2024 Trilateral Economic Report

Table of Contents

Foreword

Lee Hee-sup

Secretary-General
Trilateral Cooperation
Secretariat

On behalf of the Trilateral Cooperation Secretariat (TCS), I am delighted to present the 2024 Trilateral Economic Report (TER), one of the flagship projects of the TCS. Since its inception in 2013, the TER has provided annual updates on the macroeconomy of the People's Republic of China, Japan, and the Republic of Korea (CJK), examined trilateral economic relations, and offered policy recommendations to the three governments.

This year, the theme of the report is "Celebrating 25 Years of Trilateral Cooperation: Exploring Regional Economic Integration and the Future of Trilateral Cooperation". Regional cooperation in East Asia has been institutionalized and developed under the ASEAN+3 framework, which was launched in 1997 in the wake of the Asian financial crisis. The trilateral cooperation among CJK began in 1999 and was further strengthened and institutionalized with the launch of the Trilateral Summit in 2008. The latest 9th Trilateral Summit, held on May 27, 2024, reaffirmed CJK's commitment to implementing the "Trilateral Cooperation Vision for the Next Decade" adopted at the 8th Trilateral Summit in 2019, which outlines the three countries' long-term goal of achieving regional economic integration. Furthermore, the "Trilateral + X" cooperation, introduced and endorsed at the last two summits, aims to extend the benefits of trilateral cooperation to other countries, fostering shared prosperity.

The growth rate of CJK GDP per capita was 4.4% in 2023. The CJK share of world GDP has been on the rise for the past decade, reaching 24.1% in 2023. Moreover, the trade volume between ASEAN and CJK reached USD 1,238.9 billion

in 2023, comprising a significant portion of ASEAN's total trade volume at 34.9%, highlighting the substantial economic linkage among ASEAN+3.

Reflecting the spirit of the latest Trilateral Summit, the 2024 TER, in collaboration with eight distinguished economic scholars from CJK and ASEAN, delves into the region's latest economic performance, with a particular focus on the post-COVID-19 era. This year's report also analyses recent developments in regional economic frameworks in CJK and ASEAN, such as the Regional Comprehensive Economic Partnership (RCEP), which represents the first-ever economic partnership agreement including CJK, and the Comprehensive and Progressive Agreement Trans-Pacific Partnership (CPTPP) initiated by Japan, which provides valuable insights for enhancing regional economic integration and cooperation. It is anticipated that these efforts will accelerate the negotiation process for the long-awaited CJK Trilateral Free Trade Agreement (FTA), as emphasized in the Joint Declaration of the 9th Trilateral Summit.

I hope this report will enhance people's understanding of regional economic cooperation, particularly in trade and investment. Furthermore, I look forward to this report serving as a platform for discussion and the exchange of ideas on fostering improved economic cooperation, contributing to lasting peace, common prosperity, and shared culture in the region.

Authors' Bio

LIU Qing - Deputy Dean & Professor of Economics, National Academy of Development and Strategy, Renmin University of China

Liu Qing, PhD in Economics, is a professor at the School of Economics of Renmin University of China (RUC) and the deputy dean of the National Academy of Development and Strategy of RUC, a member of the Academic Committee of RUC, and the director of the Center for International Economics and Finance. He is also the vice president of the China Society of World Economics, associate editor of several economic journals such as Asia Pacific Journal of Accounting & Economics, Quarterly Journal of Economics and Management, and an editorial board member of the Journal of International Trade and Economic Development. He mainly studies the world economy, international trade and investment, corporate innovation, and China's economic development. His academic research has been published in Chinese and international journals such as Journal of International Economics, Journal of Development Economics, and Journal of Comparative Economics, etc. He has also won the Ninth Outstanding Scientific Research Achievement Award (Humanities and Social Sciences) of the Ministry of Education of China, the Business Development Research Achievement Award of the Ministry of Commerce of China, the 2015 Best Paper Award of the Academy of International Business (AIB), and the highest award in China in the field of international trade, the "An Zijie Paper Award" (3 times).

ZHANG Jianping - Deputy Director, Academic Steering Committee, Chinese Academy of International Trade and Economic Cooperation

He is currently serving as the Deputy Director, Academic Steering Committee, Chinese Academy of International Trade and Economic Cooperation, the Vice President of Asia Pacific Institute of China, the Prof. in Economics of PKU and the PhD adviser of the University of International Business and Economics, and as the Member of Expert Panel, MOFCOM and State Forestry Administration, PRC. He is also member of China National committee of PECC, China Council for the Promotion of International Trade, Chinese People's Institute of Foreign Affairs and Chinese Association for International Understanding.

Prof. Zhang Jianping obtained the Bachelor Degree and the Master Degree in Science from Peking University, PhD in Economics from Chinese Academy of Social Sciences. He specializes in International Economics. He has chaired more than 70 research projects and offered international consultancy for UN, WB, ADB, APEC, DAVOS etc. More than 100 papers and 6 books have been published.

