



Title	Economic Cooperation in Northeast Asia:Prospects and Problems
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Citation	ECONOMIC JOURNAL OF HOKKAIDO UNIVERSITY, 21, 139-152
Issue Date	1992
Doc URL	http://hdl.handle.net/2115/30480
Type	bulletin (article)
File Information	21_P139-152.pdf



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Economic Cooperation in Northeast Asia: Prospects and Problems

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Prepared for the Joint Seminar on Theoretical Problems on the Economy in a New Era Around the Sea of Japan organized by Yonsei University and Hokkaido University held in Sapporo during October 1-4, 1991

For almost the last half century, the Northeast Asian Region has been divided into the socialist bloc (USSR, China and North Korea) and the capitalist bloc (Japan and South Korea), and there has been little economic movement between the two blocs. With the collapse of the socialist system on a world-wide scale, however, the traditional line separating the two blocs has been blurred. As a result, it is now possible to talk about the Northeast Asian regional cooperation. The objective of this paper is to assess possible forms of economic cooperation in the region, given the political and economic changes taking place globally as well as in the Asia/Pacific region. For the purpose of this paper, the Northeast Asia region is made up of five countries or regions; Northern China, Japan, North and South Korea, and the Soviet

Table 1. Major Economic Indicators of Northeastern Asia (1989)

	Population (million)	GNP	Per Capita GNP (\$)	Total	Export	Import
				----- (100 million dollar)		
S. Korea	42.4	2,101	4,968	1,239	624	615
N. Korea	21.0	233	1,108	48	20	28
Japan	123.1	28,337	23,016	4,860	2,752	2,108
China ¹⁾	97.9	495	506	81	62	19
Soviet Union ²⁾	7.9	288	3,627	121	55	66
Northeastern						
Asia (A)	292.3	31,454	—	6,348	3,513	2,836
World (B)	5,155.4	236,142	4,580	58,802	28,990	29,812
A/B (%)	5.7	13.3	—	10.8	12.1	9.5

Notes: 1) Heilungkiang Province, Kirin Province, Liaoning Province.

2) Far Eastern Region.

Sources: Economic Planning Board, Korea Development Institute, JETRO and IMF.
Requoted from Yeon, Hacheong, p.28.

Far East. One could include Mongolia, but I will not include this country here because of its relatively small size and economic insignificance. In this paper, Northeast Asia Region is used synonymously with the Sea of Japan region or the East Sea region (as the sea is called in Korea). For some basic economic indicators of the region, see [Table 1] .

It is apparent that this region has a great potential in terms of the basic resources of economic prosperity. The region has all five basic resources for economic development; technology, management knowhow, natural resources, labor and the market. Japan, of course, is most competitive in many industries that it chose to develop. It is the world leader in technology and marketing in many industries such as the electronics, automobile, ceramics, camera, shipbuilding, steel and others. South Korea has its own class of technology and managerial knowhow, as well as the most recent experience of rapid industrialization. North Korea and China have the huge pool of labor and the potential for industrialization. The Soviet Far East has the huge natural resources, although developing it will require the large amount of investment.

Despite the great economic potential, there are many hindrances that block attaining the potential in the region. First and foremost, there are a few politically unresolved issues. Japan and the Soviet Union are hung up with the territorial issue of northern four islands. North and South Korea still live in an era of the cold war, although the ice will melt sooner or later. There are no diplomatic relations between North Korea and Japan, and South Korea and China, not to mention between North and South Koreas. These conditions will change in a very near future. Because of these unresolved political and diplomatic problems, an adequate framework for capital investment and trade cannot be satisfactorily established at the moment. Related with the first issue is the question of finding the fund for the huge infrastructure investment required in the region. As was implied above, the Soviet Far East needs the substantial investment from outside the Soviet Union, given that country's poor economic condition at present. Yet, the biggest potential investor, Japan, is not expected to make any major move without the satisfactory settlement of the Northern islands issue.

Although it is true that the political environment in the region is not conducive to the full-scale economic cooperation, it is still possible to make some meaningful first-steps. This paper will attempt to suggest some of these first steps. But before doing it, let us have a look at the global changes that are reshaping the world economy.

