

The Future Direction of and Issues Relating to the Northeast Asia Transportation System

(Summary)

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1 A new era emerges

Northeast Asian countries, excluding North Korea (DPRK), have adopted a market economy, though most functioned as planned economies one or two decades ago. Fundamental economic policies to develop the national economy are mostly common among the countries; that is, policies aimed at establishing the prosperity of the national economy through the promotion of international trade. In addition, we can see signs that the DPRK is beginning to march in step with neighboring countries. Thus, Northeast Asia has moved in recent years from an era of tension to one of international interaction. The Russian Far East has established an economic environment in which the expansion of international trade with Pacific-Rim countries can actively be pursued. In the near future, Northeast Asian countries will cooperate with one another to increase their international trade. If such a movement gathers momentum, Northeast Asia will proceed to attain economic prosperity throughout the region.

Whether or not it is possible to establish friendly relationships for such cooperation depends upon the possibility of establishing cooperation among entrepreneurs in these countries, who will play a major role in international trade. Accordingly, to accomplish the aim of the above economic policy, it is necessary to promote the interaction of private firms in those countries. In addition, their societies must have greater transparency vis-a-vis the international community, in order to ensure a reliable relationship. With the emergence of a new era, the institutions, social customs and habits of the old era have to be improved or eliminated.

2 The growth of the East Asian Economic Prosperity Zone and its formula for success

The southern half of East Asia (Southeast Asia, hereinafter called the East Asian Economic Prosperity Zone: EAEPZ) has already entered an era of high economic growth. It is of great importance that the fervent economic activity in the Zone extends to

Northeast Asia.

The economic progress of the Zone began with the take-off of Japan in the 1960s. Following Japan, NIES (Korea, Singapore, Hong Kong, Taiwan) in the 1970s, ASEAN in the 1980s and China in the 1990s took off and enjoyed high economic growth. The style of this sequential take-off at one-decade intervals looks like the take-off of geese. Thus, its style has been described as the "flight of wild geese" formula.

The Japanese method of attaining high economic growth was to construct heavy industry parks in coastal areas, where raw materials imported from overseas by ship were used in manufacturing and the finished products exported all over the world, eventually allowing foreign currency to be earned. The method employed by NIES in the 1970s involved labor-oriented foreign companies importing raw materials, manufacturing finished products with cheap labor and ultimately exporting those products. In the process of their sequential activities, employment and investment in related fields were generated. As a result of the accumulation of such effects, the principal industry gradually switched from a labor-oriented one to a more advanced one. These phenomena were common to the success stories of other regions. Every case shows that coastal areas with ports provide a suitable place for high economic growth, and that regional economic prosperity was attained through international trade.

At present, the world is becoming globalized. Labor-oriented industry is looking for production sites throughout the globe, pursuing ever-cheaper labor forces. Therefore, the economic growth formula in East Asia has still been useful. I think Northeast Asia can enjoy the same benefits as those enjoyed by the EAEPZ through applying the same formula to the region.

Japan built many production sites in East Asian countries during the formation of the EAEPZ. As a result, the trade volume between Japan and those countries has expanded greatly.

3 The present situation of the Northeast Asian transport system

3.1 The current transport situation in Northeast Asian continent

In China and Korea, road and air transport have expanded rapidly in recent years, as shown in the figures below. Needless to say, related social infrastructures have also been built in accordance with demand.

In the Russian Far East, the actual demand volume of land and air transportation remains sluggish in comparison with that in the 1980s. The situation has been the same with SLB transport.

In the DPRK, industrial infrastructure, including traffic facilities, has not been well maintained because of severe budget constraints.

In Mongolia, the transport volume of land and air transportation remains sluggish compared with capacity.

3.2 The current cross-border transport situation

The volume of cross-border traffic has developed steadily. This is evidence of the establishment of peaceful relationships among continental countries.

3.3 The current maritime transport situation

Two of the world's three maritime trunk routes for container cargo have their points of origin or destination in East Asia. Vessels traveling these two trunk routes call at major ports, all of which are located southwards of Japan. Ports facing the Japan Sea (including Russian ports) are connected with Pusan Port through feeder routes that diverge from the trunk routes at the port. This divergent network, which is called the Pusan hub network (example shown below), is a maritime route operated by Korean merchant vessels. It covers most of the Japanese ports and extends to Russian ports. Japanese merchant vessels have a large maritime network in Southeast Asia but are comparatively less active in Northeast Asia.

