

# Discuss on the Advantages, Mode and Countermeasures of Shandong: Korea Sub-region Cooperation

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## Abstract

Sub-region cooperation is necessary based on the condition that China-Japan-Korea free trade area has not been established. Shandong has common interests with Korean economic and trade cooperation and it has been equipped with prominent external environment and industrial advantages in sub-region cooperation. The article discusses the advantages, the specific patterns, the cooperation contents and the matched government measures of sub-region cooperation between Shandong and Korea, with the purpose of modifying the relevant policies launched by government.

Key words: Sub-regional cooperation, Industrial structure, Geosuperiority, Cooperation mode

## I. Introduction

In the later period of global financial crisis, world economy is facing a wide range of changes and adjustments. The idea of forming the free trade area among China, Japan and Korea is difficult to achieve temporarily. The economic and trade cooperation between China and Japan was involved in a downturn (Chen, 2011).

At the same time, economic development of Shandong and Korea are both in a critical period and on the turning point. They both have strong desires to strengthen economic and trade cooperation although there are unavoidably many concerns. It is urgent to encourage and promote the sub-region cooperation between Korea and Shandong, so as to create a new economic growth point for both economic developments. Shandong should cherish and seize this opportunity and actively promoting an open mode of the sub-regional economic and trade cooperation, to fully play their comparative advantages respectively, promote the sustainable and stable development of bilateral economic.

## II. Research Methodology

### 1. Interests analysis

China, Japan and Korea started the discussion on the cooperation system in 1999, and then proposed to build a free trade area in 2002, but failed to achieve the substantial institutional arrangement until now. The main reason is that the three countries have their individual economical and political interests which lead to the divergence in the cooperation purpose. Japan is trying to build itself-oriented regional economic cooperation mode followed by the promotion in the Japanese economic development so that it will contend with the United States and the European Union. Meanwhile, shared by the same position of other western countries, Japan regards Korea and China as its potential rivals. However, the contradictions between China - Korea and Japan existed in the long history. Although the three countries all hope to be the dominant in regional economic cooperation, the biggest role is still vacant now considering the possibility that the revenges from other countries will be highly impulsive. That hinders the substantial arrangement of the regional economic cooperation from coming to the real.

However, Korea and Shandong have common interests in sub-region cooperation. The purpose for Korea to join the regional economic circle lays in developing the economy on the west coast of Korea, maintaining the cheap Chinese market and guaranteeing the sustainable development of national economy. Shandong, with the thorough connection of China hinterland coastal cities, is one of the most potential provinces in China's economic development. Its superior geographical position, developed transportation, rich natural resources, low investment cost and broad market cater to the demand of Korea. Currently, Shandong sits at the turning point of industrial structure upgrading in urgent need of the funds, advanced technology from Korea to accelerate the upgrading process of manufacture industry in Shandong peninsula.

### 2. Superiority analysis

#### 2.1. As neighbor, the transportation is convenient

Shandong peninsula, which lies across the sea to Korea and wins in the convenience of traffic, is Korea's traditional investment district. Seoul, Gunsan, Incheon and Mokpo is near to the coastal cities such as Yantai, Qingdao, Rizhao in Shandong keeping the distance within 500 nautical miles. Incheon is the largest trade Chinese development zone in Korea, the second port industrial city with its scale only smaller than Busan. As the second development zone just after Incheon, Gunsan is the entrance to the central regions of Korea. Korea is intended to build it into another trade base to China.

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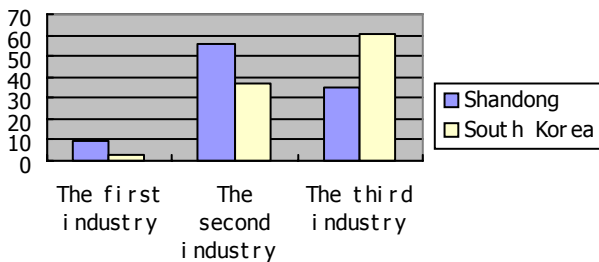
Mokpo Located in southwest of Korea is becoming one of the main international trade cities of the west coast. Due to the adjustment of economic structure and geographical space, the keys of economic development both in China and Korea reflects the tendency of the movement to yellow ocean areas from self-respected extents. Yellow Ocean transforms from the stumbling block of isolation to the media which expands the communication and consolidates the friendship. The well-equipped sea and air transport systems have been formed between Shandong and Korea which ease the personnel whom and goods dealing. The port cities of Shandong and Korea have successively built the large infrastructure bases represented by the international logistics stronghold and industrial park aimed to promote international exchange.

