

COOPERATIVE INTRASECTORAL SPECIALIZATION AS A REGIONAL GROWTH STRATEGY IN NORTHEASTASIA

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CHANGING GLOBAL POLITICS

The collapse of the Soviet Union in 1991, which caused the postwar bipolar system to retire unceremoniously, was an epochal transformation for the world community. It was the most profound political development in the postwar period because of its deep and extensive implications to every sphere of global geopolitics. This sudden development not only turned familiar postwar global politics dominated by two opposing super powers into a thing of the past but also presented the world community with a serious challenge to find a new geopolitical order.

The defunct bipolar system is currently being replaced by a new one, which essentially represents the post-colder geopolitics. This succession process has not been completed partly because the unforeseen transformation deprived the world community of an opportunity for orderly transition, and partly because half of the colder bipolar system has survived. At least for the time being, the world community has turned for global leadership to the United States, the survivor of the postwar superpower confrontation. The U.S. has been in no position to refuse this imposition in spite of its considerable hesitancy. Whether the new US-centered univocal system will serve only as a short transition period or settle for a long, stable successor stage is not immediately clear. The duration and nature of the American leadership will be much dependent upon the evolving politico-economic developments not only in the industrialized Western countries but also in other countries of significant potential including China and Russia.

At the present, the new univocal system appears to have secured the West's friendly acquiescence, which may enable the U.S. to lead the world community for a period considerably longer than previously anticipated. At the moment, there is no clear indication that a power will soon rise capable of forcing America to surrender its preeminent global leadership position. This does not mean that the U.S. will phase no serious competition, however. In spite of a favorable global outlook for the immediate future, the long-term prospects of America's chance to remain as the undisputed global leader is not so promising. The colder confrontation had been costly even for America, raising serious

questions over America's resilience in transforming its military-oriented geopolitical focus in time to one that is more suitable to the post-colder mode of unlimited global economic competition. A myriad of domestic woes-economic and social in origin-as well as external challenges in terms of all-out economic competition and of unending regional conflicts could force America to accept compromise and share its limelight with other powers. One additional consideration that should not be overlooked is that in the increasingly technology-oriented society a geopolitical order could quickly fall unless it meets the challenges of rapid socio-economic progression. By the early part of the 21st century, the geopolitical order that will formally succeed the colder bipolar system will likely be in place. Chances are that America will still play a key leadership role, but share its stage with a few others.

Politics tends to have a profound impact on the character of an economy at any level. Particularly colder geopolitics has left a distinct impression on the global economic order. The bipolar political system, which had been maintained by extensive arms buildups, had largely been responsible for the birth of the defense-dominated industrial economy in both the Soviet Union and the United States. Great emphasis in the past was placed on heavy industries capable of producing military hardware and other defense-related products. As a result, consumer sectors were blatantly neglected in the Soviet Union in favor of defense-industrial complexes established exclusively to support its gigantic military machine. Although America's industrial sector was less dominated by the defense sectors because of its immense consumer market, a direct outcome of uncommon consumerism, its civilian sector economy did suffer during the colder period. The costly defense-oriented economic order may no longer be tolerated in the post-colder society in general, but the defense-industrial sector is expected to remain significant in the countries that assume a global leadership role.

The current unpopular system is likely to leave its own footprints on the global economic order provided it lasts long enough. The new global economic order will also be affected by other key variables including global proliferation of industrial economies, continuing population pressure in the developing world, a dwindling natural resource base, and the growing popularity of instant gratification politics. Perhaps the most salient shift may be that the new industrial order will be based more on civilian consumer economy; No nation will likely pursue the single-dimension economic order as the Soviet Union did in the colder period.

While the bipolar system has been replaced by the US-centered unpopular system, the colder global economic order remains basically unchanged. This phenomenon voluminously illustrates the fact that the defunct socialist camp represented a small portion of the world's non-military industrial output. More importantly, it testifies that unlike in the political sphere, the global economic order has become much diversified during the colder period. Even when the bipolar system was securely in place, the world's economic sphere resembled more of a multiplier system than a bipolar system. In most Western market economies, the colder political doctrine had limited influence on their economic order.