Globalization, Regionalism and Nationalism

Perhaps the single biggest question about the future shape of the world economy is which of the following two trends, namely the globalization and regional-

ism, will dominate the world economic system. The globalization can simply be defined as "the world moving toward the borderless state", meaning that "nation-states" will continue to lose their sovereign rights of intervening in economic transactions crossing the borders. The forces that make this possible include the following four factors: (i) the development of transportation and communication, especially related with the information revolution, (ii) lowering of the barriers that affect trade and capital flows crossing borders, thanks partly to the GATT and the IMF, (iii) the rapid diffusion of the capitalist consumption patterns, especially those of the U.S., worldwide and the resulting homogenization of the consumer tastes, and (iv) the global spread of the multinational corporations and their globe-integrating strategies in the areas of R&D, production and marketing.

A single nation-state can choose to seclude itself from the globalization trend by erecting barriers to trade and capital flows. But it will soon find that the costs of such an autarkic policy are too high. In other words, benefits of the free economic transactions are so great that many countries are willing to give up some of their sovereignty in order to get the benefits. The latter includes more competition and better disciplining of national companies, a freer access to new technology and ideas, a wider choice of products and services and an access to lower-cost raw materials. Even the bigger economies such as the U. S. and the EC cannot be fully self-supportive and afford an autarkic policy in this era. As a result, it is difficult to find a single nation which can have a reasonable economic growth and at the same time pursue an isolationist economic policy. The wave of the "global capitalism" is such a powerful force that it is difficult for any country to live outside it.

If it is true that the globalization is such an irresistible trend reshaping the world economy, how could we explain the trend of the regionalism as exemplified by the EC and North American Free Trade Area (NAFTA)? The historic root of the EC may perhaps be found in a political motive of avoiding yet another war between France and Germany. However, the latest integration attempt of the EC could be partially explained by its efforts to cure the economic stagnation often called the "Eurosclerosis" and to better compete with the U. S. and Japan in the global competition. In other words, regional blocs are one form of response to the trend of globalization.

A similar explanation can be made about growing nationalism and local disputes in many corners of the world. Foremost examples include the disintegration of the USSR and Yugoslavia. The root cause of the nationalist movements could be found in the history of these countries having been annexed by the imperialist powers or the drawing of the border lines by the superpowers against the will of the peoples. Yet, another reason for the independence movement for many peoples now is to regain the economic sovereignty. These people perceive that they are left behind in the global capitalist affluence and that their relative economic stagnation

is due to the lack of economic decision making authority on the part of their people.

The point is made here that the globalization is the fundamental force reshaping the world economy and that the regionalism and nationalism are partially responses of the peoples to the growing globalization trend. It is also argued that the globalization trend is irresistible and cannot be ignored by nation-states because doing so would be too costly for them in the long run.

Northeast Asia Free Trade Area?

What is the feasibility of an exclusive economic bloc in the region? By an exclusive economic bloc, I mean formal economic integration stages starting from a free trade area and progressing toward the customs union and common market. The possibility of an exclusive economic bloc in the region in the near future, more specifically during the next decade, is very slim because of the following reasons. First, the diversity of the countries is too great to allow a homogenous economic bloc. The countries in the region are very diverse in terms of their level of industrialization, income, economic system and size.

Second, as was implied in the above, there are many unsettled political problems that make it difficult for the countries in the region to sit down for economic integration discussions. In addition, there is still a deep mistrust of each other in the region. China and Korea still remember the Japanese adventurism in the first half of this century and are alert about the reemergence of the Great East Asia Coprosperity Region.

Third, the U. S. is such an important economic partner for many countries in the region that it would not be beneficial to exclude the country from any economic integration. For example, the share of the U. S. out of the total exports of Japan and Korea was respectively 32 percent and 30 percent in 1990. Although the share of intraregional trade has increased steadily in the last six years, both countries trade extensively with the countries outside the region. Therefore, any regional bloc not including the U.S. is likely to have a significant trade diversion effect.

It may be noted that the U. S. does not welcome any idea of an exclusive economic bloc in the region. It remains to be seen whether the U. S. wants to maintain its commitment and interest to the Asia/Pacific Region, but at present it is an important member of the Asia Pacific Economic Cooperation (APEC). Although the APEC ministerial level meetings are expected to be held annually (Seoul, November 1991; Bangkok, 1992; and Los Angeles, 1993) as they have been held in the last two years (Canberra, November 1989; Singapore, July 1990), is not likely that it will develop into an exclusive economic bloc in the near future.

