

[Field Research]

# Study on Logistics Industry Cooperation between Shandong and South Korea

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## Abstract

**Purpose** - The objective of the paper is to explain the economy and trade development between South Korea and Shandong, strengthening logistics industry cooperation of both sides increasingly important.

**Research design, data, methodology** - The study conducted a survey on Shandong is the earliest economy and trade exchanges with South Korea in China. Shandong and South Korea share the similar geopolitical, the same culture and long exchange history etc.

**Results** - This study explores current situation and existing problems the logistics cooperation between Korea and Shandong, and recommends so as to further trade between two sides.

**Conclusions** - Logistics cooperation of China and South Korea is an important part of the international logistics cooperation in Northeast Asian Economic Circle, and the logistics cooperation between Shandong and South Korea occupies an important position in logistics cooperation of China and South Korea.

**Keywords** : Logistics Industry Cooperation, Shandong, South Korea.

**JEL Classifications** : F23, N15, P13.

## 1. Introduction

Diplomatic relations between China and South Korea having been for 20 years, the two countries trade demand sustains strong, the trade cooperation expands unceasingly, the trade field develops constantly and the trade level increases continually. According to some data, the total trade between China and South Korea is 213.92 billion dollars in 2011.<sup>1)</sup> South Korea is the third largest trade partner and largest foreign direct investment source of China. As the strong economy and open province of China, Shandong has a good trade with South Korea, and trade increases year by year. Now, South Korea has become the second largest foreign investor and the third largest

trade partner of Shandong province. The breadth and depth of trade cooperation expanding between Shandong and South Korea brings more and more logistics needs, and effectively promotes the collaboration of the logistics industry. The logistics cooperation has a wide prospect in both sides. Therefore, the study on logistics cooperation of Shandong and South Korea is of great significance.

## 2. The conditions and advantages of logistics cooperation of Shandong and South Korea

Shandong is the earliest economy and trade exchanges with South Korea in China. Shandong and South Korea share the similar geopolitical, the same culture and long exchange history etc. These bring solid foundation for the logistics cooperation. Being complementary advantages in the logistics infrastructure, technology equipment, management system and talents and so on, both sides have wide cooperation space.

### 2.1. Logistics cooperation condition being superior

There are developed land, sea and air transport in South Korea. Shandong and South Korea faces each other across the sea. Weihai is nearest city of China away from South Korea, and the sea straight-line distance is only 93 nautical miles. Strong location advantages in both sides decide the cost of logistics cooperation is low. Developing logistics cooperation can not only save transportation cost, but reduce the transit links to produce "close effect". Being the real fast, convenient and sufficient "Traffic Corridor", Shandong transportation network has been improved gradually, the logistics transport routes going everywhere, and comprehensive transportation system having initially formed including railway, highway, water and air transport. There are nearly 200 International flights flying to South Korea per week in Jinan, Qingdao, Yantai, and Weihai, Qingdao to Seoul air flight being even more than to any other cities of domestic flights. There are 8 passenger and cargo liner routes from Shandong to South Korea, taking up 53% of the ones between China and South Korea.<sup>2)</sup>

With intermodal automobile cargo transportation opening channels in Qingdao, Rizhao, Yantai, Weihai, Longyan and Shidao of Shandong Province in mid-November 2011, both sides can reach each other from Longyan to Dashan port in 3-5 hours, bringing more con-

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1) The Economic and Commercial Counselor's Office of the Embassy of the People's Republic of China in the Republic of Korea, Import and Export of South Korean and bilateral trade of China-ROK in 2011.

2) Shandong Coastal Port throughput Broke Through 900 Million Tons, inhumane, [http://www.sd.xinhuanet.com/gh/2011-12/21/content\\_24382794.htm](http://www.sd.xinhuanet.com/gh/2011-12/21/content_24382794.htm)

conveniences for logistics cooperation and personnel exchanges of Shandong and South Korea.