During the colder period, the United States had freed some key postwar allies from mounting financial burden of national defense by assuming most of their strategic defense responsibilities. In addition, the U.S. opened its ever-expanding consumer market and vast financial-technological resources for them to qui [le rebuild the economies of these strategic links in America's colder containment ring. America's these colder geopolitical maneuvers were instrumental in the emergence of both Japan and Germany as the world's premier industrial powers. The rise of such a de facto multiplier system in the global economy diametrically contradicted the bipolar global political system. This inconsistency illuminates the historical lesson that the world's economic order could take a structure that is far from being a mirror image of the political system.

In industrial economy Germany and Japan had risen to challenge the United States for the global leadership by the late 1980s. By shrewdly exploiting the super powers' rivalry, they have achieved a reamer* able ascendancy. Yet these two industrial giants have remained essentially single-dimensional powers lacking the superpowers' military and political strength. The sudden demise of the Soviet Union has given these two industrial giants new opportunities to expand their highly organized, productive industrial economy. Whether they will utilize their formidable industrial strength and venture into military-political spheres is yet to become obvious. For the meantime, their focus remains largely in the economic sphere and America still continues to be their competition. However, their acquiescence is likely to be conditional as their quest for permanent seats on the US Security Council demonstrates. If America proves unable to exploit the peace dividend and overcome its exacerbating domestic woes and costly burden of global leadership, Germany and Japan could find themselves launching their own bids to expand the growing global leadership beyond the customary economic sphere. Although they are not expected to replace America's global political leadership by themselves, their aggressive posture could radically alter the global political landscape.

RISE OF A TRIPOLAR ECONOMIC SYSTEM

America may have no intention of voluntarily relinquishing its global leadership anytime soon. On the contrary, it is likely to strive to preserve its dominating influence both in military and political spheres. But in the economic sphere America may choose to be realistic, accepting its smaller competitors as co-leaders. Both Germany and Japan remain smaller in terms of population and GNP, but they both possess industrial economies seen to be more competitive than that of the United States. Moreover, America took a pivotal step in demoting itself to a regional power, at least in the economic sphere, by joining NAFTA in 1994. The American move could be construed as a clear, open statement that it considers itself foremost a member of the North American economic sphere. Even if the American drive was motivated by the ever-expanding European Union, extensive messages that NAFTA conveys can not be lost. The birth of North American common market has changed the global trade landscape drastically in the sense that it has brought a bipolar system into global trade. The presence of EU and NAFTA raises intriguing questions on the prospect of Northeast Asia, the only other region that is most capable of forming a third pole. Regardless of its preference, Northeast Asia will be forced to respond in kind if both EU and NAFTA continue to expand their membership and spheres of influence. It won't be a surprise if Northeast Asia sees forming a third trade pole as a dire necessity for survival in the future.

Northeast Asia has been unable and unwilling to respond in unison to the Western regional blocs, although it clearly understands the possible adverse ramifications of the trend. Moreover, the nations in the region at the moment see EU and NAFTA from greatly different perspectives. This divergence may be the outcome of the fact the Northeast Asian nations experience widely differing levels of economic development and maintain quite dissimilar external orientations. Some of these differences are basically short-term phenomena and can be overcome in time, but others are deeply rooted and have to be addressed before the region even entertains any attempt toward an integration similar to the European Union and ten North American Free Trade Agreement. Without coming to a common understanding over these barriers, full and lasting cooperation among the countries will not be feasible, not to mention a successful formation of an EU and NAFTA variety regional bloc.

Like most regions in the world, Northeast Asia shares a controversial past. The troubled relations of the region's three states, direct results of geographic juxtaposition, are as old as its ancient civilization and as fierce as its brilliant

culture. In the early period the region was dominated by China, a cradle of early civilizations. But in modern times Japan, as the front-runner in absorbing Western industrialism, has been a dominating force, eventually choosing to become the colonial ruler of the region. The rise and fall of these powers was often eventful, sending shock waves to the Korean peninsula. Inevitably wars were fought leaving serious emotional scars. The latest engagement, Japan vs. China and Korea, was over only forty some years ago, too short a period to overcome the deep-rooted animosity and suspicion.

