make a regular individual transportation and make a comprehensive logistics service. Now, South Korea begins to pay more attention to developing the function of comprehensive logistics system, improving the mechanization, automation and digitalisation of logistics transportation, and to make logistics enterprise highly comprehensive in the market. South Korean highway transportation turnover amounted to 74,5 billion tons/kilometre(1997), railway transportation turnover was 12456 tons/kilometre (2000), world waterway reached 569,6 million tons/kilometre(2000), air cargo transportation turnover amounted 7 billion tons/kilometre (2001), air passenger transportation 62,8 billion people/kilometre (2000), and cargo ship tonnage reached 6,2 million tons (2000). South Korean logistics and management capability is only after that of Japan in Northeast Asia.

China has accelerated the construction of transport infrastructure for over 20 years. Railways are built in all large and medium cities with 1 million people, highways are radiated to villages and towns, and airlines can reach every provincial capital and some large cities. In addition, the construction of ports and main waterways are developed. Especially since the reform and opening-up, the modern logistics and logistics network system have been introduced, logistics resources settled, and regional logistics network constructed. But on the whole, the information network that covers a certain area has not been set up by the most logistics enterprises of China. Their mechanization, automatization, and digitization are still undeveloped. In 2000, the rotating volume of goods transport by highway in China reached 612,900 million tons/ kilometer, transportation by railway up to 30262 unit / kilometer, by the international ocean shipping amounted to 1,146,080,000 tons, by the airfreight (in 2001 year) to 4,400 million tons/ kilometer, and rotating volume of passengers to 109,100 million/kilometer, the tonnage of shipping to 16,500,000 tons. Compared with Japan and South Korea,

China is poor in logistics and logistics management.

According to relevant data analysis, the proportion of trade in the world in 2001 saw that the European Union accounted for 65.6%, the North American free-trade area of 54.1%, the total of China and Japan and South Korea 19.8%. Hence, the important way of exploring the enormous potentiality of mutual trade profit in Northeast Asia is to accelerate the cooperation in logistics between China and Japan and South Korea by giving play to their own advantages.

## **II. China will speed up the modernization of logistics**

Nowadays, the operating mileage of Chinese railway has reached 73,000 kilometers, that of the highway has topped 1,800,000 kilometers, the mileage of the inland waterway channel has reached 122,000 kilometers, and there are already 33,600 port berths. According to the analysis of related data in China, the total amount of social logistic commodities has reached to 29,6000 billion RMB. This total amount has risen from 3000 billion RMB in 1991 to 23300 billion RMB in 2002. The total in 2002 is nearly 6.7 times what it was in 1991. The annual average increasing speed has arrived at 20.4%, which greatly surpasses the increasing speed of contemporary economic growth. But compared with the need of rapid economic development, Chinese logistic industry seems to be a little late in start, to be of a relatively small scope, and to be lacking in strong, key competitive power. In 2003, the total cost of Chinese social logistics occupied 21.4% of GDP, which was more than 2 times of the average in developed countries. Some domestic figures hold that there is at least a ten-year lag between the internal logistic industry and the world's most advanced level. For example, about more than 400 enterprises of the world top 500 companies are making investment in China, and about 90% commodities are sorted out by other companies instead of themselves, and this figure is about 70% of the total number of companies that act like this in China, where, there is 300 billion RMB annual logistic wastage, on the other hand, there is 60 billion RMB external logistics. So considering the functions of logistics, the logistic industry in China has realized that there must be transformation from the traditional logistics to the modern one.

With approval of the State Council, nine departments, including the National Development and Reform Commission, jointly issued *Suggestions on Promoting the Development of Modern Logistics* on August 5, 2004. The document states that a modern system of goods flow should be developed through out the whole nation. Characterized by socialization and specialization, the system will be smooth, speedy and punctual, economical and rational in the flow of goods, and will be to the satisfaction of the clients. It also suggests adjusting the present administration methods in view of providing favorable environment for development of modern logistics. Except for submissions stipulated by special policies, the other previous ones will be canceled. Administrative submissions for domestic railway, waterway and multi-module transportation, and those for managerial qualification of international transportation agents will all be canceled.

Submission system of civil aviation transportation agency will also be reformed. The document sets strict demands that the operation of logistic market should be rectified. Some illegal regional blockade, industrial monopolization and market partition within some departments and in some regions should be abolished. Collection of inappropriate fees against national policies will also be eliminated. The document states clearly that importance should be attached to promoting the opening of logistic market, to encouraging some large-sized foreign logistic enterprises to set up enterprises in the same field within our country according to our state policies, and to facilitating domestic construction and management of logistic with foreign investments, equipments and technologies so as to accelerate the integration of logistic facilities and the construction of socialized region logistic center. Meanwhile, China is drawing up *Outline of National Development Program of Modern Logistics*. It shows that constructions of modern logistics have started in China.

So far the authorities of more than 20 provinces, districts and cities as well as more than 30 center cities in China have formulated a logistics development program. For instance, relying on transportation and position advantages, Tianjin municipal government strives to establish the logistics center in Northeastern Asia, makes the logistics center of containers and bulk cargos in Tianjin port, the industry logistics center in Economic and Development Area, the international logistics center in the Bonds Area. Dalian municipal government will fill up the sea for establishing a group of ports for international logistics in Northeastern Asia, which includes international logistics area, grain logistics area, automobile logistics area, petrochemical logistics area and bulk mineral cargo logistics area, having the transportation ability of more than 250 million tons. At Xiantao international airport of Shenyang city, preparation is started for the construction of a logistics center with the functions of bonds cargo warehouse, customs and frontier inspection in order to establish a airport logistics base in Northeastern Asia. There are more than a hundred projects are in the process of construction in Qingdao bonds area with functions of storage for bonds cargos, goods exhibition and export processing. The above situation shows that areas connecting continents of Northeastern countries such as three provinces of northeastern China, Tianjin and Shandong province are accelerating the steps towards international logistics centers, which is crucial for establishing the logistics center in Northeastern Asia.