A proposal for the East Asia Economic Group (EAEG) not including the U. S., as it was proposed by the Malaysian Prime Minister, has not been warmly received by either of the two super economic powers in the region. Because of the rather

Table 2. Trade Flows between Northeast Asian Countries (1981-1989)

Unit: Million US\$

Export from \ To		Japan	S. Korea	China	USSR	N. Korea	U. S.	Total
		Japan	1981	—	5,640	5,076	3,253	290
	1989	—	16,491	8,477	3,069	196	93,954	122,187
S. Korea	1981	3,503	—	N. A.	21	N. A.	5,688	9,212
	1989	13,489	—	1,438	208	0	20,987	36,122
China	1981	4,597	N. A.	—	117	247	1,506	6,467
	1989	8,180	1,550	—	1,699	362	3,988	15,779
USSR	1981	1,836	8	99	—	N. A.	343	2,286
	1989	2,718	356	1,768	—	1,356	713	6,911
N. Korea	1981	127	N. A.	212	N. A.	—	N. A.	339*
	1989	267	20	166	891	—	N. A.	1,344*
U. S.	1981	21,823	5,116	3,603	2,432	0	—	32,974
	1989	44,584	13,478	5,807	4,271	0	—	68,140
Total	1981	31,886	10,764*	8,990*	5,823*	537*	46,370*	104,370*
	1989	69,238	31,895*	17,656*	10,138*	1,914*	119,642*	250,483*

Notes: Figures of export from China and the USSR to S. Korea were inversely computed from the statistics of Korean import from China and the Soviet Union. Symbols* indicate data deficiency which restricts the comparability of totals between different years or between different countries.

Sources: IMF, *Distribution of Trade*, each year. Figures of Korean trade with China and the USSR are based upon the statistics provided by the Ministry of Commerce and Industry. Quoted from Chukkyo Kim, p.9.

diversified trading relations of the countries in the region, any exclusive economic bloc not including major trading partners is not very welcome. The argument is also valid for Korea which has worked hard during the last two decades to have a more diversified economic relationship with all major trading partners. Please see [Table 2] and [Table 3] for the trade and investment flows in the region.

Northeast Asian region has even a smaller intraregional trade volume than a larger possible economic bloc in the region including the EAEG. Therefore, it is definitely not desirable for countries like Korea to be involved in any exclusive economic bloc in the region. Only exception to this argument can be made when the liberal trade regime as represented by the GATT breaks down and the world economy retreats to the hostile economic blocs and protectionist trading wars. Even under that kind of most unfortunate scenario, any exclusive regional economic bloc in the Asia and Pacific is likely to cover a broader region than the Northeast economic region as discussed in this paper. All in all, the Northeast Asia Free Trade Area is not likely to emerge in the foreseeable future. It is neither feasible nor desirable.

Table 3. Investment Flows between Northeast Asian Countries (1985-1989)

Unit: Million US\$

		Investment in						Total
		Japan	S.Korea	China	USSR	N.Korea	U. S.	
[Overseas Investment by]								
Japan	1985	—	134	100	0	0	5,395	5,629
	1986	—	436	226	1	0	10,165	10,828
	1987	—	647	1,226	1	0	14,704	16,578
	1988	—	483	296	9	0	21,701	22,489
	1989	—	606	438	19	0	32,540	33,603
	Sum	—	2,306	2,286	30	0	84,505	89,127
S. Korea	1985	(1.0)	—	0.1	0	0	N. A.	*
	1986	2.7	—	1.8	0	0	163.3	168
	1987	1.6	—	6.0	0	0	167.7	175
	1988	9.5	—	5.4	0	0	201.9	217
	1989	12.9	—	12.0	0.5	0	271.2	297
	Sum	27.7*	—	25.3	0.5	0	804.1*	857*
U. S.	1985	491	51	357.2	0	0	—	899
	1986	639	68	314.9	0	0	—	1,022
	1987	1,493	190	262.0	0	0	—	1,946
	1988	1,259	237	236.0	0	0	—	1,732
	1989	1,217	222	284.3	1	0	—	1,724
	Sum	5,099	768	1,455.2	1	0	—	7,323
Total	1985	491*	185	457	0	0	5,395*	6,528*
	1986	642	504	543	1	0	10,328	12,018
	1987	1,495	837	1,495	1	0	14,872	18,699
	1988	1,269	720	537	9	0	21,903	24,438
	1989	1,230	828	734	21	0	32,811	35,623
	Sum	5,128*	3,074	3,767	32	0	85,309*	97,307*