Even under the globalize economy that is transforming the entire region, Northeast Asian neighbors are yet to be able to put their troubled past to rest. Imperial Japan's long, harsh colonial rule of Korea and brutal occupation of China still cast a long and dark shadow in the region. For many the wounds of the Japanese aggression remain too fresh and painful to be buried for the name of economic cooperation. China and Korea rightfully insist that Japan still remains unrepentant of its past, an aggression that systematically and inhumanly squashed dignities and aspirations of its neighbors for decades. Indeed, there still are radical factions in Japan that have never been shy of reopening ugly wounds of the past. Small as such a minority may be, these ultraconservative factions have issued from time to time acid statements provoking angry reactions throughout the region. Many victims of the war and colonial rule still seek Japan's transparent admission and corresponding compensation and are unwilling to settle with the customary cosmetic gestures Japan has shown for its blatant aggression.

Japan's aggression was particularly grave for China and Korea. It is Japan's duty to face its former victims squarely and seek their forgiveness. Only such frank admission will convince the neighbors that the past has been put into a proper perspective. It will also help to alleviate the region's lingering doubts over Japan's having yet another *Pox Nipponese* ambition. As long as Japan remains less than truly penitent over her past, Northeast Asia will not be able to cross the Rubicon of genuine region wide political reconciliation.

Another political issue the region must overcome before it launches any serious integration efforts is the Korean peninsula's unification. Korea represents the smallest economy in the three-state region. In spite of its hyper-active industrial economy, its population is far smaller than Japan's and its natural resource base is relatively poor. Yet it occupies the pivotal geopolitical location providing a natural brigade between insular Japan and continental China. Even in industrial economy Korea offers many products representing medium-level

technologies. In industrial structure, temperament, and physical location, Korea represents the region's critical linchpin. Thus Northeast Asia's integration, regardless of its format, will be incomplete and unnatural without the active participation of a unified Korea.

The divided Korea poses two formidable obstacles to the Northeast Asian community. The DMZ, which divides the peninsula into two opposing ideological camps, prevents full spatial integration of the Korean peninsula and thus Northeast Asia as a whole. South Korea's relations with China and North Korea's relations with Japan will always be less than full and natural, although in recent years China-South Korea relations have become increasingly extensive and close, and Japan and North Korea are exploring means to achieve normal relations. As these phenomena continue, it is imperative that their dealings with the two Koreas do not become additional barriers to the unification. Ideally, both Chinese and Japanese dealings with the two Koreas should be devised with the unification considerations. Korea's division was not the result of its domestic politics alone; rather the regional as well as global geopolitics played a critical role. Thus it is logical for the regional powers to assume some responsibility for the tragic division of Korea. Another military confrontation between North and South Korea, which is unlikely but possible, would cause severe political instability and disruption of economic development in the region. America's steadfast security commitment to South Korea and the judicial exercise of both Chinese and Japanese influence over the Pyongyang regime will be essential in checking North Korea's militarism. The Korean unification may become a reality by the early part of the 21st century if not sooner.

Largely due to its export-oriented economies, Northeast Asian countries remain more competitive than complementary to each other, particularly in global markets. Both the Japanese and Korean economies were developed under America's postwar security blanket and liberal free-trade policies. With these favorable supports, transpacific trade has become the mainstay of both economies. China, under quite different macroeconomic conditions, is a late comer in the industrial development. Still, it more or less followed its neighbors' practice and adopted export-oriented growth approaches including growing dependence on transpacific trade. Because of its strong appetite for foreign goods and a long free-trade tradition, America has readily accepted the Chinese overtures. Currently all three countries are enjoying notable comparative advantages in the American market. Their success in America is not an isolated case, however; they are equally successful in other parts of the world.

Under the circumstances, Northeast Asia's commercial interests are best served by adhering to free-trade policies than by forming a regional bloc. In fact, it will be most beneficial for them to pursue even more open global markets and to remove existing trade barriers, including the barriers created by regional blocs. Such overwhelming dependence on transpacific trade is a reason why the region is not in a hurry to pursue the creation of a regional economic community's long as they enjoy reasonable access to global markets, the region's economies will view a formation of formal regional bloc ill-advised and unnecessary. Of course, this climate could undergo major shifts rather quickly as EU, NAFTA, and newly industrializing economies come to offer an increasingly stiffer challenge in global market places. This changing global market situation will eventually prod the region's economies to reevaluate their triangular relations.