Authors' Bio

KAWAI Masahiro - Emeritus Professor, The University of Tokyo

Masahiro Kawai began his professional career as a Research Fellow at the Brookings Institution and then taught economics at The Johns Hopkins University and The University of Tokyo. Prof. Kawai also served as: Chief Economist for the World Bank's East Asia and the Pacific Region; Deputy Vice Minister of Finance for International Affairs and President of the Policy Research Institute of Japan's Ministry of Finance; Special Advisor to the Asian Development Bank (ADB) President; Dean and CEO of the ADB Institute; and Representative Director, Economic Research Institute for Northeast Asia (ERINA). While occasionally teaching at the University of Tokyo as Professor Emeritus, he is currently serving as a Senior Fellow of the Policy Research Institute of Japan's Finance Ministry and a Distinguished Research Fellow of the Japan Forum on International Relations (JFIR). Masahiro Kawai holds a BA in economics from the University of Tokyo and both an MS in statistics and a PhD in economics from Stanford University.

Dr. Kawai's recent publications focus on Asian economic integration and cooperation. He has published a number of books and more than 180 academic articles on international economics, money and finance, Asian economic integration and cooperation, and global economic governance. His recent co-edited books include: *Asian Regionalism in the World Economy: Engine for Dynamism and Stability (Edward Elgar, 2010); Asia's Free Trade Agreements: How Is Business*

Responding? (Edward Elgar, 2011); Asia and Policymaking for the Global Economy (Brookings Institution Press, 2011); Implications of the Global Financial Crisis for Financial Reform and Regulation in Asia (Edward Elgar, 2012); Infrastructure for Asian Connectivity (Edward Elgar, 2012); Monetary and Currency Policy Management in Asia (Edward Elgar, 2012); The Global Financial Crisis and Asia (Oxford University Press, 2013); The Political Economy of Asian Regionalism (Springer, 2014); Reform of the International Monetary System: An Asian Perspective (Springer, 2014); A World Trade Organization for the 21st Century: The Asian Perspective (Edward Elgar, 2014); Renminbi Internationalization: Achievements, Prospects and Challenges (Brookings Institution Press, 2015); Rebalancing for Sustainable Growth: Asia's Postcrisis Challenge (Springer, 2015); Transpacific Rebalancing: Implications for Trade and Economic Growth (Brookings Institution Press, 2015); Monetary and Financial Cooperation in East Asia: The State of Affairs after the Global Financial and European Crisis (Oxford University Press, 2015); Trade Regionalism in the Asia-Pacific: Developments and Future Challenges (ISEAS-Yusof Ishak Institute, 2016); Redefining Strategic Routes to Financial Resilience in ASEAN+3 (Asian Development Bank, 2021); and Trauma to Triumph: Rising from the Ashes of the Asian Financial Crisis (AMRO and World Scientific, 2022).

Authors' Bio

KUNO Arata - Professor, Faculty of International Relations, Asia University

Dr. KUNO is a Professor of International Economics at the Faculty of International Relations, Asia University in Tokyo, Japan. He is also a visiting researcher at the Institute for International Trade and Investment (ITI). He supported Japan's FTA negotiations as a researcher at the Trade Policy Bureau, Ministry of Economy, Trade & Industry of Japan (METI) in the early 2000s. Additionally, he served as a senior economist at a private think-tank, Mitsubishi UFJ Research and Consulting Co. Ltd., until 2010. From 2021 to 2022, he was appointed as a member of the RCEP Study Group established within the Japan Tariff Association under the Ministry of Finance. Alongside his earlier research interests on Japan's trade policy and East Asian economic integration, his recent interests extend to the relationship between globalization and economic security.

Some of his recent publications include: "Trade Liberalization among China, Japan, and the ROK through the RCEP: Achievements and Challenges (in Japanese)" (ERINA Report Plus, 2021), "RCEP Commentary: Chapter 2 - Trade in Goods (in Japanese)" (Japan Tariff Association, 2022), "Building Resilient Supply Chains through IPEF: The Possibilities and Challenges" (The Japan Institute of International Affairs, 2022), and "Japan's joining MPIA an outside chance to boost momentum for WTO reform" (East Asia Forum, 2023).

He received his Ph.D. in Economics from Keio University.

