

A Plan for the Development of Northeast Asian-Rim: A Japanese Perspective

- Local Economic Exchange and Economic Cooperation of the Northern Kyushu Area in Japan -

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I. Introduction

The world economy is growing borderless at breathtaking speed. A sharp increase in the trade of commodities and services and international financing, large-scale transfers of production facilities, and extensive movement of work forces are taking place throughout the world. The resultant busy

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movements of goods, money and people are practically breaking borders between many countries. East Asia is no exception. The transfer and retransfer of production facilities by Japanese companies, reimport of their products into Japan, plant transfers by many companies of the NIEs into the ASEAN countries and China, and the influx of Asian labor into Japan and the NIEs have been continuing since the second half of the 1980s. These movements are spurring the elimination of borders in the East Asian economy.

It should be noted that the disappearance of economic borders in East Asia is advancing in parallel with the definite easing of international tensions. The restoration of diplomatic relations between the PRC and Russia, establishment of diplomatic relations between the ROK and Russia, the rapprochement of the PRC with Taiwan, improved relations between the Democratic People's Republic of Korea(DPRK) and Japan, the simultaneous seating of the ROK and the DPRK in the U.N., and the restoration of diplomatic relations between the PRC and the ROK are accelerating the elimination of borders in the Asian economy. And this accelerated movement, in turn, is further easing international tensions.

Under these circumstances, active movements to form two economic zones are under way in East Asia. One is a movement to reform the international division of labor under the leadership of Japanese capital. This movement aims at building supply bases of OEM(original equipment manufacturing) and component parts in the NIEs and assembly and processing bases in the ASEAN countries and China.¹⁾ Accelerated since the second half of the 1980s when the strong yen took hold and the

1) For further details, refer to Chapter 1 of "The Age of Symbiosis for Asia" (Doyukan, 1991) written by the author.

investment environment of the NIEs began to deteriorate, this movement has created a rapid industrialization in the ASEAN countries and China. This industrialization has been carried out under the leadership of companies from Japan and the NIEs, however. From the standpoint of the ASEAN countries and China, it has been carried out under pressures from abroad. This industrialization has also brought with it accelerated environmental pollution.

Another movement is the promotion of regional economic exchanges under the leadership of China, Russia and both Koreas. In this movement, local, rather than central areas are playing important roles. Though slow in progress, this movement has chance of promoting an internally motivated economic exchange that gives closer consideration to the autonomy of individual partners. Some regions bordering on the Japan Sea, for example Niigata, Toyama, Fukui, Kitakyushu, Fukuoka and so on, have plans to participate in or lend cooperation to this movement. It deserves careful attention as it has a chance of becoming an alternative to the division of labor that has been, and is still, being carried out under the leadership of Japan.

II. Economic Friction with the U.S. and the Building of Assembly and Processing Bases in the ASEAN Countries and China

The rapid development of industry in the ASEAN countries and China is primarily due to the rapid expansion of direct investment in and the production by the "transplanted" factories owned by Japanese and NIEs companies. Forced to

revalue the yen and open its market under pressure from the United States, many Japanese companies have moved their factories, particularly those including labor-intensive processes, to China and the ASEAN countries. The object of this movement is to change the Japanese industrial structure into a domestic-demand-led one and to take advantage of the strong yen through the transfer and retransfer of their production facilities into the ASEAN countries and China.

Seeing that the strong yen has taken hold, smaller businesses in Japan started to "transplant" their factories overseas. They chose the ASEAN countries and China in preference to the NIEs because the NIEs had several problems of their own, such as the strengthening of import restraints, abolition of GSP (generalized system of preferences), and monetary revaluation caused by mounting friction with the United States and the soaring of their domestic labor costs. As such, they were not suitable for the siting of "transplanted" factories.

After a steep increase, the number of Japan's investments in the manufacturing sector of the NIEs reached a peak of 478 in 1987, followed by a sharp drop. Instead, Japan's investments in the manufacturing sector of the ASEAN countries and China reached 581 in 1989, which more than doubled the investments made in the NIEs that year, and accounted for 42% of Japan's total investment in the manufacturing sector in 1991 (see table 1). The sharp increase in Japan's investment in the manufacturing sector of the ASEAN countries and China has brought about an increase in the reimport of finished products, especially electric appliances, from these countries.

