

# An Idea on the Continental Economic Bloc and the Economic Development Potentiality in North-eastern Asia.

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### ABSTRACT

Korean economic development has been mainly achieved through an industrial belt-line connected with Seoul-Inchon Metropolitan Area to Taekoo and Pusan as a pivot of the economic development coming into the modernization epoch in Korea. The industrial transportation system has been heavily biased toward that of Seoul-Pusan inland to that of southeast seashore.

Therefore, the leading zone of economic development in Korea is coming to the overseas-oriented Pacific Area. In fact, during the pre-modern era of Pacific Economic Zone, the main countries of the economic and cultural exchanges of Korea for such a long history, have been tilted to the Chinese Continent.

That the severance of diplomatic relations between the countries in the continents is changing from confrontation to reconciliation is one of the necessities caused by the law of history development. South Korea, North Korea, China and USSR are considered as the first partner of economic transaction in the Continental Economic Bloc early mentioned by the writer.

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△本論文은 1990. 11 圓光大學校가 主催한 「西海圈域經濟協力」이라는 國際學術會議에서 發表한 主題 論文임.

Now, I would like to enumerate the major trade partners from the concept of North-eastern *Economic Cooperation System*. They can be as follows; Heilungchang, Chilin, Liaoning, Neimengku, Hopei and Santung of the six provinces of China, the eastern area of Siberia in USSR, Neimenku and Japan Islands. These areas include the Northern Pacific area in Japan and USSR as well as the Western Seaside in Korea, the Yellow Sea and the Gulf of Pechili in China. The areas for the best investment condition among them are the western Seaside in Korea, Yellow Sea and the Gulf of Pechili in China and the eastern area of Siberia in USSR.

In particular, the Western Seaside in Korea, characterized by underdevelopment and high efficient investment potential is the principal area connecting with the East Sea in China. The importance of the Western Seaside in Korea with Chinese trade will be greatly multiplied when the Western Express Way in Korea would be built starting December, 1990.

As of 1990, three promising events, that is, the establishment of diplomatic relationship between South Korea and USSR, mutual agreement to the establishment of trade bureau having a function of counsel between South Korea and China, and the possibility for amity between North Korea and Japan, will be a new tonic for economic cooperation among these nations. In conclusion, the Northeastern Area, if organized and intergrated economically and efficiently, will make a new era in the international economic development.

## 1. Introduction

Korean economic development has been mainly achieved through an industrial belt-line connected with Seoul-Inchon Metropolitan Area to Taekoo and Pusan as a pivot of the economic development coming into the modernization epoch in Korea. The industrial transportation system has been heavily biased toward that of Seoul-Pusan inland to that of southeast seashore in Korea.

Therefore, the leading zone of economic development in Korea is coming to the overseas-oriented Pacific Area. In fact, during the pre-mordern era of Pacific Economic Zone, the main countries of the economic and cultural exchange of Korea for such a long history, have been tilted to the Chinese Continent. Meanwhile, at the expense of Japanese Policy of Chinese Continent Invasion in 1910s, the Korean Peninsular was captured and then was entangled under the influence of Pacific positive Power. With the liberalization from Japan in 1945, the division of Korean Peninsular was fixed upon and therefore North Korea continues to stay at the continental power zone, while South Korea stands the Pacific Influence.

Thanks to the five-year economic development plan that has been conducted since 1960s in Korea, it has given a chance to strengthen the overseas-oriented economic development within the Pan-Pacific Economic Bloc. Under the influence of detente mood between the two super powers, the mutual exchanges with North Korea are in a low stage, but with a bright view on the South Korean-Chinese-USSR economic cooperation, the cooperation between North and South Korea is ascending to be a timely task.

That the severance of diplomatic relations between the countries in the continent is changing from confrontation to reconciliation is one of the necessities caused by the law of history development. We should be on the positive attitude in order to adapt the political and economic order of the world, being changed suddenly, and having economic development continuously. The balanced development of Korean economy is coming from the new economic cooperation with Northeast Asian countries, and not the existing Korean-American-Japanese economic cooperation system. Recently, the positive northward policies of Korea and the market economy introduction of China and USSR are being formed of the one more economic cooperation system. Certainly, the most important item is a premise to go abreast the economic exchanges with North Korea.

Therefore, it is a new opportunity for Korean economy to break off the yoke the three-legged trade system of Korea, America and Japan. The approach of socialist states -North Korea, China, USSR and new industrial country-South Korea, in Northeast Asian Region and the conception for equal-stance, economy cooperation of Japan, China and USSR toward South and North Korea are to be broke off the existing of Korea, America and Japan, three-legged economic cooperation system. And from now, being reorganized both legs economic cooperation structure centering around the Korean Peninsular.

This both legs economic cooperation structure make Korean economy to break off subordinated three states system necessarily and to shape dualistic region assistance system gradually. Viewed from this situation, Korean economy has a prospect to carry out as proxy the central role, that was taken charge by Japanese economy in the three-legged bloc of Korea, Japan and America.