JEONG Hyung-Gon - Senior Research Fellow, Japan and East Asia Team, Korea Institute for International Economic Policy (KIEP)

Dr. Hyung-Gon Jeong is the former Vice President of the Korea Institute for International Economic Policy (KIEP) and a senior research fellow at the institute. Before joining the KIEP in 2006, he held the position of Senior Director in the Office of Strategic Planning at the National Security Council (NSC). His roles include membership in the Ministry of Trade, Industry, and Energy's Committee of Free Economic Zone and Vice Presidency of the Korea's North-East Asia Economic Association. Dr. Jeong has also contributed as a consultant to the Asian Development Bank (ADB), served on the Presidential Committee for Unification Preparation in Korea, and been part of the Korea Fair Trade Commission's Policy Advisory Committee. Additionally, he has acted as a consultant for Special Economic Zones in Vietnam, Uzbekistan, and Kazakhstan through Korean knowledge-sharing initiatives.

Dr. Jeong's scholarly focus is on international economics, encompassing global supply chains, trade, investment, and transition economies. His work has been extensively published in peer-reviewed journals, books, and working papers. He earned his Ph.D. in Economics from the University of Cologne after graduating from the University of Bonn. His academic journey also includes being a Fulbright Visiting Scholar at Johns Hopkins University's School of Advanced International Studies (SAIS) and a visiting scholar at the Bush School of Texas A&M University. For inquiries, Dr. Jeong can be contacted at hgjeong@kiep.go.kr.

Authors' Bio

AHN Choong Yong- Emeritus Professor, Graduate School of International Studies, ChungAng University

Dr. Ahn is currently a Professor emeritus at the School of Economics, Chung-Ang University Seoul. The major posts he served include Co-Chair of the Korea-India Strategic Dialogue (2012-2021) organized by Korea Foundation and the Seoul International Forum, former Chairman, Korea Commission for Corporate Partnership (KCCP: 2014-2018) to induce voluntary collaborations between Korea's big businesses and SMEs, and presidentially appointed Foreign Investment Ombudsman (2006-2014) for foreign direct investors in Korea, Chairman of the Presidential Regulatory Reform Committee (2010-2012). While on sabbatical from Chung-Ang University, he also served several posts such as the President of the Korea Institute for International Economic Policy (2002-2005); Chair of the APEC Economic Committee(2002-2005); Chair of Board, Choheung Bank; consultant to the World Bank; UNIDO Chief Technical Advisor to the Economic Planning Unit of Malaysia to design Malaysia's industrial master plan; and served as President of several academic societies in Korea including the Korea International Economics Association, Korean Association of Trade and Industry Studies, and the Korea Econometric Society. He was also a visiting professor to Economic Research Institute, Kyoto University, Japan. Dr. Ahn's honors include the Economist of the Year Award from the Maeil Business Daily Newspaper, the Okita Policy Research Award by the National Institute for Research Advancement in prime Minister's Office of Japan for his publication on "Modern East Asian Economy," and Free Economy Publication Award by the Federation of Korean Industries. Since receiving his Ph.D. from Ohio State University, Dr. Ahn has published many articles in international journals and monographs. His most recent book, South Korea and Foreign Direct Investment: Policy Dynamics and Aftercare Ombudsman has been just published by Routledge in 2024.

Archanun Kohpaiboon - Associate Professor, Thammasat University

Archanun Kohpaiboon is an Associate Professor in the Faculty of Economics, Thammasat University, Bangkok, Thailand. He won the best paper award in industrial economics 2003 at the Annual Conference of PhD Students in Economics in Australian Universities, and the best young economist of Thailand prize in 2006. His research interest is industrialization in Thailand, multinational enterprises, global production sharing, free trade agreements, and medical tourism. He works as an international consultant for various international organizations including World Bank, Asian Development Bank, Asian Development Bank Institute, Economic Research Institute of ASEAN and East Asia. He published 3 books (one in English with Edward Elgar and 2 in Thai), 30 papers in leading peer-reviewed journals (such as Journal of Development Studies, World Development, Review of Policy Research, Research Policy, Oxford Development Studies, Journal of Asian Economics, Asian Economic Journal), and 15 book chapters for the past decade. He also serves as the associate editor of Asian Economic Journal and Thailand and the World Economy. Recently he received Senior Research Scholar Program in Social Science of Year 2022 awarded by Thailand Research Council.

Authors' Bio

Dionisius Narjoko, Senior Economist, Economic Research Institute for ASEAN and East Asia

Dionisius Narjoko received his PhD in Economics from the Australian National University. His dissertation was awarded The Ann Bates Postgraduate Prize for Indonesian Studies 2006. His research covers industrialisation in Indonesia and Southeast Asia, economic integration in ASEAN and East Asia (focusing on ASEAN Economic Community (AEC) Blueprint and regional economy architecture), and topics in economic development, such as small and medium enterprise, and interrelationship between human capital and economic growth.