Northeast Asia is experiencing explosive intraregional trade in recent years, but the development does not diminish the importance of the American market. In spite of its immense size and potential, China will need a considerably long period in elevating itself to the stable, primary consumer market for industrial of both Japan and Korea. For the meantime Northeast Asian countries' immediate trade interests remain in global market places, the most critical one being the American market.

Yet North Asian states can ill afford to overlook the growing popularity in forming regional blocs elsewhere. Even if they find the global pursuit of free trade most appealing for the time being, they are well advised to prepare for the unpleasant eventuality of the global economic system being dominated by a few regional blocs. The region's full economic integration may not be expected until genuine region-wide political reconciliation is secured. Yet the region can take many useful steps that may to a gradual integration process. In a sense, such a preparatory undertaking will prove highly beneficial for the region as it could eliminate unnecessary frictions later, regardless of whether or not a regional bloc is formed.

One of the inescapable compromises a member state is expected to make in joining a regional integration is various encroachments upon its sovereign powers. Although this is for the common good of the region, the concessions could be painful, particularly for countries with distinctive economic, social, and cultural backgrounds. To make such difficult concessions in the name of regional prosperity, member countries need to have a high degree of confidence in one another. Thus any economic integration must be preceded by close political cooperation and well-placed trust. Northeast Asia is yet to achieve region-wide

trust and understanding sufficient for pursuing full regional integration. Under the existing limitations, an outright integration attempt is both unpractical and perhaps undesirable. Instead, Northeast Asia should pursue an interim step mainly based on private sector cooperation. By putting the governmental sector aside, this approach could effectively avoid political controversies and bureaucratic deadlocks. Moreover, such private sector cooperation could help the member countries to gain trust and understanding of each other.

TOWARD AN EFFICIENT SPATIAL INTERACTION

Private sector interaction in Northeast Asia is already extensive and expanding still. This is a salient contrast to frequent disharmonies and poor cooperation in the political sphere, which is still held victim to age-old emotion and distrust. Given the current political climate of the region, it may be well advised that the region channels its energies into organizing and improving the existing private sector interaction rather than in seeking an outright political solution, which is no doubt ideal but highly unlikely in the immediate future. Close private sector interaction will serve as an effective transition stage and a catalyst for close political interaction in the future. For the meanwhile, private sector initiatives could be better able to overcome intraregional conflicts that may arise due to lack of political. The most notable advantage of the approach should be that in the region such private sector interaction is already present and can be improved further even under the current political climate. It does not mean, however, that the region's close political unity can be accomplished by private sector initiatives alone. On the contrary, a collective understanding and confidence is required, including the support of the governmental sector.

The foremost advantage that the Northeast Asian states possess for regional cooperation is their geographic juxtaposition, an essential requirement for full spatial interaction. China and Korea share a common border, and Japan lies across the narrow Korean Strait. In spite of the body of water that separates Japan from its sister states on the Asian mainland, Tokyo is a short air distance from both Beijing and Seoul. In the future, even this lack of land connection is likely to be overcome by construction of tunnel under the Korean Strait. Throughout history, the three countries have benefited and have also been burdened by this geographic alliance, which often determined the fate of a dynasty.

Full and efficient utilization of geographic juxtaposition can be realized only by achieving complete spatial integration, a phenomenon that may exist in theory rather than reality. On the other hand, typical regional economies share some integration even if there are no organized efforts to do this. Throughout

history, border areas were a popular location for unofficial trade, which served as a channel for unorganized cultural exchanges. In Northeast Asia, this border trade has been limited to North Korea and China for most of the postwar period. In recent years, however, the countries have achieved more sophisticated spatial integration through formal as well as informal trade. Of course, the current status is far from both an ideal level or the level region is certain to attain in the future.