## 2.2. The governments of Shandong and South Korea attaching great importance

The two governments attaching great importance to and actively supporting the logistics cooperation and development is very important. Since Weihai-Inchon "Golden Bridge" was navigable in September 1990, international sea and air routes such as Weihai to Pusan, longyan to Pyeongtaek, Shidao to Pusan,, Yantai to Seoul, Qingdao to Pusan and Daegu, Weihai to Seoul and so on gradually have being open, and greatly promote deeper development of the logistics cooperation of both sides. In September 2010, the People's Republic of China and the Republic of Korea signed "Car Cargo Transport of Land and Sea Transport Agreements " and its first stage implementation protocol in Weihai. Vice governor Cai Limin of Shandong Province attended the signing ceremony. With Shandong setting up a special implementation leadership group, holding a special meeting to conduct the research and deployment, the transport sector strengthening communication and coordination, and Customs, Border Control, Port Inspection and Quarantine Departments working together, the relevant preparatory work of the channel opening is achieved. In December 2010, car cargo transport of land and sea transport first opened in Weihai. This is not only the first land and sea transport automobile transportation project with more developed countries, but also the first international transport by way of land and sea transport in China, creating the first cross-sea international automobile cargo transportation. It will greatly improve the efficiency and quality of Shandong-South Korea's transport, improve export commodity structure and circulation, increase product competitiveness and market share, speed up the modern logistics industry development, and promote the development of Shandong Peninsula Blue Economic Zone.

Shandong provincial government is also actively going out to strengthen the logistics cooperation with South Korea. In August 2010, the Standing Committee of the Shandong Provincial Party Committee, vice governor of Shandong Province, Wang Junmin led Shandong Harbor delegations to South Korea for a friendly visit. The delegations investigated Incheon, Busan and other ports, held "Shandong Government·South Korea Logistics Companies Association", and negotiated such cooperation topics as land and sea transport of Shandong and South Korea, the development of modern logistics, port information and so on. Shandong and Incheon City reached consensus on the land and sea transport promotion mechanism, and made actual progress. In September 2011, Inspector Meng Jianxin of Department of Commerce of Shandong heading logistics and service outsourcing delegation visited South Korea and well-known logistics Hanjin warehousing etc, which increased mutual understanding between the enterprises of both sides and made South Korean enterprises and relevant organizations closer.

## 2.3. Logistics enterprises actively seeking cooperation

With the further development of economic and trade cooperation of Shandong and South Korea, logistics enterprises also take positive actions to cooperate mutually, and boost the logistics cooperation of the two sides gradually moving towards a new level. Since Hanjin shipping set up the logistics branch in Qingdao of Shandong in 1995 for the first time, there have been a number of large logistics enterprises to invest Shandong or have joint venture and cooperation With Shandong enterprises. In 2000, Korea Express set up offices in Shandong. In 2002, the Shandong Transportation Logistics Company cooperated with South Korea's LG Logistics Co., Ltd.. In June 2005, Qingdao Transport Group and the Hanjin Group, one of the world's top 500, held a signing ceremony to set up joint venture logistics enterprises. In March 2008, the Postal Courier Company and Pan Asia Logistics Co., Ltd. signed a cooperation agreement in Yantai, and both sides will cooperate in express cargo and delivery service areas. In June 2011, Shandong Qingdao Port, Rizhao Port, Yantai Port and Weihai Port and South Korea's largest port Busan, signed strategic alliance operation rules in order to build an international logistics hub and shipping center in Northeast Asia together. In November 2011, transportation leading enterprises of Shandong Province, Shandong Transport Group, together with Fortune 500 companies South Korea's Hyundai Group, joined forces to enter the land and sea logistics business based on import and export container. In 2012, Shandong Shipping Companies began to cooperate with South Korea's SK Group, which is committed to concern maritime, special boat transportation, fleet, construction, joint venture and cooperation etc.