Under this circumstance, the economic exchanges between South and North Korea, South Korea and China, South Korea and Soviet Union give more bright prospects than any other region.

The reason is that Korean economy carries out the central function of the developed countries-America and Japan, and of the newly developing socialist states-North Korea, China and USSR. The Korean Peninsular is a model country to take charge a pivotal role to intermediate between

America-Japan and China-Soviet Union and in particular, its GNP, population and a scale of trade. In the international division of labor, it also bears a part to double trade exchanges with socialist states bloc and the developed countries like America and Japan and has a position of the comparative advantages rather than NICs and ASEAN.

The possibility of expanding economic exchanges among Korea, China and USSR is based on the propriety of two aspects ; the first, the vertical division of labor of inter-industry, the second, the horizontal division of labor of within industry. The vertical division of labor of inter-industry and horizontal division of labor of within industry carries out over through the cooperation between Korea's second industry and China-USSR's first industry, Korea's heavy chemical industry and China-USSR's light industry.

Especially, the formation of the horizontal division of labor is composed three types, as follows ; the first is the division of labor classified by the element of production, Korea's capital intensive industry and China-USSR's labor intensive industry are specialized respectively, and the second is the division of labor being attended by the discrimination of products, Korea's highly value added products and China-USSR's standardized goods with enormous are given special emphasis, and lastly, the technique of management and the allotment attended by technical development are taken charge of appropriately, for example, Korea's pivotal role assigned is developing industrial technique and China-USSR putting basic science, being fundamental step of industry development to practical use of industrial technique.

According to the point of view of the problems proposed above summarilly, there are the problems which are deserved special emphasis, as follows; The first, under the same geopolitical condition, continental countries in Northeast Asian Region must propel economic cooperation each other primarilly as a natural result. Secondary, among the continental countries, North Korea, the Korean Peninsular's other host nation, though it has been entered in the first phase of transaction with South Korea, but South Korea's transaction with China and USSR should be gradually developed in earnest. The third, beyond limits in economic cooperation with continental countries, and in the case of including Northeast Asian Region, main subjective countries in transaction each other, is that the key concern must be economic cooperation with *inter-continental countries*.

## 2. The Significance of the Continental Economic Bloc

(1) The inevitability of Korean economic development depended on the Pacific Economic Bloc

The development of modernization in Korean economy had attached too much importance on the Bloc of Pacific Economy by concentrating on from the Continental to the Maritime Bloc. The terminal, an assembly place of transportation by land and sea, has played an important part in forming the principal axis in the coast region of Pacific.

Such a phenomenon was more enlarged and promoted by the five-year economic development plan in Korea driven by stages of the economic development after the 1960s. The evolution of modernization in Korea was fallen behind by the policy to close the door which compared with Western Europe, and it was gradually set out by the drive of opening the ports in Korea. The dictatorial colonialists, who tried to colonize the continent of Korea, suppressed the independent drive of modernization on the Korean Peninsula and a process of modernization on the peninsula was evolved from a distorted view to develop the industrialization of Japan. So there were so many serious problems. Those caused Korea to change the development axis of economy from the bloc of the continent to that of the Pacific.<sup>1)</sup>

The main interchanging regions in Korea were totally concentrated on the Continental Bloc because of a peculiar geopolitical character and a long closed policy before forming and unfolding the Pacific Economic Bloc. Although exchanging goods with the continent of China was premodern, it was affected by the culture and the Continental Economic Bloc for a long time due to the geographical conditions totally connected with the continent.

The continuous aspiration of Japanese colonialists to colonize the continent was fundamentally evolved from using the Korean Peninsula as a bridge. The Korean Peninsula was forever divided into two sections with the liberation from Japanese occupation in 1945. The axis of economic development on the Peninsula stayed on the Continental Bloc in the north part of the 38th parallel and was given too much importance to the Pacific Economic Bloc in the south part of the 38th parallel. Therefore, Korea's economic development, overseas-oriented, was concentrated upon the Pacific Economic Bloc.

The things that Korea's economic development have given too much importance to the Pacific Economic Bloc after the 1960s were much more accelerated under the conditions we should accommodate the influence of America and Japan in Pacific Bloc. The persons who took power with Taekoo and Kyongbuk in the center power devoted themselves to change the Korea's economy toward the Pacific Economic Bloc. Because they intended to come into power for a long time. It is not too much to say that public investment was made much of at the Seoul-Inchon Area

1) "The Continental Economic Bloc" was at first with "The Pacific Economic Bloc" on my paper at the "Journal of the Korean Port Economics Association" by the writer in 1985.

and the Yung-nam District for a long time. It is one of the reasons that Korea changed the development axis of its economy into the Pacific Economic Bloc.