2.2. The complementary identity in production elements

Shandong and Korea is in complementary match judging from the various elements. As an economic strong province in China, Shandong has absolute advantages in strategic location, developed land and air transport, extensive hinterland, rich natural resources and abundant labor resources (Piao, 2003) .But at the same time, the backward of technology, lack of funds, low-level of industrial structure hinder. In contrast, Korea possesses the relative shortage of labor with the compared advantages in the abundance of capital and the advanced technology and management experience (Fan & Xiao, 2004). From the view of labor costs, Korea is 7 times more than Shandong. The per capita income of Shandong is \$ 2940 in 2010 which joins the rank of lower-middle income. While in Korea, the per capita income is \$ 21,530 in 2010, belonging to middle and high income. From the technical point of view, Koreais far ahead. The Number of researchers per million people is an average of 852 people in China with 3756.3 people in Korea.

2.3. The different stages of industrial structure

<Table 1> Comparison of Shandong and Korea's GDP industry constitutes



From the industrial structure, Shandong and Korea remain at different stages of economic development. Their industrial structures are obviously complementary.

Agricultural labor force domain in Shandong Province, while Koreais highly industrialization and urbanization oriented. As shown in the graph, the composition of GDP of Shandong shows the priority of the second industry accounting for 55% of the gross domestic product. While in Korea, the third industry maintains the dominant po-

sition accounting for 60 % of gross domestic product. From the import and export, Shandong and Korea have their own strengthens in the labor-intensive industries, technology-intensive industries and capital-intensive industries. the labor-intensive products that Shandong exports are just what Korea imports, while the capital-intensive, technology-intensive products that Korea exports is also what Shandong hopes to import.

<Table2> The industry distribution of import and export between Korea and Shandong

Project	Korea	Shandong
Main production department	Capital, technology intensive	Labor, capital intensive
Main export department	Capital intensive	Labor intensive
Main import department	Labor, technology intensive	Technology, capital intensive
Foreign investment department	Labor intensive	Labor intensive
Accept foreign investment department	Capital intensive	Labor intensive

2.4. Low investment cost

According to the "Global Business Cost Comparison" report published by business information sector of British's "Economist" Group, concluded from the compound comparison of the related data which included 8 studies such as labor costs, business travel, foreign staff costs, corporate tax, predictable levels of corruption, office and industrial rents, telecommunications and transportation, China ranked 28 in 31 surveyed countries and regions, nearly the lowest investment-cost country.

2.5. Broad demand of market

Even if faced up with the global recession, China's economy still maintained a high growth. The high-growth in economy generated strong demand to capital, technology and sophisticated products with high added value, which is vital to Korea. And with the help of the relevant policies of stimulating domestic demand, China's domestic market is deepening expanded which enables the transformation from the potential market to the real market.

2.6. Favorable international environment

After the global financial crisis, the world got lost in a large change and adjustment status. As neighbors, economic interdependence and linkages between China and Korea are more difficult to divide, sub-regional economic cooperation has broad prospects which provide a good opportunity for the sub-regional cooperation of Shandong and Korea. At the same time, the China-Japanese trade is weakening. "Blue Book of Japan economy (2010)," released by China Academy of Social Sciences in May 25, 2010 announced that the China -Japanese trade has entered a fatigue period. The bilateral trade showed high hovering momentum. China's trade deficit continues to expand and the bilateral trade frictions have increased. According to

the statistics from 2005 to 2008, the China -Japanese trade increased by an average of 12%, far lower than China -Korea's trade growth. In 2009, the China -Japanese trade even had a strong decline of double-digit. This provided an opportunity to the cooperation between Shandong and Korea (Chen, 2011).

Thus, the economic development of both Shandong and Korea is in a critical period or at the turning point. They both have a strong desire to strengthen economic cooperation. And they have the common demands and great potential in the cooperation of trade, finance, investment, and exploration of area, resources and technology, and the exchanges of information, education and the elite's cultivation. Shandong should cherish and seize this opportunity, actively devoted into the promotion and expansion of the regional economic cooperation open mode Korea.

### III. Findings

While regional cooperation between China and Korea has not reached to the institutional arrangements, but cooperation is encouraged in private partnership and semi-officially. Sub-regional cooperation between Shandong and Korea in some small regions will be the most feasible and effective means (Wang, 2010).

Sub-regional cooperation is different from the formal regional cooperation. All parties must abide by the rules in taxes, laws policy and etc, made out in the belonging countries so that the wide perspective cooperation will be on the list.

Sub-regional economic cooperation is impossible to establish a closed, highly institutionalized economic group temporarily. We can only create an open, loose and flexible cooperation mechanism through which the sought of common economic interests, the achievement of equality and mutual benefit will be ensured. Its function is basically to seek the common interests of the members through the way of exchange, communication, coordination and consultation. The key of economic cooperation lays in adhering complement each other, equality and mutual benefit, long-term perspective, seeking common ground, gradual and orderly and the easier issues first, get common prosperity at last.