As part of his role in ERIA, Dr Narjoko provides evidence-based policy recommendations to a number of ASEAN Member States on topics related to AEC or regional integration in general. Dr Narjoko is also active in 'second-track' policy discussion for various topics, extending the link from his previous affiliation with the Jakarta-based think-tank Centre for Strategic and International Studies (CSIS). Dr Narjoko also once taught at the Faculty of Economics, University of Indonesia. He co-authored and co-edited books and published book chapters, policy papers, and articles in peer-reviewed journals in the past ten years. He also serves as Associate Editor of Asian Economic Journal and Jurnal Ekonomi Pembangunan Indonesia.

2024 Trilateral Economic Report

Abbreviation

ADB	Asian Development Bank
AMS	ASEAN Member States
ASEAN	Association of Southeast Asian Nations
BOJ	Bank of Japan
BOK	Bank of Korea
BOP	Balance of Payments
CEPA	Comprehensive Economic Partnership Agreement
CGE	Computable General Equilibrium
CJK	China, Japan, Republic of Korea
CNY	Chinese Yuan Renminbi
CO	Certificate of Origin
CPI	Consumer Price Index
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DEPA	Digital Economy Partnership Agreement
DX	Digital Transformations
EC	European Commission
EFTA	European Free Trade Association
ETC	Economic and Technical Collaboration
EU	European Union
EV	Electric Vehicle
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAAP	Free Trade Area in the Asia-Pacific
GATT	General Agreement on Tariff and Trade
GDP	Gross Domestic Product
GTAP	Global Trade Analysis Project
GVC	Global Value Chains
GX	Green Transformation
IMF	International Monetary Fund
IPEF	Indo-Pacific Economic Framework
IPN	International Production Networks
IPR	Intellectual Property Right
ISO	International Organization for Standardization
JETRO	Japan External Trade Organization
JGB	Japanese Government Bond
JPY	Japanese Yen
KASI	Korea–ASEAN Solidarity Initiative
KOTRA	Korea Trade-Investment Promotion Agency

KRW	South Korean Won
KSDPA	Korea–Singapore Digital Partnership Agreement
LDCs	Least Developed Countries
METI	Ministry of Economy, Trade and Industry
MFN	Most-Favored Nation
MNE	Multinational Enterprise
NBS	National Bureau of Statistics
ODA	Official Development Assistance
PMI	Purchasing Managers' Index
PTA	Preferential Trade Agreements
PPI	Producer Price Index
PPP	Purchasing Power Parity
R&D	Research and Development
RCA	Revealed Comparative Advantage
RCEP	Regional Comprehensive Economic Partnership
RMB	Ren Min Bi
ROK	Republic of Korea
ROOs	Rule of Origins
SMEs	Small and Medium Enterprises
SOE	State-Owned Enterprises
TCS	Trilateral Cooperation Secretariat
THAAD	Terminal High Altitude Area Defense
TPP	Trans-Pacific Partnership
UNCTAD	United Nations Conference on Trade and Development
USD	United States Dollar
WIPO	World Intellectual Property Organization
WTO	World Trade Organization
YCC	Yield Curve Control
YoY	Year on Year

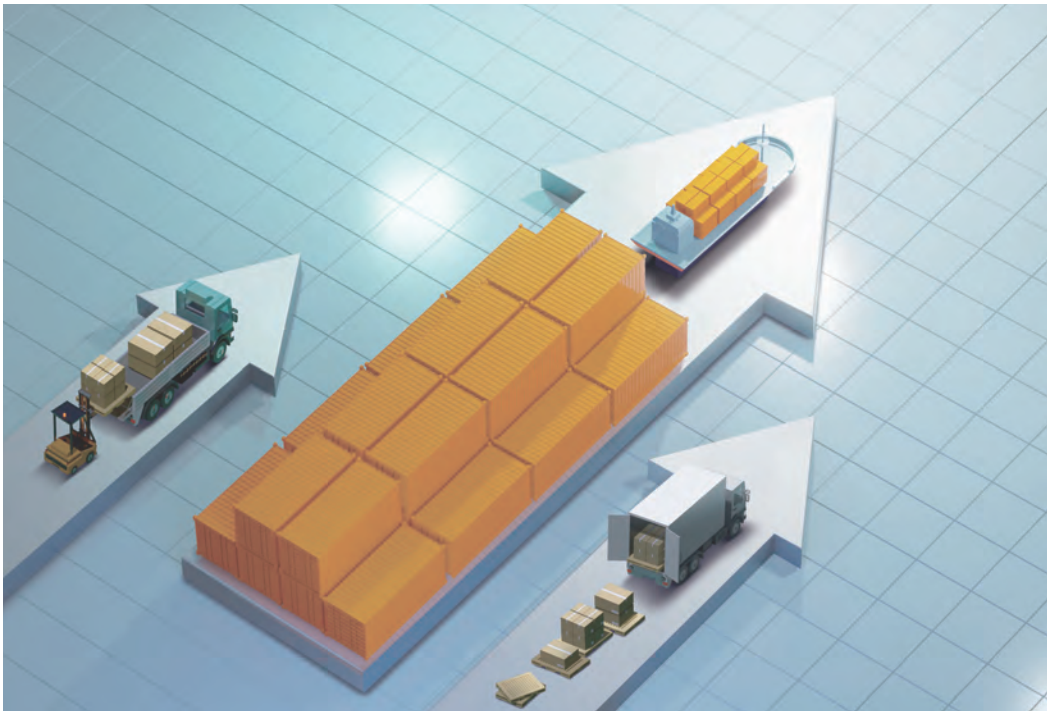
2024 Trilateral Economic Report

CHAPTER 1

Main Statistics of China, Japan, and the Republic of Korea (ROK)