## (2) A historical necessity of forming the Continental Economic Bloc

Korea has maintained trade with China by the indirect trade form. But the possibility of trade with China and the soviet Union has been raised and various phenomena accelerating the arrival with of the Western Seashore Age in Korea have been started to come out. Let's check why an economic trade with the continental states, which once seemed so much difficult, grew into a visible situations. First of all, it is the fact that trade with the continental states severed for half a century has begun, history should not become extinct, viewing from an attribute to continuously develop.

Seeing it is a periodical of the low of historical development, the confrontation phenomenon thus couldn't be lasted continuously.<sup>2)</sup> A periodical phenomenon, the law of experience of the history development, couldn't be continued a phase of confrontation no more longer. In this point of view, the phenomenon of confrontation of both America-Soviet's super powers, occurred a phenomenon of both extremitization after World war II, there is no reason and necessity it has to be exist no more longer. World both extremitization phenomenon, which is faced with confrontation extremely, is tended to in a phase toward unification, which is a property of opposition of both extremitization phenomenon. Considering that it is a inclination of history movement, it's possible to expect it that the same race, Korean shouldn't seek to the propensity of confrontation any longer, will come back to propensity of unification gradually. It was revealed a long time ago that the fiction of Economic Thought of the Classical School which was considered only was to develop the capitalistic economy by the principle of the Laissez-Faire.

We must remember that world capitalistic economy entering into the 1930's was faced with one Great Crisis and it became unable to be existed and developed for itself. It give us current events important to other facts of history that the socialist states of the Eastern Eropcean including the Soviet from the 1980's became unable to be existed a closing self-determination of economy any longer which was considered the principle of the socialist economy by them. Once time, as capitalism had such a confidence itself now it couldn't be existed by the Lassez-Faire, and it was needed a handling (policy) of the government. Similarly, socialism also was revealed the limitation by itself which was depended on the self-sufficient economy as a non-market system.

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2) Hegel. G.W.F. "The Big Logics" Vol; 2 P./6-90. by the Japanese Publish Co.,

Therefore, socialism had been introduced the market economy principle to some extent from the socialistic economy principle to the capitalistic economy principle. We are understanding that such a things were been mixed both system which invited the systemetic factors of themselves each other.

In this way, history one time has been extremely seeked propensity to opposit but it is turning from it into the inclination of affirmation gradually. To put it concretely a little more, the two Super Powers of USA and USSR after World War II, don't need to seek an inclination of opposition each other extremely. Managerial administration to continue the situation of opposition should be followed by the payment of the social expense(military expenditures) which is needed. Therefore, the two superpower's realized that the both extreme extremity not only be helped also consumed the national strength must each other. Accordingly, the two great powers of the America and the Soviet came out of the dissension aspect which fostered the both extremities phase and became seek for a phase of unificaton. They are each other granted for the other party, on the basis of the coexistence principle, although it is other system against the party, if they were needed it, both side introduced it without hesitation so that the mixture doctrine would be consolidated all the more.

Seeing it's a historical aspect, as the world capitalism in the 1930's had a tendency to revisionism, the world socialism in the 1990's come to be out toward revisionization of capitalistic type. The changing process of our historical development is on the wane to the Pacific Economic Bloc mainly and then the Continental Economic Bloc severed relatively and now in full swing, what has become to appear the movement of reformation is natural, rightful. In other words, today the reformation of the Continental Economic Bloc is not only a mystery but also necessity.

### (3) The formation of the Continental Economic Bloc and the participating countries

This section contains an investigation whether which country should be participated in the Continental Economic Bloc. Of course, the continental Economic Bloc proposed by me insisted that contains South Korea, North Korea, China and the Soviet primarily. But, In case of "the North-eastern Asian Economic Bloc" or "the North-eastern Asian Economic Community" is in a tendency to include of Japan in it. When we called the Continental Economic Bloc, it means the economic exchange aiming at with the continental countries in the North-eastern Asia. Under the fact that Japan is an semi-continental country, the exclusion propensity that Japan should be eliminated



from the Continental Economic Bloc don't need to be adhere to. Only, in the concept of "the North-east Asian Economic Community", Japan should naturally be a member of it. Japan is not only the core country of the Pacific Economic Bloc which I introduced, but also the most fore runner in the Worldwide Economic Bloc.

Although Japan don't need to be excluded from the Continental Economic Bloc purposely, it don't need to premised what Japan is included in the continental countries linking by the specific geographical conditions in the North-East Asial, as I insisted. It was the first why that Japan was not a good neighbor country out of Asia in the past as the Asia country which cruelly stepped on historical process of the military ruling.

Although we stick to the present situation, it should not be viewed the past time without raising the problem of it carelessly by us, and under the actual condition, Japan has been growing of the three great military countries with the America and the Soviets in the world as we are nothing of it. To enlarge economic exchange within the same economy union type, first on the assumption that it is required of keeping the peace and the stability of political-military. There is a problem whether Japan should be prescribed the country of participation in the economic cooperation type between the continental countries.