Table 1. Japan's Investments in the Manufacturing Sector
(Number)

	NIEs	ASEAN	China	ASEAN+China (%)	World
51-84	3175	1905	11	1916 (18.1)	10573
1985	164	86	51	137 *19.1)	718
1986	322	90	38	128 (13.0)	981
1987	478	238	58	296 (19.4)	1528
1988	365	439	116	555 (30.9)	1798
1989	289	495	86	581 (38.0)	1829
1990	154	467	113	580 (38.0)	1528
1991	141	383	178	561 (41.9)	1338

Source: Ministry of Finance.

Japan's import of finished products started to increase suddenly in 1986, with the amount reaching \$100 billion in 1989 and doubling the 1986 figure. Particularly, the import of finished products from the ASEAN countries and China tripled in the same period. Allowing for the time lag between the approval and start-up of direct investment business, it is easy to assume that the rush of Japan's investments since 1987 will continue to increase the reimport of finished products from these areas. This means a further expansion of industrial production in the ASEAN countries and China and their restructuring as major assembly and processing bases under the specialization system that is operated under the leadership of Japanese capital.

Following Japan, many companies in the NIEs started to make inroads into the ASEAN countries and Japan. This was because the NIEs, who had strengthened their export drives into the U.S. market by taking advantage of the strong yen since 1985, also suffered from the strengthening of import restrictions, monetary revaluation, and the abolition of GSP

that resulted from the increase of friction with the United States.²⁾ For the time being, the export of their products from the ASEAN countries and China to the United States will cause no friction and will remain unaffected by the increasing value of their own currencies.³⁾ In addition, they benefit not only from cheap labor but also from the GSP the United States offers to the ASEAN countries. Actually, the recent labor shortage and soaring wages in the NIEs have been adding fuel to their investment in the ASEAN countries and China.⁴⁾

Constituting a part of the specialization system operated under the leadership of Japanese capital, the ASEAN countries and China are now serving as assembly and processing bases for Japanese companies. This movement will surely promote the industrialization of the ASEAN countries and China. But such industrialization under pressure from outside also accelerates environmental pollution. For example, the major inroads made from many companies of Japan and the NIEs have remarkably advanced the industrialization of Thailand. But serious environmental pollution has been under way in and around the country's capital of Bangkok where many

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- 2) The NIEs' dependence on exports to the U.S. was as high as 37% in 1986. The dependence of Korea and Taiwan was particularly high, standing at 40% and 48% respectively. The U.S. efforts to reduce its NIEs trade deficit has therefore been directed mainly to the two countries.
 - 3) But nowadays the export of the NIEs companies' products from the ASEAN countries and China to the U.S. has caused friction with the U.S.
 - 4) The NIEs' investment in the ASEAN reached \$12.8 billion in 1990 alone, more than doubling Japan's investment of \$5.9 billion. While Hong Kong's investment in China created jobs for near-two-million people in Kwangtung alone, Taiwan's investment in China amounted to \$754 million dollars, in 2,503 officially registered businesses, at the end of March 1991.

factories have been created. Of the 31, 809 plants built in the 1980s, according to the statistics announced by the Government of Thailand, 20, 707, or 65%, may cause pollution. Of these polluting plants, more than 70% are discharging untreated waste water. For example, a certain part of the Chao Phraya River in Bangkok is said to be dying, containing no dissolved oxygen.

Table 2. The Numbers of Passengers by Sino-Korean Ferry Services.

	1990	1991	1992	93. 1-5
Inchon - Weihai	9195	78825	85672	27611
Inchon - Tientsin	-	642	35112	12495

Source: Inchon Chamber of Commerce and Industry.

As is well known, many companies from Japan and the NIEs made strong inroads into Thailand during the 1980s. Therefore, it may safely be said that many of their factories are included in the polluting firms. Joining the specialization system led by Japanese capital has meant not only the transfer of production bases by Japan and the NIEs, but also the transfer of environmental pollution.