Notes: Actual investment flows may differ from the above figures due to (1) different statistical definition used by respective countries, (2) different basis of accruing investment outflows (e. g. approval, arrival, or actual investment), and (3) different computation methods (e.g. investment position differential between two years in case of the U. S. and total investment outflows in other countries). The above table may, however, show at least the direction of investment flow between Northeast Asian countries. Symbols * indicate data deficiency.

Sources: Requoted from Chukkyo KIm, p.10.

- 1) For Japan's Direct Investment Abroad, see JETRO, *World and Japan's Direct Investment Abroad* (世界と日本の海外直接投資), 1989-1991.
- 2) For Korean Direct Investment Abroad, see Bank of Korea, Dept. of Foreign Exchange Control, *Statistical Almanac of Overseas Investment* (Haeoi Tuja Tongke Yonbo), 1989-1991.
- 3) For U.S. Direct Investment Abroad, see U. S. Dept. of Commerce, *Survey of Current Business*, Aug. 1990, pp. 68-72. Because of data limitations, Chinese data in *Chinese Yearbook of Foreign Trade* (Zhongguo Duiwai Maoyi Nianjian) were used to estimate figures of U. S. investment in China, so actual capital outflows may differ from the figures quoted in the Chinese sources.

Other Forms of Economic Cooperation in Northeast Asia

The most desirable form of economic cooperation in the region is to allow the free access of products and services. As was explained in the above, the region has all the necessary ingredients for economic development. The question is how to make these resources available for all the countries in the region. There are various obstacles that hinder the free flow of the resources. The biggest obstacle again is the political one. There is still no formal relationship between North and South Korea; two countries trade indirectly through a third country. The two-way trade between two countries amounted to mere US\$ 46.3 million during the last three years (1988-1990) according to the National Unification Board of South Korea. Since North Korea is geographically positioned right in the middle of the region linking all the other four countries, it is essential that North Korea opens its doors to all the countries in the region. Of course, sea and air routes can substitute for the land transportation to a certain extent, but the opening up of the rail and land routes of North Korea would be a big stimulus to the intraregional trade. Besides North-South Korea relationship, there is yet no formal diplomatic relationship between South Korea and China, and between Japan and North Korea. In addition, there is a question of northern islands issue between Japan and the Soviet Union.

Even if the political and diplomatic relations in the region are all normalized, there would be additional hindrances blocking the free flow of goods and services in the region. One is the inadequate infrastructure. The requirements for the infrastructure investment in the Soviet Far East are so great that even making estimates for the required capital investment is difficult. In a recent conference, a Soviet specialist was rather pessimistic about the prospect of the development of the Far Eastern region. (Ivanov, pp. 5 and 7)

The Soviet Far East is one of the most remote areas in the USSR. Its enormous expanses, lack of the infrastructure, severe climatic conditions, underdevelopment and underpopulation, the complete dependence of its economy on raw materials extraction and biological resources utilization, the critical importance of external financial support make the investment climate quite difficult despite some important advantages. In Far East the future of the key infrastructural projects is most uncertain since they were financed through the budget of the Central Government. The Long Term Economic Development Plan 2000 drafted for the Far Eastern region in 1987 has been cancelled.

It is clear that only the substantial external financial assistance could start the huge infrastructure development in the Soviet Far East. The biggest potential investor in the region, i. e. Japan, is not likely to forthcoming until the territorial issue is settled between two countries. Nevertheless, at the initial stage, the forestry and fishery industries could be developed with the minimal infrastructure investment. A few Korean companies are involved in these projects. The next

would be the energy resource development, including the natural gas. The natural gas pipeline linking the Soviet Far East through North Korea, South Korea and Japan has been proposed recently.