Second, if Japan is participated in the continental economy-union of the North-eastern Asia, being looked that in the gap of economic development level among the North-eastern Asia, Japan is large extremely. On a elementary phase for formation of the Continental Economic Bloc, it has meaning for economic exchange among the continental countries to restore the economic relation within the continental which was severed. But, in case of developing under the mutual benefits doctrine gradually, in future, on the evidence of more close economic cooperation, especially economy integration, it raise a problem whether the economic circumstance of Japan and that of other contnental countries could be progresed economic cooperation on the parallel line.

As previously stated, Japan which building the strongest international competitive foundation is the model of economy egoism which raise the problem of morality which is called "The Economic Animal" commonly. There is the seriousness we can't recongize Japan as an economic partner of our well meaning neglecting the presence of Japan which is a powerful country economically.

It is compelled to remember us that Japan devastated the foundation of coexistence and the peace at once and reigned over in the Asia in the past. There is the essence of problems that Japan should not be abandoned the realization of powerful military state.



### 3. The Present Conditions in Trade with Korea, China and USSR

#### (1) The present condition in trade between Korea and China

Owing to the political reasons and China's policy toward North Korea, trade between Korea and China is not yet active. However, trade between two countries with the open-door policy of China at the end of 1970s has been increased indirect trade by way of Hong Kong, Japan and Singapore.

Seeing that classified by year, in 1979 trade scale in both nations was a trifling level of \$19 million, however, exports with China were \$813 million and imports were \$673 million in 1987 vis-a-vis exports were \$115 million, imports were \$73 million in 1980, so that during the period as a whole, imports with China were extended approximately 9.2 times and exports were extended 7.1 times. In 1988 trade amount reached above \$3 billion extended more than 2 times as against 1987. Thus, the balance of payments was recorded a surplus of above 300 million as well.

Furthermore, as China took part in the Asian Game held in Seoul in 1986, interchange and cooperation in non-political fields between two countries have been more active, hereby the amount of indirect trade through Hong Kong, Japan or third countries has been more increased as well, Since 1980, trade in both nations has been proceeded favorably, showing up the high increasing rate to reach the average yearly 40% (see Table 3-1).

(Table 3-1) Trends in Trade between Korea and China (Total)

(Unit : \$ million)

Year	Trade amount	Exports	Imports	Balance of Payments
1979	19	4	15	-11
1980	188	115	73	42
1981	353	205	148	57
1982	129	48	81	-33
1983	134	51	83	-33
1984	462	229	233	-4
1985	1290	683	607	76
1986	1283	668	615	53
1987	1486	813	673	140
1988	2985	1598	1387	211
1989	3203	1498	1705	-207
1990.6	1523	688	832	-144

Source : KOTRA

In 1987 the volume of trade between two countries was greatly extended to about \$1,480 million, among that, indirect trade by way of Hong Kong reached \$1,180 million and the rest of its, \$300 million, was by way of Third Countries or direct transportation, The increasing rate of yearly average from 1980 to 1987 represented high advance as 42.5% in exports and 52.9% in imports, that is, 47.4% in trade (see Table 3-2).

(Table 3-2) Trends in Trade between Korea and China by way of Hong Kong

(1980-90)

(Unit : \$ million)

Year	Exports		Imports		Total Trade		Balance of Payments
	Amount of Money	Increasing rate(%)	Amount of Money	Increasing rate(%)	Amount of Money	Increasing rate(%)	Amount of Money
1980	42.5	—	33.3	—	78.5	—	11.9
1981	145.0	220.8	73.8	121.6	218.8	178.7	71.2
1982	55.7	-61.6	93.7	27.0	149.4	-31.7	-38.0
1983	45.0	-19.2	115.4	23.2	160.8	7.6	-70.4
1984	160.7	257.4	184.8	60.1	345.5	114.9	24.1
1985	354.8	120.7	249.0	34.7	603.3	74.8	105.8
1986	376.3	-22.3	376.9	51.4	653.2	8.2	-100.6
1987	538.1	94.9	649.6	72.4	1,187.7	81.8	-111.5
1988	1,223.7	127.4	840.1	29.3	2,063.8	73.7	338.6
1989	1,000.3	18.2	908.7	8.1	1,909.9	-7.1	91.6
1990.6	420.2	—	410.8	—	831.0	—	9.4

Source : Hong Kong Government Office Statistics

In 1985, achieving good results in the economic reform and open-door policy of China and expanding the exports toward China in electric home appliances such as television set, refrigerator and so on, a relative importance of total trade between two countries was nothing but 0.05% in 1979, however, China has taken up a relative importance 2% or so in exopt market of Korea since 1985 (see Table 3-3)

Seeing an distinctive mark of trade trend, imports were on the increase favorable, however, exports were great difference of ups and downs because China's import policies were changed suddenly according to the domestic circumstances, foreign exchange conditions and so on, hereby balance of payments represented a deficit, in 1982 but has kept a surplus since 1985.