I Main Statistics of China, Japan, and the Republic of Korea (ROK)

This chapter's contents are based on the Trilateral Statistics Hub. The Trilateral Statistics Hub aims to provide a comprehensive understanding on the development trend of the three countries as well as to understand the importance of Trilateral Cooperation by analyzing the integrated statistics of China, Japan, and the Republic of Korea (CJK).



1.1 Main Indicators of China, Japan, and the Republic of Korea

2023

TOTAL GDP

23.58 trillion

PERCENT OF WORLD GDP

24.1%

TOTAL POPULATION

1587 million

PERCENT OF WORLD POPULATION

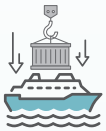
20%

MERCHANDISE EXPORT

4.73 trillion

PERCENT OF WORLD EXPORT

19.9%



MERCHANDISE IMPORT

3.99 trillion

PERCENT OF WORLD IMPORT

16.4%

PERCENT OF POPULATION AGED 65+*2022

15.4%

PERCENT OF RURAL POPULATION *2022

33.6%

PERCENT OF WORLD PATENT APPLICATION

65.5%

PERCENT OF WORLD ARABLE LAND *2022

8.15%

PERCENT OF WORLD SHIPBUILDING ORDERS *2022

97.3%

PERCENT OF WORLD ELECTRIC CARS STOCK

57.1%

RENEWABLE ENERGY CUMULATIVE CAPACITY

1735.9GW

1.2 Gross Domestic Product

The sum of three countries GDP is **USD 23.58 trillion** in 2023

CJK GDP accounting for **24.1%** of the world GDP in 2023

*based on purchasing-power-parity (PPP)

CJK GDP per capita is **USD 14,587** in 2023

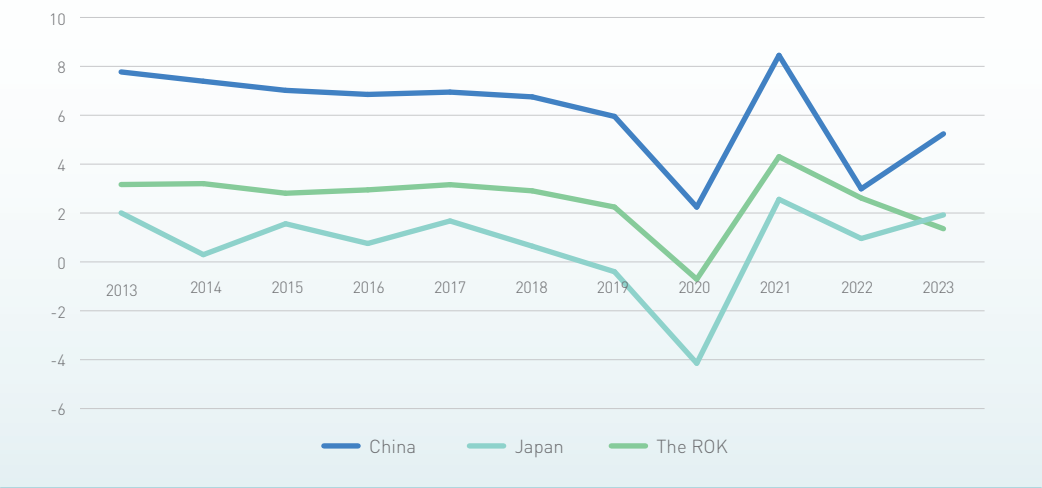
The growth rate of CJK GDP per capita is **4.4%** in 2023

In 2023, the combined CJK GDP stood at USD 23.58 trillion, accounting for 24.1% of the global GDP. This underscores the significant economic clout wielded by these three East Asian powerhouses on the world stage, whose collective contribution remains formidable, reflecting the region's continued importance as a driver of global economic growth.

In the wake of the profound economic repercussions wrought by the pandemic, the economies of CJK exhibited a notable acceleration in recovery throughout the year 2023. The CJK GDP per capita in 2023 reached USD 14,857, with a 4.4% increase compared to the previous year, suggesting a sustained momentum in economic growth.