When South Korea logistics enterprises entered Shandong at the same time, having much strength and business needs in Shandong, the production, circulation, and logistics large enterprises such as Haier Group, Qingdao Yulong Logistics, Qingdao Ocean Large Logistics companies and so on also actively go out to cooperate with South Korea logistics enterprises, integrate into whole process of the enterprise producing, supply and marketing ,carry out bilateral business, and preliminarily form the market competition pattern of two-way interaction in all kinds of logistics enterprises of the two sides.

## 2.4. Associations etc. promoting cooperation

International logistics industry associations, academic groups and intermediaries of Shandong and South Korea are bridges connecting the government and logistics companies. The logistics activities of governments and enterprises every time are related to logistics association participation and support. These industry organizations played an important role in communicating government, reflecting industry appeals, developing international exchanges and cooperation and leading the industry development etc. In March 2006, China-South Korea International Logistics System Conference sponsored by China Communications and Transportation Association and the Northeast Asia Economic Forum was held in Weihai City. Nearly 100 representatives of two countries' political, commercial and academia com-

munities gather together to discuss international logistics system development of China and South Korea and construction of China-South Korea Railway Ferry Project. Shandong Industry and Commerce Federation, Shandong Information Commission, Shandong Finance and Economics University and Korea Central University jointly organized the first China-South Korea high-level logistics seminar in November 2011 in Jinan, well-known scholars and entrepreneurs of China and South Korea delivered a speech on the history of China's logistics policy development, logistics development in Shandong Province, South Korea logistics development model and economic development research of China and South Korea. China and South Korea have reached consensus that the seminar will be an annual session and held alternately in China and South Korea. Logistics symposium provides a good communication channel on Shandong-South Korean logistics cooperation, builds a broad platform for technical exchanges, promotes the process of logistics technology, helps to improve the efficiency of logistics and logistics service quality, and realizes the added value of high-tech logistics products.

### 3. Logistics cooperation of Shandong and South Korea existing problems

Although governments, enterprises and associations built the bridge and communication platform for logistics cooperation of both sides, some real difficulties and problems of logistics cooperation are needed to overcome. Main show is as follows:

#### 3.1. The logistics standard being not unified

Standardization is the foundation and the key of the logistics development. Japan and South Korea realized the logistics unification about 30 years ago. The logistics industry in China starting in the mid-1990s, various sectors and departments lacked of coordination mechanisms, developed their own standards from the characteristics of the department. This is not only a lack of unity among departments, but also with the international derailment. Pallet, for example, the most commonly used as modern logistics and material handling apparatus, whether the standard unified directly impact on all the logistics supply chain. China now doesn't have pallet national standards and makes the pallet specifications chaos. Pallet standard is not unified, so the cargo can not be uniformly displayed and matched with transport vehicles, warehouses, container and so on. The operations can not be mechanized, and void labor be increased. Inspection and quarantine standards, measurement standards and technical standards are lack of uniform ones in international circulation. The non-standardization cause invalid operation increase, the logistics efficiency reduce, the cost of logistics rise, and logistics enterprise benefit damaged. Goods speed and circulation quality between Shandong and South Korea are affected to some extent.

#### 3.2. Logistics information level being low

Using information technology is the key to the development of the logistics industry, but the backward of modern information technology application has become the main technical bottleneck of logistics development of both sides. At present, logistics information technology application of Shandong is in low popularity. The traditional management is still dominant, and many logistics enterprise is still in low-level stage such as telephone contact, manual operation and labor handling. Modern information technologies such as the bar code technology, radio frequency technology, EDI technology (by electronic means, using a standardized format, data transmission and exchange with the computer network), the global satellite positioning system and so on are not fully applied, not to mention form a complete logistics supply chain, which resulted low efficiency and high cost of logistics. Logistics information infrastructure standards of enterprises, inter-industry and inter-region being lack, the various transport being not effective connection and logistics information having been not shared results in information asymmetry between logistics companies and manufacturing enterprises. Information communication is not smooth, causing inventory large and capacity wasteful.