Seeing from the structure of merchandise trade among the exports with China, a synthetic fiber and textiles accounted for primary importance of 61.9% among the whole exports and electric appliances accounted for secondary importance of 13.0% in 1984, however, the component ratio of exports was greatly converted to the heavy chemical products because export of color T. V. and steel manufactures were rapidly increased, since then, up to recently, seeing a variable trend of trade goods classified by year, the chief items have nothing particular to change the priority order, that is to say, in 1987 the main items were iron and steel, electronic products and parts, synthetic textiles, fertilizer and parts, synthetic textiles, fertilizer and so on.

On the other hand, import items from China in time of 1984, raw cotton, raw silk and wool reached 41.7% and textiles reached 34.0%, In 1985, textile goods took up great importance. Instead anthracite coal accounted for great importance in imports from China, In 1987, the main imports were artificial fiber, coal, raw silk, raw cotton, grain and such like.

Being trade with China through Hong Kong, textile fabrics were item taking up a primary importance and reached above 60% as whole. In 1987, the exports of fiber and textiles were \$226 million, imports were \$348 million, the imports of textile materials and textile goods were \$149 million. Therefore total trade amount of textile fabrics was \$723 million.

Seeing the main exports as for the others, paper and pasteboard were \$38 million, communication instrument and tape record were \$34 million, iron & steel and nonferrous metals were \$26 million, farm equipments and industrial machine were \$23 million, and so on, iron steel has a lot of direct trade overwhelmingly.

As we have seen, the distinctive mark of trade structure between two countries could be summarized that Korea exports heavy chemical products intensived capital and technology such as steel manufactures and electric & electronic appliances and imports primary products such as the raw materials concerned textiles and grain and light industrial products. Recently, electronic parts and intermediate goods have been gradually expanded in exports.

(Table 3-3) A Relative Importance to Total Trade Amount between Korea and China

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
A.Export to china (\$100 million)	0.040	1.150	2.050	0.480	0.513	2.290	6.829	7.150	8.130	15.980	14.980
B.Export Total Amount of Korea( )	150.55	175.05	212.54	218.53	244.45	292.45	302.83	347.14	472.81	606.96	623.74
A/B (%)	0.026	0.657	0.965	0.220	0.210	0.780	2.250	2.060	1.720	2.630	2.400
C.Export to Korea (\$100 million)	0.148	0.729	1.478	0.808	0.826	2.326	6.090	6.805	6.730	13.870	17.050
D.Export Total Amount of China( )	136.8	182.7	220.1	223.5	222.3	261.4	273.6	309.3	394.6	475.4	524.9
C/D (%)	0.11	0.40	0.67	0.36	0.37	0.89	2.20	2.20	1.71	2.91	3.24
G.Total Trade Amount of Korea-China (\$100 million)	0.188	1.879	3.528	1.288	1.339	4.616	12.918	13.955	14.86	29.85	32.03
F.Total Trade Amount of Korea( )	353.94	397.97	473.85	461.04	506.37	598.76	614.19	662.98	883.01	1125.07	1238.40
E.Total Trade Amount of China	293.3	378.2	440.2	416.3	436.2	535.5	696.1	738.3	827.2	1027.9	1116.3
E/F (%)	0.053	0.472	0.745	0.279	0.264	0.771	2.103	2.105	1.68	2.65	2.58
E/G (%)	0.064	0.497	0.801	0.309	0.307	0.862	1.856	1.890	1.80	2.90	2.86

SOURCE : The Economic Planning Board, KOREA

In the meantime, building up a friendly mood in both nations since the Asian Game in 1986, the investment consultation has been underway, but it has not yet borne fruits.

In view of the international economic stand, it is a general concept that direct foreign investment shifts from the lowing nation of the marginal returns of capital to the high nation, that is to say, is occurred as a result of the difference of the marginal profit rate between nations. However, in view of the individual enterprise stand, direct foreign investment is being performed by the concrete motive or purpose of each enterprise being changed according to the environment of enterprise, the business strategy of investment nation and the investment environment of an invested nation by under the mixed operation of all circumstances mentioned above. In individual enterprise stand, the motive of direct foreign investment is as follows; (1) strategic motive (2) conductive motive (3) economic motive (4) financial motive. Among them, setting on the basis of strategic motive, the investment motive of Korean enterprises can classify a market-oriented pattern, an efficient production-oriented pattern, a natural resource-oriented and a Knowledge-oriented pattern.

Especially subdividing a market-oriented pattern considering the international business activities of Korean enterprises, it can be classified a pattern of opening up a local market, of keeping up a local market and of making up for plant export related construction industry. An efficient production-oriented pattern is mainly a labor-saving model from a cost of labor element restricted international transfer, that is, direct foreign investment for a saving of labor cost. A natural resource-oriented pattern can be the resources security model having an object for the resources security and or a knowledge-absorbed model.<sup>3)</sup>

Entering in 1980s, Korean enterprises have expanded an investment for a opening local market model and for a saving labor cost model so as to adapt internal and external environment changes. China is regarded as a suitable investment region for a saving of labor cost owing to the abundance of a cheap manpower beyond 1/5 of Korea's labor cost and raw materials. However, as the investment under the condition having no diplomatic ties has more risk bearing and other investment circumstance of China goes wrong, there is much investment advance being performed mainly by large enterprises.