CJK GDP annual growth rate

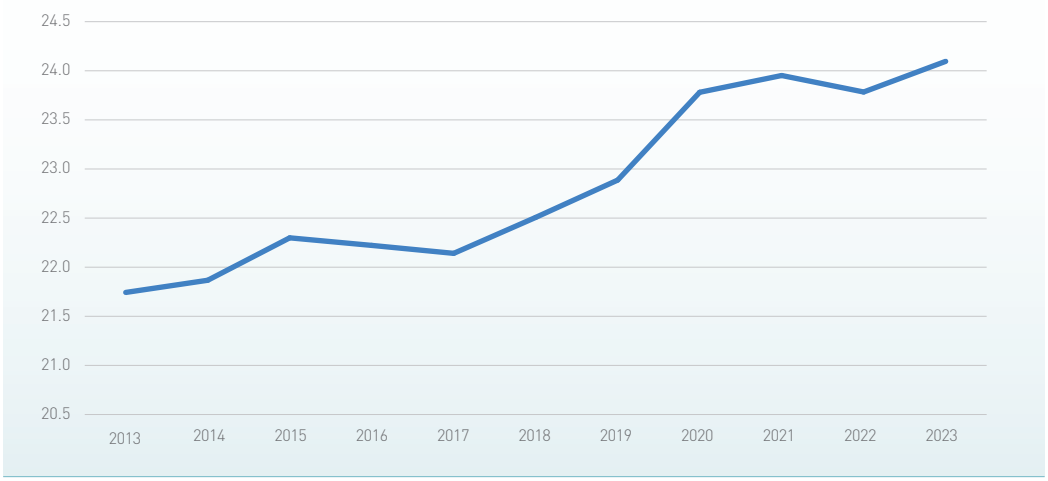
(Unit: %)



Country	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
China	7.771	7.391	7.018	6.851	6.947	6.751	5.951	2.242	8.45	2.989	5.24
Japan	2.005	0.296	1.561	0.754	1.675	0.643	-0.402	-4.147	2.559	0.957	1.923
The ROK	3.165	3.202	2.809	2.947	3.16	2.907	2.244	-0.709	4.305	2.613	1.357

CJK share of world GDP

(Unit: %)



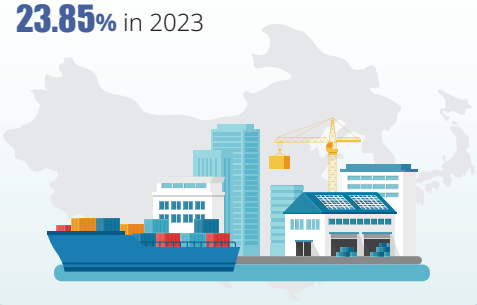
Country	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
CJK	21.743	21.867	22.299	22.222	22.141	22.507	22.887	23.781	23.952	23.784	24.096

1.3 Goods and Merchandise Trade

In 2023, CJK merchandise trade volume reached **USD 8.71 trillion**, accounting for **18.1%** of the world trade volume

The intra-trade volume among CJK was **USD 718.7 billion** in 2023

The intra-reginal trade share of CJK is **23.85%** in 2023



In 2023, the combined merchandise trade volume of CJK is USD 8.71 trillion, marking a slight decline compared to the previous year, due to the drop in external demand and the risk of global fragmentation. However, this figure still accounts for a significant 18.1% share of the global trade volume, underscoring the economic prowess and interconnection of CJK on the global stage.

Moreover, the intra-regional trade among CJK stood at USD 718.7 billion, which accounted for 23.85% of their total trade volume in 2023, reflecting a substantial portion of their total trade activities. This intra-trade dynamism not only signifies the strength of their economic ties but also highlights the synergistic relationships that drive commerce within the region.