III. Local Economic Exchange as an Alternative

The industrialization of Japan caused serious environmental disruption, which has not been completely cured in spite of the long time and the huge amount of money spent. In this respect, even the NIEs, which could have benefitted from the advantage

of being a follower, made the same mistake as Japan. And the ASEAN countries and China must have been well aware of the courses their predecessors have taken. Then, why did they also choose the same path of industrialization as Japan and the NIEs that have necessitated extensive patch-ups for serious environmental disruptions? The answer is simple: there was no other choices for them because the division of labor is always one-sided. For example, the United Kingdom used India as a supply source of raw cotton and Malay as a supply source of tin and rubber, whereas Japan used Korea as a supply source of rice. In the division of labor, as such, economic superpowers always force egoistic economic relations on minor countries.

The restructuring of specialization was started and forced by Japan and the NIEs, not by the ASEAN countries and China. The ASEAN countries and China were forced into the system of specialization and a path to assembling and processing industries. thus their industrialization has been carried out under foreign pressures.

Here, an unforced, voluntary autonomous development selected by the people of each locality, with due consideration for its ecosystem, is defined as a "internally motivated development," and a "local economic exchange" is proposed as a means to guarantee the realization of the "internally motivated development."

Regional economic exchange contrasts with the conventional economic exchange on a nation-to-nation basis. As stated before, the national economic exchange is liable to result in the forcing of the specialization, which is mostly beneficial to only economic superpowers, on minor countries. By comparison, the local economic exchange builds up a closer "face-to-face" relationship between individual localities.

Not knowing, or having made little effort to know, how the goods we consume are made by whom, we have cared little about a criticism on the "looting of resources." But can we remain as unconcerned if we have a closer relationship with the producers? Don't we feel a closer attachment to their products and pay more attention to their environments? If we learn the difficulties experienced by woodlanders, don't we blame our-selves for the waste of paper that leads to indiscriminate deforestation? The local economic exchange based on a closer relationship between the partner localities will guarantee and promote their "internally motivated" development as they give serious condition to the freedom and independence of each other.

IV. Local Economic Exchange and Northeast Asian-Rim Economic Zone

1. Sino-Korean Economic Exchange and the Yellow Sea Rim Economic Zone

1) Local Economic Exchange between the PRC and the ROK
Several powerful buds of local economic exchange are coming out in East Asia. One good example is a regional economic exchange between the PRC and the ROK. The PRC has a friendly relationship with the DPRK, but not with the ROK. For the purpose of industrial modernization, however, the PRC had to improve its relationship with the ROK that can supply cheaper capital and consumer goods than Japan. The PRC can also introduce funds and technologies from the ROK. A

practical solution found for this problem was the principle to separate business and politics. On this principle, the PRC government, while having no relationship with the ROK at all, tacitly allows the private relationships established between Chinese localities and enterprises and their Korean counterparts. To put this principle into practice, the Chinese government designated the peninsulas of Shantung(山東) and Liaotung(遼東), which stand opposite to Korea with the Yellow Sea lying between, as the "Coastal Open Economy Area"(in 1988) that is authorized to do overseas trade and introduce foreign capitals.

On the other hand, the ROK set about developing the underdeveloped west coast area of the country with the intention of turning it into a base of economic exchange with China. The object of the Roh Tae Woo government's "Basic Plan for the Regional Development of the West Coast District" is to stabilize the society of the ROK by developing Chungcheong Province(忠清道) and Jeonra Province(全羅道), which are the basic supporting areas for the opposition party, through the promotion of economic exchange with China. While the construction of a harbor and an industrial complex is under way in Asan(牙山), Kuk Dong(極東) Oil Co. LTD, which has a dedicated heavy oil refinery in Seosan(瑞山), purifies the crude oil from Shengli(勝利) Oil Field in Shantung(山東) and supplies the obtained raw naphtha to Hyun Dai(現代) Petrochemical Co. LTD and Samsung(三星) General Chemical Co. LTD in neighboring sites.⁵⁾ Full-fledged economic exchange with China has already started in the west coast of the ROK.