Recently, owing to the appreciation of Won and wage increase, there is begun to advance by small and medium enterprises of a labor-intensive model in industry standardised products and low technical level such as sewing, clothes, shoes and so on. Table 3-4 indicates the present procee-

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3) Dong-Seoung Jo, "International Management" 1988, Kyung-Moon Publishing Co.

ning economy. Therefore, there are institutional differences between South Korea, USSR and China, but they have to go first the economic cooperation more than the access of constitutional equipments. Korea has also accomplished the rapid growth by means of the five-year economic development plan. We feel really the necessity of economic cooperation favor of reciprocity to improve the deteriorating balance of payments, the accumulated debts on the basise of the plan. Korean economy especially has given great weight to Japan and USA which are industrialized nations. The result brought about the trade unbalance, and then enlarged a trade friction. In the viewpoint, South Korea's policies to the Northeast policy also have to perform normalization of diplomatic relations between Seoul and Moscow setting up a trade agent between Korea and USSR. We need an active economic cooperation favor of reciprocity in the stages of economic development.

We have to access from the pacific Economic Bloc which is pivoted by Korea, Japan and USA to Continental Economic Bloc. We have to prepare quickly the institutional system for the efficient exchange at the present state of things. We would better prepare also the principle of reciprocity, the contract to the double taxation prevention, a fundamental rule of cooperation for the investment guarantee and the intellectual property rights and R&D for technical tie-up. We finished the contract to the double taxation prevention and the investment security and agreement on trade and science & technology in Moscow December.

Accordingly, we should be further strengthened the economic cooperation relationship with USSR. The exchange with China is just delayed and the economic exchange with North Korea is raised pending problem. The division of labor system is to be considered for the greatest economic cooperation in the northeastern region. the great sphere economy cooperation of the Pacific Economic Bloc and the Continental Economic Bloc is to be consolidated the foundation with the investment and technical cooperation from the industrialized countries, the development cooperation from the new industrialized countries and the market resource cooperation from the socialism countries. But it would better avoid dual and complex troubles taking into account obstacle in economic condition.

International Symposium<sup>4)</sup> on the Northeastern Asia Economic Community held in Peiging on December 10, 1990 was suggested viewpoints of representatives in South Korea, North Korea, China, USSR and Japan. What the most interested concern was that on Japan's military buildup. Japan's scholars spared no pains to defend the questions which come out from those of mainly

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4) Chosun-Ilbo, Oct. 13, 1990.

本論文은 1990. 11 圓光大學校가 主催한 「西海圏域 經濟協力」이라는 國際學術會議에서 發表한 主題論文임.

spared no pains to defend the questions which come out from those of mainly Korean and Chinese. Chinese argued that peace and security condition were constructed for the Northeastern Asian Economic Community and expressed fear about Japan's strengthening military power. Korean also pointed out that the fate of the Northeast community would be depended on Japan which have more economic power than US. Korean emphasised the Japan's military buildup would be a barrier to progress the economic community. Chinese scholar, Hsiaohsiang Chien, an advisor of the Social Development Center pretended the suitable trade area is the Yellow Sea and the Gulf of Pechili in China among the Northeastern Economic Community. In a view of the constitution for the Northeastern Economic Cooperation, the main trade area is enumerated as following.

It is that Korea Peninsular, Heilungchang, Chilin, Liaoning, Neimengku, Hopei and Sangtung in China and the eastern area of Siberia in USSR and a chain of islands in Japan. These areas included the Northern Pacific Area in Japan and USSR as well as the Western Seaside in Korea, the Yellow Sea and the Gulf of Pechili in China. The areas for the best investment condition among them are the Western Seaside in Korea, the Yellow Sea and the Gulf of Pechili in China and the eastern area of Siberia in USSR. In particular, the Western Seaside in Korea characterized by under-development and high efficient investment potential is the principal area connecting with the East Sea in China. The importance of the Western Seaside with Chinese trade will be greatly multiplied when the Western Express High Way in South Korea would be built starting on December, 1990.

Furthermore, considering from the seaport conditions, the ports of Kunsan and Incheon in South Korea, and those of Tienchin and Shenyang in China are likely to function a pivotal role in trade between South Korea and China because they are widely recognized as having a comparative advantage due to their attribute of forland port. In case of trade between South Korea and USSR, the potentiality for development, that is, the abundant seasighting resources of Eastern Area in South Korea, and underdeveloped resources of Siberia in USSR would be the main items. Given from the seaport conditions, the ports of Donghae and Pusan in Korea are expected to play a role as Nafka Seaport in USSR. Taking into consideration of the geopolitical situation, Korean Peninsular will considerably contribute to the economic exchanges between the continental countries as an area for mutual correspondence through land transportation as well as that of seaport.