### **III. The Establishment of the logistics net in Northeast Asia**

Since the policy of reform and opening to the outside world was implemented China has become the world's production base. Therefore, China and other Northeast Asia countries are concerned with various problems such as management of materials supply chain, reducing logistics cost and increasing logistics efficiency. Since the Premier Wen Jiabao put forward the proposal of establishing a communication system in the 10+3 meeting for China, Japan, and Korea, the concerning agencies have started to study these topics about local logistics. There exist possibilities for local agencies and experts

to cooperate with official agencies for the study of these topics.

In my opinion, logistics cooperation in Northeast Asia should develop from the following factors:

1. Position advantage for ocean shipping is good for establishing sea transportation centre in Northeast Asia. The most important ports, Tianjin port, Dalian port and Qingdao port, have the largest handling capacity among all ports in the northern area. There are twelve container ports in Japan, including Niigata port, which is located in the bank of the East Sea and Shimonoseki and Yamamoto ports, which are close to the Korean peninsula and China. Pusan port is the third largest container port in the world and Nease port is the shortest distance to Weihai, China. If a communication system is established among the eight ports and multilateral and bilateral cooperation systems of ocean shipping are set up, the logistics center of sea transportation in Northeast Asia has a base.

2. In terms of advantage of goods for in the location of an air transport area, it needs to establish a center of air transportation of goods in Northeast Asia. Big airfields, including Beijing Capital Airport, Jinan Airport, Shenyang Airport, Changchun Airport and Harbin Airport in China, Tokyo Airport and Osaka Airport in Japan, Inchon Airport and Pusan Airport in South Korea, they have the biggest volume of transporting in their own countries, and are the most important airfields in Southeast Asia. They are the busiest ones in goods flow and passenger flow. If the system of goods interflow and communication is firstly established in these nine airfields, it will be the basis for constructing the center of air transportation of goods in Northeast Asia.

3. In terms of the advantage of the goods for transporting, there needs to be the passage of goods, transport into relatively centralized categories. The processing of raw materials and products for manufacture can be transported inter-regionally through sea transportation systems; the processing raw materials, products and technicians in electronic fields can be conveyed inter-regionally through air transportation system; and products of energy sources such as coal can be delivered to Japan and South Korea from Tianjin harbor, Qinhuangdao harbor and Huanghua harbor in China.

Logistics cooperation in Northeast Asia is by no means made up of conceptual games. The fast-developing multilateral communications between China, Japan, Russia, Korea, North Korea as well as Mongolia have made sufficient progress toward the development of an integrated logistics system. Moreover, after entering the WTO, China has pledged to lift foreign stockholder investment restrictions in the logistics sector. After a reasonable period of transition, it is about to be quiet convenient for the foreign service suppliers to enter the Chinese market, with no limits on the present principles of market-admittance and the related activities of all the service industries. Meanwhile, more assistance is going to be provided on the service of assisting distribution, and foreigners may distribute commodities from both home and abroad. Logistical cooperation in Northeast Asia, Japan and Korea have relatively greater

advantages, from which China may have very much to learn. However, these countries must trust one another in politics, assure to benefit one another and most push the concrete development of the cooperation. On this inter-benefit and win-win basis, the overall management of logistics in Northeast Asia will be soon promoted.

#### **IV. Suggestion on Northeast Asian logistical cooperation**

As expected, the process of establishing logistical cooperation in Asia, the conditions, interests and ideas of various countries are not necessarily the same. But considering the state of local economic trade development, it is a main trend to advance closer logistics cooperation progressively and it is favorable to the economic development of various countries. Establishing a logistics circle in Northeast Asia should provide a framework for cooperation, confirm the goal of cooperation and the principle of cooperation. The steps required to establish this cooperative circle will require us to do substantial amounts of work., and some problems should be solved for this.

1. The relevant organizations of the governments of China, Japan and Korea are conducting research on setting up a Northeast Asian Logistics Circle and exchange mechanism, so the economic forum of Northeast Asia coordinates efforts between scientific research institutions and independent experts to study logistical problems, which is meaningful because it indicates the government's willingness to work with non-governmental organizations. We propose that the economic forum of Northeast Asia strengthen the coordination of this research.
2. Research on the establishment of a Northeast Asia Logistics Cooperation Circle can be initiated strategically as a whole, started with bilateral cooperation or logistical cooperation with respect to certain products. The fact that the latter research operates and progresses more easily has been proved. I would like to suggest economists and logistical experts adopt a more practical attitude towards research.
3. The prerequisite for establishing a Northeast Asia Logistics Cooperation Circle is mutual communication on logistic information. Only when a local information network is established can we be aware of logistic direction and characteristics of every country. I would like to suggest that every country should intensify statistics work on logistic information so as to offer convenience for experts who research on this subject.
4. Meanwhile, the Northeast Asian Economic Forum may introduce projects concerning logistical infrastructure construction, improvement of logistic management and logistic enterprise competition in local areas through the establishment of the South East Asia Logistics Cooperation Circle so as to promote cooperation between logistic enterprises of every country.
5. The diversity of logistical development in Northeast Asian countries leads to unavoidable differences on understanding basic problems such as the way to provide transnational service, the content of transnational service, the relationship between

international logistic service and foreign trade and investment. Logistical development will require endurance on the part of the Northeast Asian Logistics Cooperation Circle. We will definitely make achievements as long as we insist on cooperation.