Cooperation strategy can be divided into three different levels: the sister cities, growth triangles and sub-regional economic cooperation. Enterprises cooperation, private communication, coordination of official and semi-official go hand in hand. Adhere to the principles of diversity, progressiveness, flexibility and openness. Build a cooperation mechanism on multi-level cooperation. Build the economy commonwealth of the enterprise level, economic groups of the city-level and economic free trade zone of sub-regional level. Promote bilateral trade, multilateral trade and border trade through official and semi-official, non-governmental trade organizations or different levels of economic and trade negotiations. Extend the range of economic cooperation through the establishment of joint ventures, cooperative enterprises and participation in regional multi-country economic bloc. At the same time, the government may agree to build sub-regional economic cooperation body, establish a permanent intergovernmental body

to plan promote and supervise the implementation of the agreement (Qi, 2010).

Such mode of cooperation has many advantages: firstly, the relevant local government and economic entities of the two countries play the dominate role in the cooperation, and the central government is lessinvolved in, thus reducing the constraints of various factors between the governments, so that the efficiency, rapidness and effectiveness have been confirmed. Secondly, the participation of cooperation is adjacent to each other. They have more common interests that relieve the difficulties in contacting, consulting and reaching consensus. Thirdly, both sides have their own strengths. They can complement each other to achieve the best combination, which is relatively easy to satisfy the purpose of achieving equality, mutual benefit and common development. Fourthly, this cooperation has not been intensely organized of the fixed rules by charged associations and departments, so it is more flexible to operate in the cooperation process, out of the constraints of other factors and constraints (Na, 2010).

Shandong-Korea industrial cooperation should play their comparative advantages respectively, build industry alliances, gradually form a cluster, accelerate the industrial division and promote professional collaboration, in order to take full advantage of the geographic advantages and maintain sustainable and steady economic development of both sides.

### IV. Discussions and Policy Implications

#### 1. Contents of Cooperation

##### 1.1. Cooperation of manufacturing sector

Shandong Peninsulahas strong basis of manufacture sector. The main pillar industries in the manufacturing sector still remain in its early development stage. At present, Shandong Peninsulais committed to the establishment of being the world-class manufacturing base. They have created good conditions for sub-regional economic cooperation between Shandong and Korea. Manufacturing and service industries are relatively developed in Korean with the possession of the major share of the GDP. Eight pillar industries led by the automotive, electronics, semiconductor, shipbuilding, petrochemical, steel and machinery have had considerable size and certain advantages and are strong applicable for economic development of Shandong. Especially in shipbuilding, the output of Korea is far ahead in the world with the expertise in abundant practical experience and advanced technology. The shipbuilding industry in Shandong has had inherent geographical conditions and basic facilities and technical experience. However, the lack of funds and core technologies become the bottleneck. If carry out cooperating with Korea on shipbuilding industry, import Korean capital, introduce advanced technology and management experience, combine plenty good raw materials and labor force of Shandong with advanced shipbuilding technology of Korea, Shandong will be favored by the technological transformation of the manufacturing industry, optimization and upgrading of industrial structure.

## 1.2. Cooperation of Service

### 1.2.1. Vigorously spread out the bilateral cooperation in tourism.

Both Shandong and Korea have rich tourism resources and has already opened a number of air and sea routes which make the staff traveling convenient. Shandong and Korea can build travel agents by joint venture or cooperation, to operate tourism in the region, to carry out multi-level, multi-form cooperation in tourism. Aviation, maritime and land transportation, tourism departments should work together to simplify procedures in accordance with international practice, to facilitate mutual personnel exchange to facilitate the movement of persons within the region. The development of tourism can not only strengthen the bilateral exchanges and understanding, in order to lay the foundation for further cooperation in foreign capital, but also can improve the tourism foreign exchange income and increase employment.

### 1.2.2. Educational and cultural communication

Many cities in Shandong have formed friendship with Korea cities. Through this shortcut, the educational and cultural exchanges can be applied to the facility. The links such as building friendly channels between mutual schools and universities, assigning overseas students to form a transnational network of personnel training and technical training. universities and other research institutions in Shandong and Korea could strengthen the horizontal linkages, study in areas such as the prospects and ways of cooperation in political, economic, cultural, environmental management, resource development, regional cooperation. The university education of both Shandong can add some new courses for example culture of Korea, language of Korea, economic of Korea, political of Korea, legal of Korea and so on. Carry out a variety of import and export commodities trading activities, organizing economic trade fairs or technical exhibitions regularly or irregularly, so as to promote sub-regional economic and technological exchanges in period, so that depth and broaden the cooperation of economic. In order to facilitate exchanges between both sides, Shandong also could build some large-scale Koreans living areas which is designed, constructed, and managed completely according to the habits and lifestyle of Koreans. Let them feel at home.