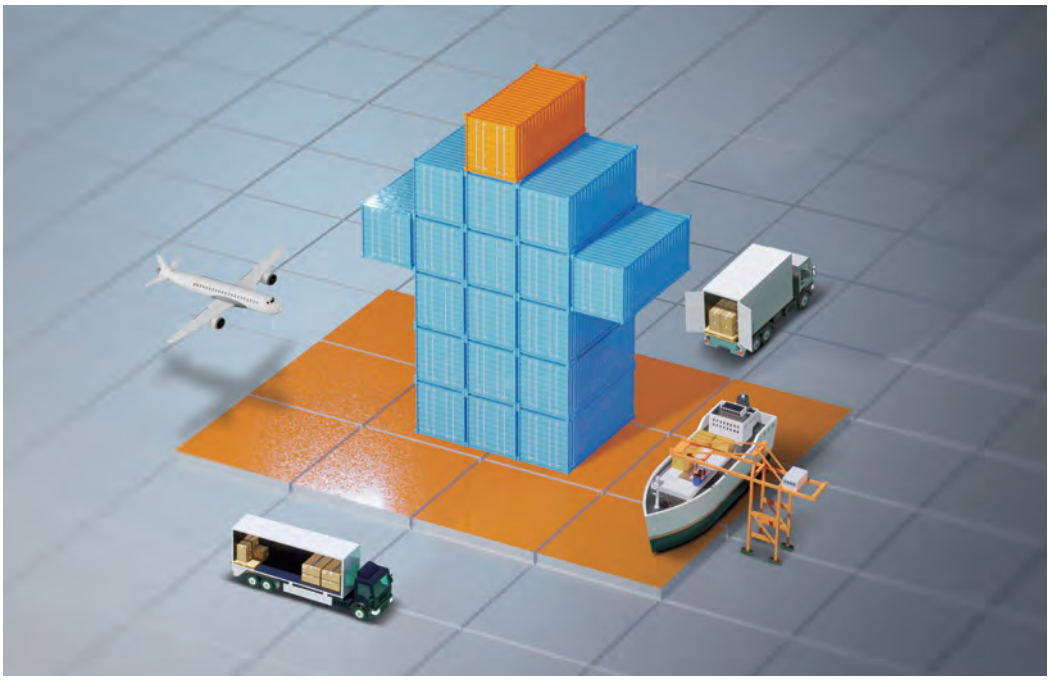
The top 3 trading partners of CJK remain to be ASEAN, the EU, and the US.

Merchandise export	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
China	2,209,005	2,342,293	2,273,468	2,097,632	2,263,346	2,486,695	2,499,457	2,589,952	3,316,022	3,544,434	3,380,024
Japan	715,097	690,203	624,921	645,052	698,329	738,143	705,564	641,319	756,032	746,835	717,315
The ROK	559,632	573,091	526,757	495,426	573,694	604,860	542,233	512,498	644,400	683,585	632,226
CJK	3,483,734	3,605,587	3,425,146	3,238,110	3,535,369	3,829,698	3,747,254	3,743,769	4,716,454	4,974,854	4,729,565

(Million USD)

Merchandise import	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
China	1,949,990	1,959,233	1,679,566	1,587,925	1,843,792	2,135,748	2,078,386	2,065,962	2,679,412	2,706,507	2,556,802
Japan	833,166	812,208	648,117	607,728	672,096	748,488	720,957	635,460	768,976	897,175	785,615
The ROK	515,584	525,564	436,499	406,193	478,478	535,202	503,343	467,633	615,093	731,370	642,572
CJK	3,298,740	3,297,005	2,764,182	2,601,846	2,994,366	3,419,438	3,302,686	3,169,055	4,063,481	4,335,052	3,984,989

(Million USD)



1.4 Regional Economic Integration

In 2023, trade volume between ASEAN and CJK achieved **USD 1,238.9 billion**, and accounted for **34.9%** of ASEAN's total trade volume, and **15.5%**, **15%** and **4.7%** of CJK's trade volume respectively

11 members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) account for about **11.6%** of Global GDP and **6.5%** of the world population in 2022

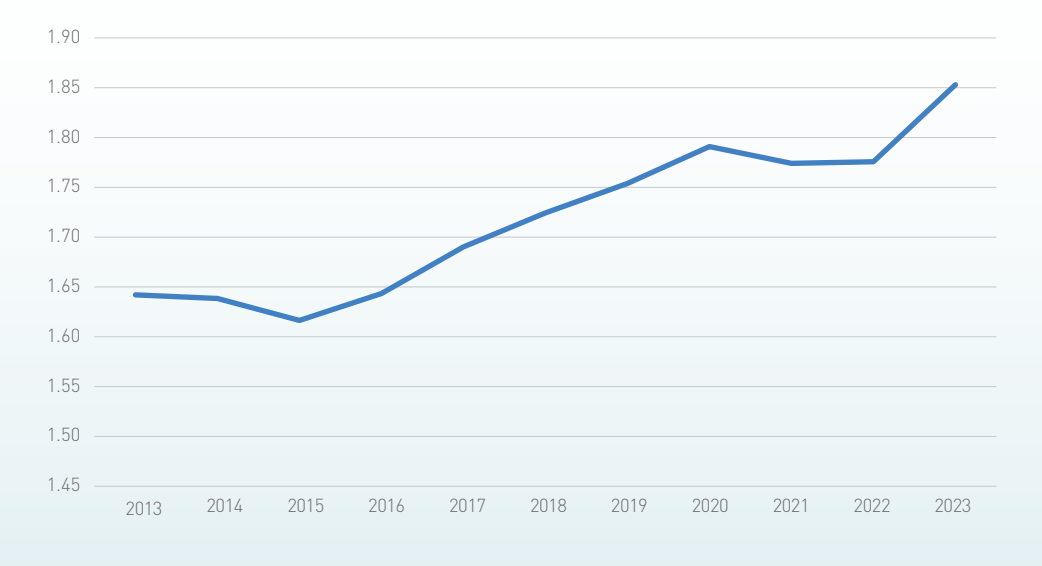
15 members of the Regional Comprehensive Economic Partnership (RCEP) account for about **29.2%** of Global GDP and **28.9%** of the world population in 2022