It is a question that where is to be a main stage in the Northeastern Asian Economic Community. Chinese scholars contended that the Yellow Sea and the Gulf of Pechili are centered on the community. But Moscow expressed dissatisfaction on the Chinese Idea. Japanese opinion, the eastern



(Table 3-4) The Present Proceeding to China

(Unit: \$10 thousand)

Project	the contents of	investment on the part of Korea	reference column
Fishing Industries	T/A \$150 business period '87'96	70%	contract(at the end of 1986)
Refrigerator assembly plant	T/A \$1,257 annual product 100 thousand	\$607	operation (June, 13, 1988)
Restaurant	T/A \$135		Peking(April, 1988)
HOTEL	T/A \$3,375 500 room		completion(F/S)
Electric Motor	T/A \$100	33%	under F/S
VTR product	T/A \$600, annual product 200 thousand		agreement
Refrigerator Factory	T/A \$5,300 annual product 500 thousand		China's proposal (Nov. 1987) investigation (Dec. 1987)
Electronic product firm	T/A \$1,100	50%	under propulsion
Electronic plaything factory	T/A \$156	50%	under propulsion
Phosphate ore dressing plant	T/A \$50		under propulsion
Piano	T/A \$500	50%	investment agreement '87.4 contract 88.8
Dinnerware	T/A \$200	50%	protocol exchange
Ginseng product	T/A \$80	40%	
Sensitive drum			
Sewing factory	T/A \$2.3		recognition of the Bank of Korea
Compressor product for refrigeration	SKD 500 thousand/ \$30million in a year	50%	under propulsion

Fishing rod	T/A \$40	25%	under propulsion
Needlework toy	T/A \$55		start operation('88.5)
Korean restaurant			start operation('88.6)
Refrigerator	T/A \$5,000		
Steel pipe	T/A \$3,000	50%	

\* T/A : Total Investment Amount

Source : K.I.E.T.

ding situation of direct investment to China on December, 1988. The establishment of trade bureau having a function of consul between South Korea and China were needed to active both nation's economic cooperation. Recently, trade amount of two countries has been increased contineously, \$870 million in 1989, \$1300 million in 1990.

## (2) The present conditions in trade between Korea and USSR

Korea and USSR have become alienated relation caused by the difference of ideologies and political systems and a friendly relation between North Korea and USSR, however, since the opening of indirect trade with USSR in 1974 taking an open-door policy of Gorbachev based on Perestroika and Glasnost, and the Vladivostok Declaration on July, 1986, especially a shifted Asian policy and the announcement toward Korea in the Asian-Oceanic Peaceful Address on September, 1988, and a Diplomatic Declaration for Peaceful Unification on June 23, 1973, two countries has begun to develop commercial diplomacy and economic cooperation with the interests between them such as a northward policy of Korea.

With the Seoul Olympic as a momentum, commercial diplomacy in both nations has been briskly spread out and trade with USSR has been on an increasing trend even though the amount is not yet abundant.

On the other hand, in 1988 and 1989, Korea Administration stressed the need of economic exchange toward USSR taking up a positive attitude for the improvement on the relations with USSR in the address of administrative policy and so on. Under the circumstance of economic cooperation, in 1988, the participation of trade exhibition between two countries has been continued and an interchange of personel being no more than small minority has been gradually advanced to be more active.

What specially noteworthy is that Trade Bureau as a momentum of a fullscale economic cooperation was established in Seoul and Moscow respectively on April 4, 1989 (Table 3-5) and relations between Korea and USSR have been speeded up as a treaty of amity between two countries was formally signed on October 1, 1990, and president Rho Tae-Woo came to visit USSR, 14 Decemblers.

(Table 3-5) Opening Trade Promotion Bureau Between Korea and USSR

Date	Contents
1988.10	Agreement of business cooperation between the USSR Chamber of Commerce & Industry and KOTRA (visiting to Korea by vice president Golanov)
1988.12	Agreement of business cooperation between the USSR Chamber of Commerce & Industry and KOTRA (visiting to USSR by president of KOTRA)
1989.4	Openning Representation of Korea Trade Promotion Cooperation in USSR
1990.4	Opening Representation of the USSR Chamber of Commerce & Industry in Republic of Korea

Source: K.O.T.R.A

In addition to the establishment trade bureau, it is achieved the conclusion of exchange transactions between Korean bank and USSR bank, the establishment of the direct sealane and the inauguration of the joint fishing works, and would be anticipated to expand economic exchange between two countries by the establishment of a branch office of Korea enterprise in USSR and other liaison bureau. Up to now, economic exchange has been hampered by a lot of obstacles not having diplomatic relations, however, it was concluded 4 clauses, the prevention of double taxation, investment security, agreement on trade and science & technology.

