Conference Papers

Editor's Note:
The three articles in this section were originally prepared for and presented at an international conference on Regional Development in the Yellow Sea Rim, in February 1991, in Seoul, Korea. The conference was part of a two-year collaborative study on regional development in the Yellow Sea Rim, involving researchers from China, South Korea, the United States, and Japan. The study was organized by the East-West Population Institute of Hawaii and supported by many research institutions and government agencies in China and the Republic of Korea. In particular, the State Science and Technology Commission of China and the Korea Research Institute for Human Settlements are acknowledged for their generous support.

TRADE BETWEEN BOHAI OF CHINA AND KOREA: AN INTERNATIONAL PERSPECTIVE

Keun Lee and Chung H. Lee

This article investigates the current state and future prospects of trade between South Korea and China, with a focus on China's Bohai region. First, it compares basic economic profiles, including trade patterns of China, Bohai, and Korea. Then, it explores trade prospects between these economies using the aid of the indices, such as export similarity and trade complementarity. The article also examines the trade creation and diversion effects of trade between Korea, China, and Bohai during the last decade, and, finally, presents alternative future trade projections.

I. INTRODUCTION

In the late 1970s the People's Republic of China (PRC) instituted various economic reforms, adopting an open-door policy as part of its reform measures. It even began indirect trade with the Republic of Korea (henceforth Korea), a country with which it had not had any relationship for a long time. Trade between the two has been increasing ever since, and according to one estimate the value of trade (exports plus imports) reached 9.2 billion Hong Kong dollars in 1987 (Zang 1988). PRC exports to Korea are commodities such as textile fibers and yarn, metal ores and nonferrous met-

Keun Lee is a research fellow at the Institute for Economic Development and Policy of the East-West Center, Honolulu, Hawaii.
Chung H. Lee is a professor of economics at the University of Hawaii at Manoa and research associate at the Institute for Economic Development and Policy of the East-West Center. He is also author of The Economic Development in Japan and Korea (Praeger 1990) and Trade and Investment in Services (Westview 1988).
als, various animal and vegetable products, corn, and coal. In return Korea exports manufactured products such as artificial fabrics, paper products, steel, organic chemicals, television sets, and various machinery and equipments.\textsuperscript{1} There has also developed a vertical division of labor between the two, with Korea supplying synthetic fabrics and yarns to Chinese weaving mills. Reportedly, there is now direct, albeit unofficial, trade between Korea and the PRC; according to one estimate it accounted for about 34 percent of total trade between the two in 1987 (Yun, 1988).

According to the PRC’s coastal development strategy, each coastal region is to be matched with a particular foreign economy or region in its trade and investment relations (Zou and Ma, 1989). For instance, the Fujian delta is to be linked with Taiwan, the Zhujiang delta with Hong Kong and Macao, the Changjiang delta with Japan, the Hainan island with the ASEAN countries, and finally the Liaoning-Shandong peninsula with Korea. The purpose of this article is to look into the economic effects of one such arrangement—the link between the Bohai region of China (henceforth Bohai) and Korea. Specifically, the article will investigate the current state and future prospects of trade between Bohai (provinces and municipalities of Hebei, Liaoning, Shandong, Tianjin, and Beijing) and Korea.

There are several reasons for trade between Bohai and Korea to expand rapidly once a formal trade relationship is established between the two countries. First, Bohai and Korea are close to each other geographically and thus trade between the two can save on transportation costs. Second, Bohai may find imports from Korea—consumer as well as capital goods—more appropriate as they are technologically more advanced than other regions of the PRC but not as advanced as the West or Japan. Third, Korea may find Bohai a good source for raw materials and inexpensive consumer goods.

Section II briefly introduces basic economic profiles of Korea and Bohai including their trade patterns. Section III then explores trade prospects between the two with the aid of the index of export similarity and the index of trade complementarity. Section IV looks into the trade creation and diversion effects for the 1981–88 period and section V presents two alternative projections for the expansion of trade between Bohai and Korea. Section VI concludes the article.

\textbf{II. ECONOMIES OF KOREA AND BOHAI}

Table 1 presents some of the basic economic data of Korea and Bohai. In 1986 Korea’s GNP and per capita income were $95.1 billion (unless specified otherwise all the figures are in U.S. dollars) and $2,287.8, respectively, while Bohai’s GNP and per capital income were $63.1 billion and $333.6, respectively. Thus, while Korea’s GNP was only 1.5 times larger than Bohai’s, Bohai’s per capita income was only one-seventh of that of Korea as its