

## MODELS OF REGIONAL DEVELOPMENT IN NORTHEAST ASIA

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### COMMENTS

#### Two main scenarios:

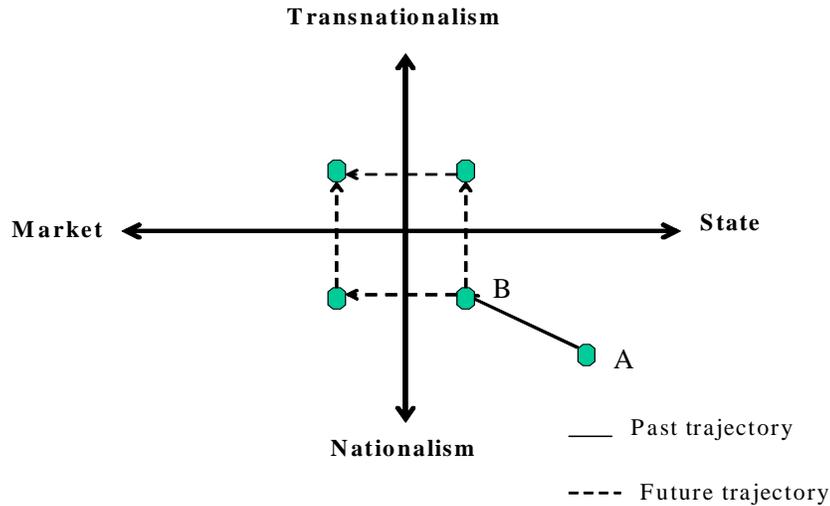
- 1) **Market-driven competitive development**
- 2) **State-directed collaborative development**

Another variable affecting the scenario is the degree of ‘transnationalism.’ Given the history of Northeast Asia (NEA), it is highly uncertain how nationalism will play out in the future. Combining these two variables, it is possible to obtain the following matrix.

	Market-driven	State-directed
Degree of transnationalism	Multilateral cooperation towards economic community Trans-border cooperation through free mobility of capital & labor	Multilateral cooperation towards development community Mega-projects on energy and transport Limited labor movement
	Multiple bilateral FTA Trans-border capital mobility and limited cross-border cooperation	Bilateral cooperation Special zones and limited cross-border cooperation

The essential difference between market-driven development and state-directed development lies in the degree of state intervention in the market. Considering a strong tradition of ‘developmental state’ in Northeast Asia (NEA), nation-states cannot be disregarded as a non-actor in economic development. Instead, in the foreseeable future, nation-states are likely to influence the trajectory of economic cooperation and regional development in NEA. As shown in the figure below, NEA countries have been moving from point A to point B in the recent past. It is uncertain, however, which trajectory the NEA region will take in the next 20-30 years.

## Regional Development Trajectories in NEA



Question of geographical scope and emphasis:

- 1) Japan tends to focus on northeastern Asia (excluding the southern part of China below Shandong); essentially centered upon the East (Japan) Sea
- 2) In Korea, there are two versions: one encompassing China, Hong Kong and Taiwan, Mongolia, RFE (Russian Far East), NK (North Korea), SK (South Korea) and Japan; and the other covering northern China above Shanghai plus Mongolia, RFE, NK, SK, and Japan. SK is concerned with both the Yellow Sea zone and the East Sea zone. Of course, Koreans have a special interest in the development of the Korean peninsula.
- 3) China obviously prefers a larger geographical scope including greater China plus Mongolia, RFE, NK, SK and Japan.
- 4) Russia's interest lies in the continental part of NEA, particularly East Siberia and RFE.
- 5) Mongolia without access to the sea is interested in the East Sea development sphere.

These different geographical scopes and emphases reflect the different geo-political and geo-economic interests of each NEA country. The reconciliation of these differing geo-economic interests may be one of the first tasks to be settled in the state-directed model.

Visual images of four models of regional development

### Market-driven model

Following demand, urban agglomerations will play a leading role, and thus help shape a Northeast Asian *corridor model* linking those major urban agglomerations. Competitive growth will be the main mode of regional development. Free trade and other types of economic cooperation will follow the neo-liberal line.

BESETO (Beijing-Seoul-Tokyo) corridor can be connected to the intra-China coastal corridor from Beijing to Hong Kong through Shanghai. Minor corridors such as Dalian-Harbin, Qingdao-Jinan, Shanghai-Wuhan, etc. are likely to be attached to this bell-shaped giant development corridor. In the longer term, Vladivostok-Khabarovsk can be added to the list.

The trend of economic forces gravitating towards coastal locations will continue. Market pressures will induce NEA countries to participate in FTA (free trade arrangements). The FTA among China, Japan and Korea will expedite the process of the corridor-formation. Cities and regions outside this corridor will be overshadowed. And hence regional inequality is likely to increase. The corridor model can be characterized as one of free trade and unregulated competition. In this model, sea and air transport will play a more important role than land transport. In addition, e-commerce and electronic communication will create another dimension of space in NEA.

If the giant development corridor formation is blocked by rising nationalism in NEA, then there is likelihood of a *bifurcated influence zone model* interspersed with domestic development axes. Free trade principles are observed but economic integration does not proceed to the extent that allows free competition. Trans (cross)-border regional development will gravitate towards two separate zones of influence: one by the rising Chinese economy and the other by a still powerful Japanese economy.