Spatial integration has to satisfy three basic conditions of international trade; complementarity, transferability, and intervening opportunity. Transferability poses a little obstacle for Northeast Asian countries that share common borders or are located in geographic proximity. Intervening opportunity can be assured with fairly open trade practice, a phenomenon that becomes increasingly evident in the region. Complementarity is much more complicated and requires extensive cooperative efforts. These conditions are not met naturally even under the best of conditions. If a natural spatial integration takes place, it could very well resemble a vertical integration, a rather natural but highly unequal form of international trade. Such a trade relation is a reflection of interaction between two economies of vastly different development stages. It tends to be mercantile in nature, favoring one trade partner at the expense of the other. On the other hand, the trade relationship that is complementary and thus conducive to long-term stability is to be based on high-order integration, particularly one of a high-degree, horizontal variety. The dissimilarities between vertical and horizontal integration are by no means insignificant. In addition, as the global economies continue to march toward an eventual level-field, such one-sided, mercantile trade relations have little chance to last long.

In an industrial era, regional economies tend to have complex structures. No two economies share totally identical characteristics. This phenomenon is strong in Northeast Asia, the region that houses the second most powerful industrial economy of the world, one of the most dynamic, newly industrializing economies and also the world's most populous economy, which has been a leader in industrial growth rate in recent years. The level of natural resource endowment, developmental history, and widely differing political economies all have ensured individuality rather than uniformity among the three economies. While they lack common features, they share together basic growth strategies based on a strong, processing-oriented export economy.

A regional economy seldom possesses a full range in complementarity even in an agrarian period. Meaningful complementarity in industrial economy is even rarer because it requires peculiar sets of circumstances. In a sense, total

complementarily remain an ideal concept rather than an observable reality. Yet a trade relationship, whether in a formal bloc or mere by an ad hoc arrangement, will have little chance to last for a long period unless it demonstrates a reasonable degree of complementarity. In coming decades in which all-out competition for the global market share is likely to be intensified and nationalistic emotion will gain even more energy, complementary trade relationships will become even more of a critical factor international cooperation. Only through a high degree of complementarity will be the weakness of a regional economy with its lack of internal cohesiveness and long-term instability is effectively conquered. A regional economy based on full and sophisticated complementarity will become a source of great strength rather than a destructive weakness for the member states. Under the arrangement, neighbors could become collaborators for regional prosperity and stability rather than mercantile raiders. Though it may only be an ideal, achieving full complementarity among the three countries will be a challenge that demands Herculean efforts.

INTRASECTORAL SPECIALIZATION APPROACH

One of the unmistakable trends in Northeast Asian economies is their strong orientation to export-led growth. Each economy strives for a full and successful export sector economy. Yet their systematic cultivation of exhort sector industries has varying backgrounds, making their product line differentiation visible. This trend may continue for a while, but eventually the product lines of the three economies are likely to converge. The gaps in income and technology level will be reduced as the two late comers, Korea and China, chase the front runner with vigor. The trend of convergence does not mean that the region's economy will achieve region-wide complementarity by itself. On the contrary, the region's economies may add to their competitiveness among themselves due to liberal government intervention and export-priority campaigns the three countries pursue. Severe intraregional competition in most growth-oriented industrial sectors will likely lead to severe collision rather than cooperation among the region's economies, escalating political conflicts in the region. The region could minimize the self-destructive intraregional industrial competition by adopting sectional integration measures. Sectional integration, which will lead to industry-wide complementarity among the economies, will allow each economy to specialize in most sectors it chooses. Two approaches can be utilized here; inter-sectional integration and intrasectoral integration. Inter-sectional integration is much more natural than intrasectoral integration because

the former often reflects on the economies of given competitive advantages such as natural resource base. However, this integration tends to produce unbalanced, dependent trade patterns. Economies taking advantage of rich resource endowment tend to remain exporters of low value-added products, i.e., raw materials, while serving as consumer markets for high value-added imports. Such trade pattern is mercantile in nature and leads in the end to chronic dependency. Naturally this pattern will remain unstable and contain a source of recurring disharmony. The growing nationalism worldwide may make such mercantile trade relations mostly unacceptable and unpopular for most countries in the future. No economies will willingly choose to remain a resource supplier for industrialized economies.

The Northeast Asian economies are not the product of natural competitive advantages. They were developed in isolation from each other during the post-war period. Rather they are the product of government-sponsored competitive advantages, which were possible due to liberal, timely governmental intervention. The trend in which each economy will maximize its effort to overcome perceived competitive disadvantages using the public sector resources will continue in the future, raising a grave doubt in pursuing an international division of labor based on each country's natural competitive advantages.