4 The future direction of and issues relating to the Northeast Asian transportation system

4.1 The future direction of economic development in the Russian Far East

- 1) I believe that the above-mentioned EAEPZ formula can be applied to the economic development of the Russian Far East (abbreviated as RFE). In this context, Primorsky Krai will play a principal role in its development. In order to achieve economic progress, it is necessary to establish a specific economic trade zone, for example, a free trade zone, for attracting foreign companies, and to make laws and regulations protecting the profits of foreign firms and ensuring their reliable operation. In addition, incentive measures, such as tax exemption for a certain period, should be introduced.
- 2) We can see, in the RFE, many elements that will produce fruitful results in conjunction with Japanese ones. The RFE has many economic

resources that are scarce in Japan. On the other hand, Japan has many things that are scarce in the RFE. Therefore, I think it is possible to implement mutual assistance projects between the two countries.

- 3) In order to cultivate natural resources, such as mineral and forestry ones, a great deal of road construction is required. In the near future, such construction work will increase to a great extent and the "construction age" will emerge. In addition, the principal exported goods will move up from the raw material level to the processed level.
- 4) Tourism will play an important role in accumulating the wealth necessary to the development of the RFE.

4.2 The economic development of inland countries and regions

Mongolia and some regions, such as northeastern China, are landlocked. In the near future, a project creating new access routes to the Japan Sea will be promoted to overcome this problem.

The aim of this project is to build new access routes connected with ports facing the Japan Sea, which function as international gateways to the northeastern provinces of China. The ports of neighboring countries have to be used as gateways. Inner Mongolia in China and the independent country of Mongolia will also reap great benefits from the project. Through the routes, Japan and the US will become closer to those landlocked regions than before. However, up until now there has been very little cargo transported between Japan and those regions via these routes.

Some requirements essential to the realization of the project:

- 1) Since one of the aims of the project is to attract foreign investment to northeastern China, a social and institutional system regarding the acceptance of foreign investment in China must be established.
- 2) Safe, reliable and fast cross-border transport must be guaranteed.
- 3) The access corridor to the Japan Sea must function as an international transport route with facilities conforming to international standards.
- 4) Competitiveness with its opponent, the Harbin-Dalian corridor, must be ensured.

Important issues relating to the project are as follows:

- + What kind of advantages or profits can the RFE gain from the project?
- + An examination of how to maximize the benefits gained from the project for RFE has to be undertaken.
- + Research on integrated regional development with regard to the Hulan district has to be carried out.
- + A path to co-existence and co-prosperity between Primorsky Krai and the northeastern part of China has to be paved.

4.3 Development of the Eurasia Land Bridge

(1) SLB

SLB demand has to be promoted at present. For this to be accomplished, it is necessary to create a new transport system in which many customers wish to make use of SLB transport.

From this viewpoint, issues to be examined in comparison with the North America Land Bridge (abbreviated as ALB) include:

- 1) SLB should aim for intermediate cargo between air cargo (time sensitive) and maritime cargo (cost sensitive). In order to acquire the intermediate cargo, the SLB has to run faster than its present speed of 36km/h. The cargo train of the ALB runs at a speed of 50km/h. The minimum necessary speed for the SLB is gained from the calculation that SLB travel time, for example between Tokyo-Moscow-Hamburg, should be faster than that of all-water transport via the Suez Canal (Tokyo-Suez-Hamburg). The following figure shows the calculation method.
- 2) It is necessary to create competitiveness in the SLB transport system. At present, the system consists of one railroad company, one port operator and one shipping company in the case of transport between Japan and Europe. This means no competition.
- 3) Maritime transport companies (shipping lines) should be urged to participate in SLB transport. They can deal with the reverse container problem that is one of the major reasons for the present high cost of travel between Japan and Europe via the SLB. Ultimately, it is hoped that the all-water transport service and the SLB transport service will be integrated by the maritime transport companies under the demarcation mentioned above in 1).

(2) The China Land Bridge (abbreviated as CLB)

The volume of cargo transported via the CLB between Japan and Europe is believed to be very small, but there is no clear data. However, cargo is transported to some extent between Japan and Central Asia via the CLB. The CLB will be a tough competitor for the SLB in the field of transport between East Asia and Central Asia.