## 2. State-directed model

Recognizing the need to capitalize on economic complementarity among the countries in NEA, especially between resource-poor countries and resource-rich countries (primarily energy resources and partially labor resources), NEA countries are attempting to develop regional public goods covering energy, environment and transportation. A *'grid' model* is possible based on the mega-infrastructure projects covering mostly the northern part of NEA (Mongolia, East Siberia and RFE, NE China, NK, SK, and Japan). Siberia and the Russian Far East take an important position in this model because of two strategic assets: energy resources and the trans-Siberian rail.

The grid model represents inter-state collaboration for the benefit of the whole region, especially the backward areas. Obviously, free competition is regulated and more efforts are directed at building up a *'development community'* (which can be differentiated from an economic community which follows a principle of free competition).

This model, however, requires two things to carry out various infrastructure projects requiring a large sum of investment: a multilateral organization and funds. Through such an organization (e.g., a NEA development council), negotiations among various actors at the international, national and sub-national levels can be carried out. A proposed NEA development bank could provide funds for the projects.

The merit of this model is its positive contribution to the development of the less developed parts of continental NEA. However, this infrastructure-based development model can vary its shape depending on the way that national interest-centered politics plays out in Northeast Asia. It remains imperative that there should be some consideration of how the rights and benefits of each project should be fairly redistributed among different regions.

North Korea is a big question mark in this model. South Korea expresses its intent to embrace NK, whereas China and Japan are not as keen as SK. Russia, because of its interest in connecting the TSR with a TKR, is inclined to favor the incorporation of NK in NEA development schemes. Most of all, the success of this model depends greatly on the participation of NK.

Falling short of this grid model because of nationalism, *a disjointed grid model* representing the national interests and power politics of the region is likely to emerge. In addition to Russia's own ambition to play power balance game through its energy resources, competition between China and Japan to secure Russia's energy resources for their own interests could act as a wedge against an integrated infrastructure development covering energy and transportation.

Whichever model is unfolded, state-directed international public goods-based regional development is quite different from the market driven model. Although the demand and supply rule applies on the whole, it is dictated by the geo-political interests of the countries involved and the geography of natural resources. Because of these unique features, the model is likely to be affected by the geo-political calculations of major powers in the region including the U.S.

Comparison of four models in terms of infrastructure

### **Corridor model**

The existing urban agglomerations will play the major role in this model. Sea and air connections linking major agglomerations will be more important in transborder exchanges than land-based transportation modes. As they do now, Tokyo, Seoul, Beijing, Hong Kong and perhaps Shanghai will form regional hubs for air transportation in NEA. As the component economies of the NEA region further advances, people and high-value light-weight commodities will be transported within this triangle. Railway transport is not expected to play a big role in transborder movements unless high-speed railway linking major urban agglomerations in Japan with those in China through the Korean peninsula is completed. Sea-connections will retain their importance since coastal locations will provide a major site for industrial development in NEA.

### **Bifurcated influence zone model**

Major urban agglomerations will exert substantial influence in shaping the development landscape. However, minor port cities such as Niigata, Vladivostok, Rajin and so forth, which occupy strategic points may play a role in cross-border interactions. Sea and air connections will be dominant in transborder exchanges. The dominant triangle of air transport connecting Tokyo with Hong Kong and Beijing will be weakened, whereas Shanghai and Seoul (Incheon) will help form a few smaller triangles. Sea connections are also likely to center around two spheres: the Yellow Sea and the East Sea (Japan Sea). Railways and roads will play a certain role in cross-border economic interactions among Northeast China, the Korean peninsula and the Russian Far East.

### **Grid model**

Railways are important in the grid model. Natural gas and oil pipelines, electricity grids, and freight transportation, if they are integrated, can be provided with less cost and higher efficiency compared to when they are separately provided. The existing railways provide an initial platform for the provision of such integrated infrastructure facilities. Michio Morishima mentions the possibility of an NEA economic community starting off as a railway-based

community. NEA's geography of resources and industrial development is likely to be changed substantially by the provision of international public goods especially in the continental part of NEA. It is interesting to note that, as economic and political integration deepens in the European Union, the trans-European rail network is more emphasized. If the grid model incorporates a component of high-speed rail in it, it will open up an avenue for the development of the corridor model in the distant future.

### **Disjointed grid model**

In the disjointed grid model, the degree of integration in the physical system of international public goods provision will be lower and the geographical layout will be truncated by national interests. Its geographical scope will be less extensive than that of the grid model. The disjointed grid model would not bring as much benefits to the underdeveloped parts of continental NEA as the grid model would. Although railways could play an important role in the disjointed model, they would not function efficiently without sea connections. The relative importance of road transportation will increase in the disjointed model.

### Tasks for Collaborative Regional Development

- Carry out a comprehensive political and economic cost/benefit analysis on the alternative models of regional development in NEA through collaborative research among major research institutions in NEA
- Build a consensus for the vision of collaborative regional development through public forums and discussions organized by research institutions and NGOs
- Develop action plans and search for best means for financing collaborative development projects
- Place the agenda for collaborative regional development on intergovernmental channels like the six-party talks when the solution for the North Korea's nuke problem is in sight