Beyond the Soviet Far East, there would be additional requirements of the infrastructure investment in North Korea and Northern China. I do not have an adequate information about the level of infrastructure development in these two regions. One can imagine that they will also require substantial investments because of these regions' limited economic activities, especially the current low level of international trade volume.

According to a recent report published by the Korea Chamber of Commerce, North Korea has basically maintained the transportation network that was left behind by the Japanese in 1945.(Kim, 1991) North Korea relies heavily on the rail network and has maintained the policy of minimizing the road transportation. It is known that some 87 percent of all transportation loads are carried out by the railroad. The only significant highway is the 200-km link between Pyongyang and Wonsan, which was completed in 1978. It is reported that this highway has four lanes, with only two of these being paved. It is also known that the North Korean government limits the road transportation to the hauls of 30 km or less. I have not discussed about the communication network in this region very much, but it is not difficult to speculate on the underdeveloped state of communication networks also.

Given the very poor state of transportation and communication infrastructure in the region, there is a need for some form of regional development bank, perhaps modelled after the European Bank for Reconstruction and Development which was established to help East/Central European countries. One can be very sceptical at this moment about the possibility of such a bank in the region. In the case of Europe, there is a strong sense of being fellow Europeans between Western and East/Central Europe. Western Europeans have a sense of moral obligation to help out East/Central European(especially former satellite countries of the Soviet Union) who have suffered from the communist dictatorship against their own will. I wonder whether there is such a feeling among East Asian peoples, especially on the part of Japanese and South Koreans. Their external relationships are very much diversified and also very skewed toward the Western countries. It would be difficult to channel substantial resources to the development of the Northeast Asian region without the concurrent change of the public mood toward the feeling of belongingness to the region.

The third hindrance toward the free trade and investment in the region is the artificial one, that is the tariffs and other governmental barriers. It is not clear what type of trade regime will emerge after the socialist countries undertake reforms toward the market economy. Since the regions of China and the Soviet Union that we are discussing here are only parts of the much larger economy, the

particular needs of the region would only be partially met by respective central governments. In addition, the fear of being dominated by foreign products will make the full market opening measures very difficult. In the case of North Korea, given their *juche* ideology and the poor quality of their products, it is doubtful that they will follow a free trade policy in the near future.

The trade pattern in the region will be a typical North-South pattern. In this case, Japan and South Korea will supply mostly industrial products, especially machinery and industrial raw materials. This is because three socialist regions do not have a high enough income level to support the importation of consumer products on a large scale. Three socialist countries will have to export raw materials in order to pay for the importation of industrial products. The volume of raw materials and minerals available for international trade will be rather limited, given the poor infrastructure, poor quality and, in the case of North Korea, limited kinds and deposits of minerals available. In short, the fear of economic dependence and the poor export potential of the socialist countries in the region are expected to severely limit the total volume of trade in the region in the near future.

Given the rather pessimistic trade prospect, the next alternative is the flow of production factors, namely labor, capital and technology. North Korea and China are two potential suppliers of the unskilled labor to two capitalist countries. South Korea and Japan have so far maintained the policy of not importing the labor from overseas, although there are reports of limited number of illegal foreign laborers working in each country. Given the already dense population in two countries and also because of the fear of expected social problems arising from having guest workers, it is not likely that either of two countries will allow the entry of a large number of foreign quest workers. The only exception will be a North Korean collapse scenario, in which case South Korea could be flooded with hundreds of thousands of North Korean refugees.

This line of analysis leaves us with the capital and technology flow as the last possible way of furthering economic cooperation in the region. Direct private investment is one effective way of transferring both the capital and technology. The flow of private capital will depend upon the good investment climate and high expected profit. The political climate in three socialist countries is very uncertain, at best. In the case of North Korea, the government there only recently began to think about this alternative of attracting foreign capital. In China, five Special Economic Zones(SEZs) are all located in the southern part of China, and open coastal economic zones and cities are also more concentrated in the southern part. Nonetheless, China has a much longer experience of importing and utilizing foreign capital both with and without SEZs. The Soviet Far East does not yet have an adequate investment climate, both in terms of the physical and administrative aspects.

The great potential of economic development in the region is likely to remain as just that unless major reforms are implemented in the areas of political/diplomatic relationship, the infrastructure development, private investment incentives and trading systems. All of these reforms require substantial time and investment and are not likely to come out in a short period of time. An easier approach would be the cooperative development of a certain limited area. This kind of cooperative venture will have a rather limited impact on the regional economy but may be a kind of project that can be undertaken without transforming the whole economy.