The ROK's heavy and chemical industrial products, such as

5) According to the information obtained by the author, the crude oil produced in China accounts for 30% of the whole.

steel, electronic devices and equipment, chemical fertilizers and synthetic fibers, and the primary products, such as petroleum, coal, cereals and raw fibers of Shantung(山東) and Tungpei(東北=northeast region) in the PRC are highly complementary to each other, and their trade in 1988 exceeded \$3 billion. With the expansion of their trade scale, the conventional unnatural way of conducting businesses by way of Hong Kong has become increasingly inconvenient, and the demand for direct trading has naturally increased.

The footing for direct trading has been thus prepared. Exports of the primary products of Shantung and Tungpei to the ROK are made through Tientsin(天津), Tsingtao(青島), Weihai(威海) and Talien(大連) in the Po Hai(渤海) district that are adjacent to them. Because of the correspondent agreement concluded between the Bank of China and Korea Exchange Bank in October 1988, trade accounts between the two nations can now be settled directly. A joint venture transport company established in April 1988 is now providing direct transportation services between Pusan(釜山) and Inchon(仁川) of the ROK and Tientsin and Talien of the PRC. Pusan and Inchon and also directly connected with Shanghai and Tsingtao by means of chartered vessels. This shifting to direct trading pushed up the volume of business between the two nations to \$3.8 billion in 1990, \$5.7 billion in 1991, and \$8.2 billion in 1992 when their trade agreement came into effect and their diplomatic relations were entered into.

The Asian Games of September 1990 started the direct traffic of people between the two countries, with visas issued on board the ferry connecting Inchon and Weihai. The start of two ferry services between Inchon and Tientsin at the end of 1991 and between Inchon and Tsingtao at May of this year

have strengthened the connection between Inchon and the Po Hai rim district. The number of passengers by Sino-Korean ferry services is as follows: the number of passengers is more than 250 thousand as of the end of May 1993. In my experience, Korean Chinese visiting relatives held a majority of passenger.

Direct investment by Korean companies has also become full-blown. It reached 181 cases \$166 million as of the end of 1991, 426 cases \$360 million as of the end of 1992. The invested areas are noteworthy. The majority of Korean investment in China are made in Shantung, Hepei(河北) and Liaoning(遼寧). The Korean investment in these three provinces plus Tinentzin accounts for 60% of their total investment in China, both in amount and in number.

How is direct investment by Korean local companies at the West Coast area? For example, the investment by local companies of Inchon reached 20 as of June 1993. After last July, investments to China under \$5 million are exempted from preexamination. As such, Korean companies suffering from the steep rise in labor costs will make more investments in China, whereas individual localities of China must select such investments as are conducive to their internally motivated development.

2) Local Economic Exchange between the PRC and the DPRK

We have little knowledge of China's economic exchange with the DPRK as the economic exchanges among Yellow Sea rim localities. The border trades between Dandong(丹東) of China and Sinuiju(新義州) of the DPRK being located on the bank of the Yalu River(鴨綠江) are made. The amount of trades reached \$32 million in 1991, \$40 million in 1992.

Table 3. Boader Trades between Dandong and Sinuiju(1991)
(\$ million)

Trades in Cash	Barter Trades	Visiting Relatives	Total
20	11	1	32

Source: The Author's Interview at Dandong.

The types of these border trades are shown on Table 3. A half of the amount of trades is bought in cash(hard currency) by the DPRK. I heard that the DPRK used to buy some materials for industry in cash which she could not get from her border trades with Jilin(吉林) Province.

Korean Chinese in Dandong use to go to visit their relatives in the DPRK and in the ROK. They make trades with Koreans in both Koreas at that chance. 17 thousand of them went to the DPRK, 4 hundred of them to the ROK in 1991. The amount of their trades reached \$1 million.