Trade between two countries has been gradually increased by the relation improvements with the Communist Bloc of Korea. In 1988, the total amount of trade was \$290 million increased 76.6% as against last year, its relative importance in total trade amount with the Communist Bloc countries accounts for 12%. In 1987, exports to USSR were \$112 million increased 66.1% comparing 1988 imports wers \$178 million increased as much as 83.8%. Thus balance of payments to USSR went into the red to the extent of \$67 million and its increasing rate has been added an extra weight each year (see Table 3-6)

(Table 3-6)

## Trends in trade between Korea and USSR

(unit: \$ million)

	1980	1983	1984	1985	1986	1987	1988	annual average in- creasing rate(84-88)
Total Trade	36.1	48.0	57.2	113.0	113.8	164.2	289.9	59.3
Exports	29.0	25.0	26.2	59.7	49.9	67.2	111.6	51.5
Imports	7.1	31.1	31.1	62.3	63.9	97.0	178.3	64.9
Balance of Payments	21.8	1.9	-5.3	-2.7	-13.9	-29.7	-66.7	

Source: K.O.T.R.A

Judging from the trade structure classified by commodities, total trade volumes and subject item of trade have not yet borne fruits. However, in time of 1987, clothes and textiles occupied a great importance of 43.2% in exports to USSR among the total export volumes. In addition, there are item being a great importance of exports, heat electronic tube, copper tube, shoes and so on. Coal among the import items to USSR occupied a great importance of 36.1% in the total import volumes. In addition, there are items being a great importance of imports, fishes, chemical compound, pelts, crude oil and so on.

On the other hand, the basic stance for the improvement of trade to USSR is based on the possibility to pursuit economic profit having and enormous domestic market of USSR and abundant natuaral resoures in long-term views and the normalization of diplomatic relation toward USSR for the easing of tensions on the Korean Peninsular more than the pursuit of economic profit in short-term views. According as the opening of domestic market and the exploitation of natural resources are needed a long-term, it would be an efficient plan of economic cooperation toward USSR to cooperate the fostering of export industries and the increasing products of consumer's goods being an urgent problem of USSR economy through the direct investment to USSR in the manufacturing industries being the pivotal filds of economic developmment of Korea.

#### 4. The Economic Development Potentiality of Northeastern Asia.

China and USSR have recently tried to convert from the planning economy of socialism to the market economy of capitalism. They are in the traditional stage of the national economy, the plan-

sea is centered on the community, was objected by Chinese scholars because the mouth of Aproc river in North Korea was stopped up as a border line connected with North Korea and USSR. Some Chinese scholars said Moscow as an Asian country, but limited that only Eastern Siberia was included in the community. North Korea's scholar, the dean of International Economy Institute said political and military affairs were prerequisites the economic cooperation in the Northeastern Economic Community. The other North Korean scholar pretended that the upward price of primary industry products and materials is readjusted in the presentation of the Northeast Economic Community. But they accentuated that the mood of peaceful unification positively contributed to the formula of Northeastern Asian Economic Community.

## 5. Conclusion

That the severance of diplomatic relations between the countries in the continent is changing from confrontation to reconciliation is one of the necessities caused by the law of history development. South Korea, North Korea, China and USSR are considered as the first partners of economic transaction in the Continental Economic Bloc early mentioned by the writer.

Combining the Continental Economic Bloc and the North-eastern Asian Economic Community would not only make it possible to Japan, but also have a better inter-continental economic cooperation between the great-sphere economic bloc of Taipei, the nearest continental countries. That coordination would be quite in accordance with the diversification of economies. Japan, as non-continental nation, and belongs to the North-eastern Bloc, is not only the core of the Pacific Economic Bloc which have already reached the economic development level beyond that of continental countries, but also possessed the sole leading position in the worldwide economic power, looking from the economic conditions.

Therefore, it is meaningless that whether Japan becomes a member of the Continental Economic Bloc. The recent fact that Japan has been building up a nation of great military power raises keen concern of neighboring countries. This concern is due to the differences from economic situation as well as non-economic factors between Japan and the other countries. Provided that economic cooperation of Japan with the other is done on the basis of reciprocal equality, it is not necessary to view negatively Japan's entering into the Continental Economic Bloc.

As of 1990, three promising events, that is, the establishment of diplomatic relationship between South Korea and USSR, mutual agreement to the establishment of trade bureau having a function

of counsel between South Korea and China, and the possibility for amity between North Korea and Japan, will be new tonic for economic cooperation among these nations. USSR is trying to find out a new drastic way-out for economic development by making a special momentum Mr. Gorbachov's visiting to Japan next spring, for the purpose of accelerating the development of Siberia Area, where is located at the western direction from the North Pacific Ocean and has 57 percentages of surface and 1/9 of its people.

USSR is under consideration to import the capital and technology from South Korea and Japan, whereas manpowers from China and North Korea. As a result, it is possible that Far-Eastern Area, consisting of the West Sea and the East Sea in South Korea, the Yellow Sea and the Gulf of Pechili in China, and the northern sea area connecting Japan with USSR, is one of great potentiality for economic development. In conclusion, the Northeastern Area, if organized and intergrated economically and efficiently, will make a new era in international economic development.