Integration that will provide the region with long-term stability and mutual benefits, a trade relation envisioned by the classical economists, can be achieved only through intrasectoral specialization. This horizontal integration requires the regional specialization to be extended to intrasectoral levels. Each member economy will be allowed to have its own industries in all major sectors they choose. It is required, however, to leave agreed-upon subsections for foreign products. Thus each economy will have both export and import subsections in each sector. They can all pursue sectary-balanced growth at the same time leaving market shares for other economies to penetrate in agreed-upon subsectors. Doing so, all economies could avoid costly, competitive duplication in all sub-sectors while preventing one from becoming perpetually dependent upon the others. Eliminating these potentially damaging conflicts will be crucial for the survival of the regional economic community.

A regional system that allows all member countries to develop their own industries independent of the others will have the greatest potential to survive and be trusted by all members. Instead of a vertical integration system, which on a long-term basis would have little chance to succeed or last long, a horizontal specialization should be pursued for both practical applicability and as a basis

for the formal integration at some later date. In this endeavor, the private sector of each country will lead the drive while government sectors take up supporting roles to minimize the potential political conflict and to give market forces room to express themselves.

Intrasectoral specialization will be a great challenge for any regional entity. Northeast Asian economies are not an exception, even if the external pressures become a significant factor. Yet such specialization may be the only choice the region has, if stable, harmonious intraregional economic cooperation is its ultimate goal. Even a formal integration that lacks horizontal industrial integration risks conflicts that may lead to the disruption of the cooperation. The regional bloc that has many members such as European Union can better absorb better the problem of developing an intraregional dual economy. On the other hand, such intraregional disparity could cause significant shift in industrial growth in a small-member regional bloc; in NAFTA the dual economy is being exploited by the private sector in a form of industrial relocation. In the end, this will have an effect of averaging in income and industrial growth in both sides of the border. For the meantime, the United States is to suffer significant loss of industries. Neither EU nor NAFTA phenomena are long-range solutions applicable in Northeast Asia.

Practical application of intraregional specialization will require very substantial region wide cooperation. This is, however, feasible, unlike an outright political integration. The region's private sectors could easily see the highly favorable long-term benefits of the approach. By no means should specialization be pushed recklessly. On the contrary, it is important that the whole process be implemented under the spirit of concession and understanding. It should apply maximum flexibility so that the existing specialization pattern is not destroyed overnight. Institutional tools should be established to address practical problems that may arise in the implementation process. Also, systematic and long-term technology transfers have to be instituted to support the specialization plans, which will be devised by an independent body. Such an intraindustrial specialization board will be governed by representatives chosen by the member countries.

Northeast Asia faces both challenges and opportunities that are unique and profound. The region is often being identified in the West as a single cultural zone. Its location and heavily intervened past make such a characterization acceptable for at least outsiders. Northeast Asia also shares a troublesome past for which it is yet to devise clean reconciliation. In spite of these limitations,

countries in the region are expanding bilateral contacts in recent years. Ambitious proposals for various regional development initiatives reflect this favorable trend.

High expectations aside, the region's political climate is not favorable for early consummation of a full regional integration. A formal integration, regardless of its form, requires extensive groundwork, which is even more critical for the region where three member countries share a vastly different political economy and development levels. Moreover, the countries in the region may not regard regional cooperation critical to their survival at global market places. This is certainly to change as the global economy undergoes never-ending evolution. It is likely, at certain point in the future, that the region faces overwhelming challenges from EU and NAFTA. Even ASEAN could rise to challenge Northeast Asia.

Northeast Asia should take steps toward closer regional cooperation. Although a formal integration will remain a long-term prospect for some time, Northeast Asia could adopt an avenue that may be referred to as a transition stage, which is feasible under the given political climate yet still conducive to close collaboration in the future. An intrasectoral specialization approach should serve as most ideal interim stage for the region. The implementation of the approach may prove to be tedious and complex; its results will be far less than spectacular. But it richly deserves careful consideration. Northeast Asia's spatial integration based upon an intraindustrial specialization approach could become a key building block for the regional economic

Community that maximizes the region's growth potential, thus ensuring harmony and cooperation among the member countries.