#### 3.3. High quality logistics talents being short

The development of logistics enterprises abroad practice shows whether logistics practitioners having a higher level of logistics knowledge and operational experience directly affect the enterprise's survival and development. Now the logistics industry of Shandong are lack of talents. The staff overall cultural level are low, and they are mostly at zero starting point and learning by doing. They rarely have formal logistics education experience, and high level logistics talents are less. This causes the logistics personnel demand exceeds supply. The lack of qualified logistics personnel leads to the low logistics management and service.

#### 3.4. Trade frictions leading to the unstable logistics cooperation

Shandong and South Korea trade has developed rapidly in recent years. The economies of two sides are highly complementary, and South Korean goods are more competitive. Trade deficit having existed between Shandong and South Korea may affect the healthy cooperation and development of bilateral trade, which might ultimately affect logistics development of both sides. In addition, South Korea use such tariff barriers as elastic adjustment ones "special protection clause" on import and export commodities, especially on agricultural and sideline products, such non-tariff barriers as varying technical trade barriers, inspection and quarantine measures, and anti-dumping and other means on imported products, and such media speculation on agricultural safety events and so on. These hinder Chinese goods to enter the South Korean market, result in bilateral trade friction, cause products and enterprises of Shandong face enormous pressure, and directly affect the normal development of bilateral trade, and this is bound to unsmooth cooperation in the logistics field.

## 4. Suggestions on further expanding logistics cooperation of Shandong and South Korea

Logistics cooperation of China and South Korea is an important part of the international logistics cooperation in Northeast Asian Economic Circle, and the logistics cooperation between Shandong and South Korea occupies an important position in logistics cooperation of China and South Korea. At present, there are more than 10,000 Korean enterprises in Shandong, and friendly cooperation of bilateral economy science, technology, culture, education, tourism and other areas goes deeper. Promoting the logistics development of Shandong and South Korea actively can improve the degree of the logistics internationalization of Shandong and South Korea, promote international logistics and supply chain development in Northeast Asia, and lead the economy and trade cooperation between China and South Korea to develop deeply.

### 4.1. Building logistics network between Shandong and South Korea

Building logistics network of Shandong and South Korea can help healthy and sustainable logistics development, which requires a large number of joint participations of governments, industry associations, enterprises etc. First, the two governments of Shandong and South Korea should actively support and promote to build a logistics network. Promotions and supports of the two governments on logistics cooperation is the organization security of logistics network establishment. In order to promote comprehensive, coordinated and sustainable development of the logistics cooperation, both governments should also develop the logistics co-development plans, refine the logistics policies and regulations within the region cooperation, provide financial support of integrated logistics and favorable macro environments for the construction of the logistics network. Second, give full play to the role of the logistics associations and intermediary organizations. Associations and logistics intermediary organizations are bridges and links between the governments and enterprises, which can reflect the aspirations of the enterprise to the government and communicate the government's policy to enterprises. The development of the logistics network can promote through logistics associations and intermediary organizations involved in the overall planning of the logistics network and logistics industry standards, etc. Third, make sure the leading role of logistics enterprises in Shandong and South Korea. The logistics infrastructure, transport and logistics node of both sides are the basic premises and conditions of the efficient operation of the logistics network and have an important impact on logistics efficiency and speed. Therefore, it is necessary to play the role of leading for logistics enterprises in Shandong and South Korea to promote the healthy development of the logistics network of both sides further.