Cooperative Development of Special Zones

It is apparent, from the previous discussions, that the full-scale cooperation in the region demands major reforms in the socialist economies of the region. However, North Korea and, to a certain extent, China are exhibiting a reluctance to move to the market economy. North Korea, in particular, has not yet shown any concrete signs that it wants to make genuine economic reforms in its economy. Asian socialist countries, perhaps with the exception of Mongolia, followed the policy of making economic reforms without the concurrent political reforms. The Chinese experience during the last ten years shows that this is possible to a certain extent.

North Korean leaders do not seem to have the confidence about the stability of its system when its economy is open to foreign traders and investors. It is reported widely that North Korea is experiencing a severe shortage of basic necessities and are even more hard pressed after the recent Soviet incident. It has to make basic reforms in the economy in order to overcome the economic hardships in the long run, but cannot undertake those reforms for fear of the possible adverse effect on the political stability of the regime. One possible way to satisfy both the political and economic objectives of North Korea is to develop a few special economic zones or free trade zones. It is reported that North Korea proposed to an international organization to develop an SEZ in the northeastern tip of the peninsula where it borders with the USSR and China.

In general, the economic impact of an SEZ is rather limited in most aspects except the employment of the unskilled labor. An SEZ, or a bonded processing zone, is the area where foreign companies can invest and have simple assembly operations using mostly imported parts and raw materials. All the products assembled in the zone are usually reexported. The benefit to the host economy is the wages paid to local employees and a limited amount of payment for the utilities. The host government has to provide the basic infrastructure for the industrial estate. The experiences of Masan Free Trade Zone in Korea and Kaoshing Free Trade Zone in Taiwan show that FTZs can be a useful catalyst at the very early stage of industrialization. However, given basically an enclave nature of FTZs, the benefits

of technology transfer and development of related industries are rather limited. Even the training of the workers is limited to simple assembly operations.

In recent weeks, there have been international conferences in China whose main theme was the development of the mouth of the Tumen or Tuman River. In a meeting organized by the UNDP in August 1991, there were representatives from seven countries (five discussed here plus the U.S. and Mongolia). The next meeting is scheduled for October 18 in Pyongyang, and the UNDP will report results of its feasibility study of the Tumen River development program.

It is not clear from newspaper reports whether the proposed program is the free port or some type of FTZs. It is possible that countries involved in the project have different objectives. China is interested in having an access to the East Sea (or Sea of Japan) for its relatively underdeveloped three provinces in the north. It proposed to deepen the Tumen River extending from the mouth of the river to a Chinese city 15 km away. Figures of US\$ 1.5 to 2 billion have been tossed around by the Chinese as needed for the project, and some countries objected to the proposal based on the economic grounds.

In the same meeting, North Korean delegates actively promoted a new idea of opening a few North Korean cities (Sunbong, formerly Unggi, and Najin) as FTZs, although it is not clear exactly what the North Koreans had in mind. North Korean delegates indicated that the proposed North Korean region already had an industrial base for heavy industries. It is not clear whether the region has enough supply of labor, which is the most important source of development for FTZs. Given the population of North Korea, it would not be difficult to meet the labor needs of FTZs once they are developed.

The Soviet Union is also interested in the development of FTZs in the area. Posyet Bay, which is in the immediate neighborhood of Chinese and Korean borders, has been proposed as a possible site. In addition, Vladivostok and Nakhodka have also been mentioned. A proposal for FTZs in the Soviet Far East is less interesting because of the area's small population base, although it was reported recently that the region now has a substantial number of unemployed people.

The idea of "Golden Triangle" in the mouth of Tumen River could meet different needs of three countries. A Smaller Triange covering some 1,000 square km area could be first developed. It is proposed that this area could support the population of about one million and could be a center for the industry and commerce of the region. The Smaller Triangle could be eventually expanded to a Bigger Triangle covering some 10,000 square kilo meters. The Bigger Triangle will connect Chongjin in North Korea, Yonkil in Manchuria and Nakhodka in Russia.