There are also voluntary trades amounting RMB 3-4 million without any official control. These voluntary trades amounting RMB 3-4 million without any official control. These voluntary trades are made at Dalu(大鹿) Islet in the Yellow Sea. Chinese and both Koreans go to the islet by ship and make trades. The participants in these voluntary trades from the ROK will increase more and more as China entered into diplomatic relations with the ROK. Dandong beeing approved for establishment of "border economic cooperative zone", intends to promote the development of economy by means of boader trades with both Koreas. I heard that Dandong planed to add five spots for making volutary trades. As the DPRK has approved of China's intention, China's boader trades with both Koreas should be prosperous.

The author calls such economic exchanges among the PRC,

the ROK and the DPRK the "Economic Exchanges among Yellow Sea Rim Localities" as the exchanges are made among the Po Hai area of China and the west coast of both Koreas. If the northern Kyushu area of Japan, having close geographical and historical relationships with them, joins in their economic exchanges, a new Yellow Sea Rim Economic Zone will be formed to further the internally motivated development of the individual participating regions.

2. Development of the Tumen River and the Formation of the Northeast Asian-Rim Economic Zone.

Another seed of regional economic exchange can be found in the economic cooperation between border areas, centered on private border trades called frontier trades. With the normalization of their national relationship, private trades between the border areas of China and Russia have resumed. Similar private trades are also made in the border areas of China and the DPRK. They are all barter trades. The volumes of border trades between Heilongjiang(黑龍江) Province and Russia, and between Jilin Province and North Hamgyong Province(咸鏡北道) of the DPRK are shown on Table 4.

Table 4. China's Border Trades with Russia and the DPRK

	1987	1988	1989	1990	1991	92.1-10
Heilongjiang→Russia	11.3	51.9	205.7	247.6	366.8	n. a.
Russia→Heilongjiang	11.9	43.4	143.1	270.6	375.3	n. a.
Total	23.3	95.3	348.7	519.2	742.1	n. a.
Jilin→HamgyongpukDo	40.5	54.2	71.4	13.2	43.9	55.2
HamgyongpukDo→Jilin	45.1	53.8	68.3	18.5	39.5	61.5
Total	85.6	108.0	139.7	31.7	83.4	116.7

Source: *Yearbook of Heilongjiang* and the Author's Interview at Jilin Prov.

Started spontaneously and highly complementary, these barter trades are increasing rapidly. Joint ventures, exchange of labor and technologies and various forms of human exchange are also starting.⁶⁾ With the participation of neighboring localities of Japan and the ROK, these movements will grow into the building of the Japan Sea Rim Economic Zone.

Borderlands of China, Russia and the DPRK have a development plan to achieve their internally motivated development with the cooperation of Japan and the ROK. It is known as the Tumen River(圖們江) Development Project, which aims to develop the pertinent areas through the building of port facilities and an export-processing-zone in the lower reaches of the Tumen River.

The Tumen River flows mostly along the Korea-China border, and along the Korea-Russia border over a distance of 15 kilometers between Fangchuan(防川) of China and the Japan Sea. The border agreement with Czarist Russia permitted Chinese vessels to navigate over the lower reaches of the Tumen River. But their navigation was banned when the Japanese army blockaded the mouth of the river. The situation remained unchanged until recently because of the Korean War and the confrontation between China and Russia. But when Russia recently approved of the restoration of the China's navigation right in their negotiation over the settlement of the border, a direct route from Jilin to the Japan Sea was opened. As a consequence, the Japan Sea seaboard of Japan, Niigata for example, is now at a distance of only 800 kilometers from Jilin Province.

6) People of Heihe and Blagoveshchensk on the China-Russia border are making an interesting exchange(refer to the aforementioned book of the author).

Also, direct sea routes can be opened to connect Jilin with Pusan and Pohang(浦港) on the east coast of Korea. Then there will be two local economic exchanges, one among Po Hai rim area of the PRC, the west coast of both Koreas and northern Kyushu area of Japan, and the other among Jilin and Heilongjiang of the PRC, the east coast of both Koreas, the Far East area of Russia and the Japan Sea seaboard of Japan. The former is the Yellow Sea Rim Economic Zone the author has been proposing for some time, and the latter is the Japan Sea Rim Economic Zone. And, these two economic zones will be able to unify and develop into the Northeast Asian-Rim Economic Zone in the near future.