In addition, at the same time we consolidate the existing cooperation also can expand cooperation to new field for example the news media and cultural services, business intelligence and information networks, clean energy, low-carbon economy, high-tech development and application, etc.

Through these substantive, operational activities, we can improve the mutual understanding of each other's culture, geography and social conditions. That contributes to encourage the sub-regional economic and trade cooperation to be more coordinated and in-depth.

## 1.2. Cooperation of agriculture

The trade frictions between Korea and China are mainly in agricultural products. Analyze from comparative advantage, labor costs is high in Korea, so the agricultural products are lack of

competitiveness. Agricultural products exports from China are much cheaper, very popular with consumers. Government of Korea repeatedly restricts agricultural products imports from China for various reasons. The Chinese agricultural exports to Korea, especially vegetables, poultry, mostly came from Shandong. Shandong became the biggest victim of trade friction between China and Korea (Yue, 2010).

At the same time we further enhance and improve quality of our product, the best way to resolve disputes is to build a mechanism of consultation and friendly negotiation on the basis of mutual trust and understanding. Abolish all trade barriers within the region, and stop all kinds of local protectionism disguised tariff. Implement the integration of enterprise system in sub-regional agricultural trade. Implement uniform quality standards and inspection and quarantine system to main export agricultural products. Implement facilitation terms to agricultural trade in the sub-regional; achieve visa facilitation, customs facilitation, and arbitration and litigation convenience.

## 2. Specific promotion measures

### 2.1. To Construct sub-regional financial system

At present, the financial cooperation between Shandong and Korea cooperation is a sluggish part in all their cooperation. However, only cash flow in areas of the sub-region cooperation unimpeded, whole advantage to manifest. We should start sub-regional financial cooperation mechanism, establish a sub-regional development bank and venture funds, come on stage sub-regional financing preferential policies and bilateral currency swaps mechanism, establish a foreign exchange borrowing exchange mechanism and sub-regional bond market, cultivating regional financial center.

### 2.2. To Build smoothly labor mobility channels.

Human resource is abundance in Shandong, while human resource is scarce in Korea. To achieve the optimal configuration of production elements, we should allow labor to form a relatively free flow mechanism in the principle of distribution according to work and by the function of wage rules. Therefore, we should take active measures to open various channels, encourage the rational flow of trained personnel. We should encourage the development of labor market, starting a wide range of talent exchange market within the region. Effectively regulate the labor supply and demand According to the function of market.

### 2.3. Integrate commodity markets within the region

The important symbol of the formation of Sub-regional economic circle is the flowing of goods and production factors across the region. Therefore, with a strong economic complementarity and spatial accessibility, whether the Sub-regional economic circle can become a reality or not mainly depends on whether the local governments allow goods and production factors to multinational flow in the circle and the degree of freedom. The fewer tariffs and non-tariff barriers are, the better for the transnational flow of goods and production factors will be and the better for the formation and development of sub-re-

gional economic circle. When further improving our trading system, we should built negotiation and consultation mechanisms on the basis of mutual understanding and trust. Abolish all trade barriers within the region, and stop all kinds of local protectionism and disguise tariffs. Speed up the construction of port and port- logistics support, opening up more convenient fairway connect Shandong to Korea. Implement the regional enterprise system integration, unify quality standards and inspection system. Implement the provisions of sub-regional trade to achieve visa facilitation, customs facilitation, arbitration and litigation facilitation. to establish a DC, free port in Qingdao, Weihai firstly, or to establish a common free trade zone, export processing zones with a port city in Korea ,or to establish a common cross-border economic zones at some time.

#### 2.4. Encourage the localization of Korea endowment enterprise

In recent years, rising exchange rate of RMB against the Korean WON could improve the investment income of Korean enterprises in China, which will change Korea's investment strategy. At the past time , Korean companies make Shandong as a simple production base .but now, they could gradually completed the whole process of for example local production, sales, distribution, and investment in Shandong, so to promote the localization of Korean enterprises.

## V. Conclusion

Shandong has common interests with Korean economic and trade cooperation and it has been equipped with prominent external environment and industrial advantages in sub-region cooperation. We can create an open, loose and flexible cooperation mechanism. Its function is adhering complement each other, equality and mutual benefit, long-term perspective, seeking common ground, gradual and orderly and the easier issues first, get common prosperity at last. We can expand cooperation to fields for example the cooperation of manufacturing sector, the cooperation of service, the cooperation of agriculture and so on. Some specific promotion measures can be applied, for example, to construct sub-regional financial system, to build smoothly labor mobility channels, to integrate commodity markets within the region, to encourage the localization of Korea endowment enterprise, etc.

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