The proposed idea of developing the Mouth of Tumen River seems to have some advantages. First, all three countries seem to be very eager to develop the area, although their immediate objectives may not necessarily coincide with each

other. In addition, since the location is farthest away from the DMZ on the Korean peninsula, North Korea may not be that sensitive to the flow of people and goods to and from the zone. In addition, from a North Korean perspective, FTZs have advantages of controlling the contact between local residents and foreign businessmen.

Success of the proposal depends again on the availability of financing. Since it is apparent that three socialist countries cannot come up with the kind of investment required in the project (some tens of billions of US dollars?), the question is what kinds of benefits this will bring to the potential investors of the region. A couple of comments can be made at this point. A free trade zone, rather than a free port, would be an easier way of starting development of the region, simply because there would not be much to trade in the early stage of development. FTZs could provide the initial stimulus to the region by attracting foreign investors, who will in turn attract workers and other small businesses. Labor-intensive assembly operations will be the first target industries that the area would like to attract. Traditional export industries of South Korea such as textile and electronics could easily be attracted to the area. In addition, offshore production for Japanese markets is another business type that could be invited to the region. The maquiladora industry along the U.S.-Mexico border is an immediate case that could be favorably compared to the Golden Triangle in the Mouth of Tumen River.

Types of projects that are attracted to FTZs are of relatively small scale and labor-intensive nature. As a result, the investment amounts for individual projects tend to be very small. It means that foreign private investment alone cannot provide enough funds for the infrastructure. Alternatively, a long-term lease of the real estate could attract international private companies that are specialized in the development of industrial estates. Some Southeast Asian countries relied on foreign private firms in developing industrial estates.

In any case, public financing of some sort is necessary for the project, and it is a good sign that the UNDP is deeply involved in the project. In addition, the governments of Japan and South Korea should be interested. Especially, the ODA fund from the Japanese government is one possibility for the development of this region. It is reported that the Japanese government is interested in tying the ODA assistance with environmental protection. It will be all the more beneficial if the project administrators pay due attention to the environmental impact of the development of Tumen River Area.

Concluding Remarks

The immediate prospect of economic cooperation in Northeast Asia is not so bright. The biggest obstacle is the political one; the countries in the region have some bilateral problems that have to be taken care of before they can sit down for

a serious talk of economic cooperation. Two most serious problems involve on the one hand South and North Korea, and on the other Japan and the Soviet Union. Unless North Korea adopts some form of open-door policy and undertakes genuine economic reforms toward the market economy, the potential of economic cooperation in the region will be limited.

It was argued that an exclusive economic bloc is neither possible nor desirable in the region. Instead, the regional economic cooperation should aim at the free flow of goods, services, technology and capital. The basic requirements for the free flow of these resources are twofold: the physical infrastructure and administrative infrastructure. The former includes the construction of transportation and communication networks in the region. New air and sea routes should be opened and ground transportation networks should be built or augmented. The latter requires substantial capital investment, and the external assistance is required for this purpose. The administrative infrastructure includes the establishment of investment climate for capital movement and also efficient administration for international trade. This can be done with little capital investment.

For this purpose, a regional governmental meeting could be arranged. Northeast Asia Group, consisting of five to seven countries in the region, could have regular meetings about how to develop the infrastructure for the region. The Adriatic Economic Group in Europe is an example, made up of Italy, Greece, Yugoslavia, Hungary and Czechoslovakia. The group does not aim to develop into an exclusive bloc but aims to develop the infrastructure in the region in order to facilitate the trade and investment flows. The first meaningful act of the Northeast Asian Group may be the establishment of the Bank for Northeast Asian Development. The active participation of Japan, of course, is essential in making this bank an effective means of fostering regional cooperation. A sense of belongingness to the region is essential in arriving at any meaningful economic cooperation. This line of development could be achieved perhaps in the coming decade.

In the more immediate future, FTZs have a better chance of being implemented, especially because North Korea is very reluctant to adopt a full open-door policy. It was argued that the economic benefit of FTZs will be rather limited. But at the very early stage of industrialization, FTZs could provide a stimulus in activating the idle resources scattered around the region. In this respect, current discussions about the Golden Triangle in the mouth of Tumen River is worth pursuing further. A successful multilateral cooperation in this project will be an important showcase for the future of economic cooperation in the region.

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