### 4.2. Coordinating intergovernmental cooperation

In order to make logistics coordination and cooperation of Shandong and South Korea seamless, the two governments play an

invaluable role. Both sides should use the advanced logistics concepts, take the goal of common development of logistics cooperation and build logistics cooperation mechanism between the two governments, which is an important guarantee for steadily and sustainable development of logistics cooperation. It is recommended that the two governments actively build a platform of investment and financing to enhance the intensity of financial and fiscal support in order to promote major infrastructure construction, key projects development and an important resource integration of the logistics cooperation etc. The free flow of resources is very important to promote the development of the logistics industry of both sides, so we recommend perfecting logistics parks, developing third-party logistics, and implementing facilitation of trade and logistics investment to promote the logistics cooperation and development of both sides.

### 4.3. Strengthening logistics standardization cooperation

Logistics Standardization is the essential foundation and key in international logistics cooperation, therefore, both sides should reinforce the establishment of the logistics standard system as soon as possible. Logistics standard of Shandong is inconsistent with South Korea'. As Shandong and South Korea cooperate on logistics, both parties should further strengthen logistics standardization technical cooperation and vigorously promote the logistics cooperation model and gradually integrate with the international logistics standard. It is also important to accelerate the development of the logistics industry, and further expand the space and potential of international logistics cooperation. Shandong and South Korea pallet specifications and standards are not uniform. This cannot be with international standard, and increase the costs of the export. Therefore, Shandong and South Korea should strive for the early establishment of a logistics standard system. We recommend taking the APP system. The APP system is a common logistics system by leasing T-11 standard pallet to share pallet together between Korea and other Asian countries. A standardized pallet load and transport the goods being loaded by pallet. At the same, both sides should speed up the logistics machinery to standardize operations, and try to get the continued protocol such as removing the national tariff for mutual logistics machinery.

### 4.4. Intensifying the logistics network construction

The information is the soul and the technical support of logistics network operations. Information and goods flow are complement with each other. Only to establish a logistics information network in the region, the logistics development direction and characteristics can be clear. Thus the mutual communication of logistics information between Shandong and South Korea is the most important part of the logistics cooperation. Shandong and South Korea should integrate various effective information resources, pay close attention to building international logistics information platform. Only by strengthening the building of information networks within the region, setting up the perfect information express among logistics centers, and realizing the information seamless connections and communications of commerce enterprise, customs, banks, shipping companies, agents, transportation

companies etc, the realsmooth flow of logistics may be achieved. Shandong and South Korea should integrate a variety of useful information resources, pay close attention to building an international logistics information platform, implement technology-driven information, and establish a sound e-commerce certification system, on-line payment system and logistics distribution system. To standard the international logistics market as soon as possible, both sides should integrate the networking information platform and data exchange, promote logistics information resources such as transport, storage, and commodity trading transmission and sharing between Shandong and South Korea, play the scale and network effects of information, help logistics enterprises to improve operational efficiency ,reduce logistics costs, and advance the close cooperation of the two sides.

#### 4.5. Training high quality talents

Talents are an important factor to develop modern logistics for many countries. Both sides should strive for closer cooperation in personnel exchanges and train talented logistics persons to speed up the development of the logistics. First, colleges and universities should actively conduct academic exchanges and education cooperation. Universities of Shandong and South Korea can be joint, open an international logistic management expertise, and cultivate real talents to meet the logistics cooperation in Shandong and South Korea. Education way is that South Korea Universities select students along with Shandong Universities, then implement two-year cross education respectively, and at last study to the other school with each other. Take Shandong, for example , students of University 1,2-year study the basic knowledge such as Korean ,trade and logistics in Shandong, then University 3,4-year learn specialized courses such as trade, the logistics of South Korea. The purpose of the implementation of university education is to train logistics personnel needed by Shandong and South Korea. Second, strengthen the cooper-

ation between schools and logistics business. From the university and employment training, the establishment of extensive contacts of the universities, logistics enterprises and logistics research institutions are important. Logistics majors have the chances to go to practice in logistics enterprises, logistics enterprises also can entrust universities' or research institutions'strength to train enterprise staff. Third, actively explore professional qualification certification. By doing so, Shandong and South Korea can cultivate talents of the logistics cooperation of both sides.

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