(3) The Asian Highway

ESCAP's Asian Highway routes are situated to the south of the CLB. From the viewpoint of Northeast Asian development, another Asian Highway should be considered at a location to the north of the CLB. The road extending along the Trans-Siberia Railway will be a candidate for a new Asian Highway route. Another candidate route is one via Ulanbaatar-Choibalsan-Changchun-Tumen River Area.

4.4 The improvement of trade corridors in Northeast Asia

We have identified nine trade corridors in Northeast Asia. These corridors are routes connecting inland areas and international ports. In order to promote international trade in Northeast Asia, these trade corridors have to be improved as international trade routes. Most trade corridors extend over borders, where transport

efficiency usually shows a remarkable drop. However, in the case of trade corridors, the fall in efficiency should be restricted as much as possible. For this purpose, unified technical standards for improvements, unified management and operational rules are required. In addition, taking into account the necessity of huge sums of money for the improvement of the corridors, a joint finance system, participated in by the countries and international finance agencies concerned, should be introduced. In Europe, a similar movement has already started, aimed at the improvement of routes between West and East Europe. In Northeast Asia, research on trade corridors has been carried out by ERINA on an NGO basis. In addition, a joint governmental study on the same theme has been initiated, involving Japan, Korea and China.

4.5 Prospects for a maritime transport service

(1) International car-ferry transport

With the development of the RFE's economy and with the realization of the access route project to the Japan Sea in northeastern China, the international division of labor and industry between mainland Northeast Asia and Japan will expand. As a result, transport demand between Vladivostok and Niigata will increase, and a frequent maritime transport service will be required, taking into account the fact that time is money.

An international car-ferry service should be a suitable solution to these needs. We can see many international car-ferry routes on the Mediterranean Sea and the North Sea. Even in Japan, domestic car-ferry transport plays a major role in Japanese domestic cargo transportation. In Northeast Asia, there is only one international car-ferry route, between Japan (Shimonoseki) and Korea (Pusan). Automobiles from both countries can be taken to the other country by ferry and their owners can enjoy driving throughout the country. There are limitations on truck transport, and only cargo trucks carrying live fish (food transported to Japan) are specifically permitted to enter the other country. However, this car-ferry provides a very convenient daily service. Therefore, consigners and consignees in Tokyo, a long way from Shimonoseki, make use of the route, when necessary, to achieve prompt delivery, and the cargo volume is considerable, in spite of the very high cost of road travel between Tokyo and Shimonoseki in comparison with the weekly all-water transport service.

This shows that Shimonoseki Port has a large hinterland, which implies that the introduction of an international car-ferry between Niigata and Vladivostok may attract cargo from throughout Japan. We have carried out a demand forecast and financial analysis. As a result, the most realistic program is to procure a secondhand car-ferry-type vessel through a lease deal. Negotiations for the establishment of the car-ferry route should be initiated between both countries.

(2) Vostochiny Port hub network vision

Many regional Japanese ports are connected with

world trade via the Pusan hub network. From those ports, a large volume of freight is exported to North America and conversely, a considerable quantity of cargo imported from North America is handled at them. Accordingly, if Vostochiny Port can have a container liner route to North America and provide a high quality service for consignors and consignees, it is possible that Japan-related firms will prefer new routes to the existing one. At this time, Vostochiny Port can function as a central port like Pusan Port. In this context, the transport service provided by Vostochiny Port has to be competitive with that of Pusan Port.

Korean container vessels directly connecting Pusan and Seattle pass through the Tsugaru Strait (Japan). This shows that, with regard to the distance up to the west coast of North America, the Vostochiny route is shorter than that from Pusan. Whether or not Vostochiny Port can grow to occupy a central position in Northeast Asia depends upon making the most of the advantage in terms of distance.

(3) Container liner routes directly connecting North America and Niigata

Niigata Port is one of the foremost ports on the Japan Sea and is a gateway to the continent for the Japanese metropolitan area. There are many factories located between Niigata and the metropolitan area, which send container cargo to/receive it from North America. Most of that container cargo has been handled at the seaports of the metropolitan area until now.

However, the distance between Niigata and the west coast of North America is a bit shorter than that between Tokyo and the west coast. In addition, truck transport charges in Japan are very expensive in comparison. Therefore, many entrepreneurs in Niigata are enthusiastic about the establishment of a direct route to ports on the west coast in order to maintain international competitiveness. If their dream were realized, transship transport of cargo from Japanese regional ports that currently goes via Pusan Port may shift to Niigata transship transport, allowing Niigata to compete with Pusan.