Now, when considering the construction of a port in Fangchuan, the mouth of the Tumen River, which is too shallow to permit the transportation of large vessels, must be improved. But the development of the Tumen River is too expensive to start. A down-to-earth plan is for China to lease any ports from the DPRK, because China can use the existing railways of her and the ports of the DPRK. Fortunately, the DPRK announced to provide a special economy area called the Sunbong-Rajin(先鋒-羅津) economy trade zone, and planned to raise the transit capacities of Rajin and Chongjin(清津) Ports on account of preparing for the use of China and Russia. However, China did not dare to do so.

According to the latest news, Russia agreed with China that China leased the Zarubino Port from Russia. China has a plan to raise the transit capacities of the port and to build a railway between Hunchun(琿春) and the Zarubino Port. The Northeast Asian Economic Committee which consists of some Japanese companies also agreed to loan the Jilin Provincial Government \$50 million for the purpose of expanding the port and building

the railway. Consequently, Jilin Province will be ready to go out to the Japan Sea. If the Japan Sea seaboard of Japan and the east coast of the ROK, which will be able to make active local exchange with the northeast region of China through the port of Russia, lend their cooperation on a local basis, It will not be difficult to form the Japan Sea Rim Economic Zone and the Northeast Asian-Rim Economic Zon.

V. The Role of the Northern Kyushu Area in Japan

Japan is requested to play her part in the development of the Northeast Asian-rim by the localities concerned. In the auther's opinion, it is not the Japanese Government but the localities of Japan that have to play an important part in the development of the Northeast Asian-Rim. The reason is as stated above.

The following is the auther's suggestion on the economic cooperation on a local basis.

The auther lives in the northern Kyushu(九州) located on the point of contact of the Japan Sea and the Yellow Sea. The northern Kyushu has two large cities of 1,000,000 population. One is Fukuoka(福岡), the other is Kitakyushu(北九州). The auther proposes that Fukuoka and Kitakyushu lend their "pull-cooperation", not their "push-cooperation". The "pull-cooperation" means introductive cooperation, expanding import for example.

Fukuoka and Kitakyushu have many local firms concerned in food-processing industry, intermediate product industry and assembly industry. So, Fukuoka and Kitakyushu can and have to import a number of semi-finished goods and finished goods for general purpose from the localities of Northeast Asian-Rim.

The author thinks these local firms in Fukuoka and Kitakyushu had better process or assemble the imported goods into the finished goods suited for Japanese taste, and sell prospective customers in Tokyo(東京) and Kansai(關西) area.

Fukuoka and Kitakyushu are also requested to introduce foreign capital from the localities of Northeast Asian-Rim. Fortunately, Kitakyushu Foreign Access Zone(FAZ) was authorized by the Japanese Government lately. The local firms from the Northeast Asian-Rim area are able to make their investment in Kitakyushu FAZ. They can also joint with the local firms in Kitakyushu and Fukuoka, manufacture finished goods suited for Japanese taste and sell them in Tokyo and Kansai area. The author wishes they could bring their workers to Kitakyushu FAZ and enjoy preferential duties while they sell their manufactured goods in Tokyo and Kansai area.

Now, the Techno-Super-Liner(TSL) is being developed in Japan. If the TSL goes into service, it takes only a half day from the Japan Sea Seaboard and northern Kyushu area of Japan to the localities of the Japan Sea rim. The author guesses the Eurasia land bridges in Northeast Asia will turn into reality at that time. Mongolia has a plan to build a railway between Choibalsan and China's Alsan that will be connected to the existing railways of Russia and China. If the plan is realized, Mongolia could get her outlet to the Japan Sea in a short distance, and the shortest Eurasia land bridge⁷⁾ also would turn into reality.

7) The route is as follows: Kitakyushu/Fukuoka - Zarubino (Rajin/Chongjin) - Tumen - (trans-China railway) - Choibalusan - (trans - Mongolia railway) - Chita - (trans -Siberia railway) - Europe.