Regional economic integration has become increasingly prominent in the global economic landscape, while the economic connection between CJK and ASEAN member countries has been strengthening under the framework of ASEAN Plus 3. The trade volume between ASEAN and CJK reached USD 1,238.9 billion in 2023, comprising a substantial portion of ASEAN's total trade volume, amounting to 34.9%. Meanwhile, this trade accounted for 15.5%, 15%, and 4.7% of China's, Japan's, and the ROK's trade volumes, respectively. This demonstrates a significant interdependence and interconnectedness among these economies, fostering a deeper level of economic cooperation and integration.

Moreover, the emergence of mega-regional trade agreements further underscores the trend of economic integration. The Regional Comprehensive Economic Partnership (RCEP), comprising 15 member nations, accounts for about 29.2% of the global GDP and 28.9% of the world's

population in the same year. Similarly, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), consisting of 11 member nations, collectively represents approximately 11.6% of the global GDP and 6.5% of the world's population as of 2022. These agreements facilitate greater market access, streamline trade procedures, and promote investment flows among participating countries, leading to enhanced economic growth and prosperity within the regions, and reflecting a concerted effort towards deeper economic integration and collaboration, both regionally and globally.

ASEAN's Trade Intensity Index with CJK



* The Trade Intensity Index is defined as the share of one economy's export going to a partner divided by the share of world imports going to the partner.

Reference

- (2024, April 22). Trilateral Statistic Hub. https://data.tcs-asia.org/
- (2024, April 22). IMF. https://data.imf.org/
- (2024, April 22). WTO. https://stats.wto.org/
- (2024, April 22). WB. https://data.worldbank.org/indicator
- (2024, April 22). ADB. https://aric.adb.org/database/integration
- (2024, April 22). WIPO. https://www.wipo.int/edocs/statistics-country-profile/en/_list/l1.pdf
- (2024, April 22). IEA. https://www.iea.org/data-and-statistics/data-tools/renewable-energy-progress-tracker

2024 Trilateral Economic Report

CHAPTER II

Economic Performance of China, Japan, and the ROK

Authors

LIU Qing, Deputy Dean & Professor of Economics, National Academy of Development and Strategy, Renmin University of China

KAWAI Masahiro, Emeritus Professor, The University of Tokyo

JEONG Hyung-Gon, Senior Research Fellow, Japan and East Asia Team, Korea Institute for International Economic Policy (KIEP)

Archanun Kohpaiboon, Associate Professor, Thammasat University

II Economic Performance of China, Japan, and the ROK

2.1 China's Economic Performance

2.1.1 China's Macroeconomic Performance

China has emerged as a main driver of global economic growth. As of 2018, China's GDP has reached CNY 84 trillion, with an average annual growth rate of 9.54% over the past 40 years, far surpassing the world economy's average annual growth rate of 3.08% during the same period. However, over the past 5 years (2019–2023), China's economic growth rate has slowed significantly. As shown in Figure 1, China's GDP grew at an average annual rate of 4.97% from 2019 to 2023, much lower than the 9.54% growth seen over the past 40 years. However, compared with the stagnant global economy with an average growth rate of 2.21% during the period (2019–2022), China's economy remains a cornerstone of stability for global economic development, reflecting its resilience and potential.

Figure 1. China's GDP, 2014–2023

Source National Bureau of Statistics of China

One of the main reasons underlying the downturn mentioned above is that China is striving to balance the magnitude and quality of growth in the pursuit of high-quality development; therefore, the growth rate itself is not the only consideration. Due to this goal, China is striving to avoid large-scale economic stimuli and is patiently promoting economic transformation and upgrading.

Another possible reason is that China's economy has yet to fully recover from the effects of the COVID-19 pandemic. Over the 2020–2023 period, China's total annual retail sales of consumer goods increased from CNY 39.2 trillion to CNY 47.1 trillion, representing an average annual growth rate of 6.3%, much lower than the growth observed before the pandemic (2014–2019, 9.5%). The pandemic resulted in lower disposable income growth and altered community-wide consumption expectations, dampening residents' confidence and desire to consume. Consequently, domestic household deposits ballooned from CNY 82.14 trillion in 2019 to CNY 131.9 trillion in 2023, accompanied by a rise in residents' savings rate from 29.9% to 31.7%. Driven by risk aversion and the motivation for precautionary savings, the consumer confidence index continued to weaken, further compressing the social consumption demand.

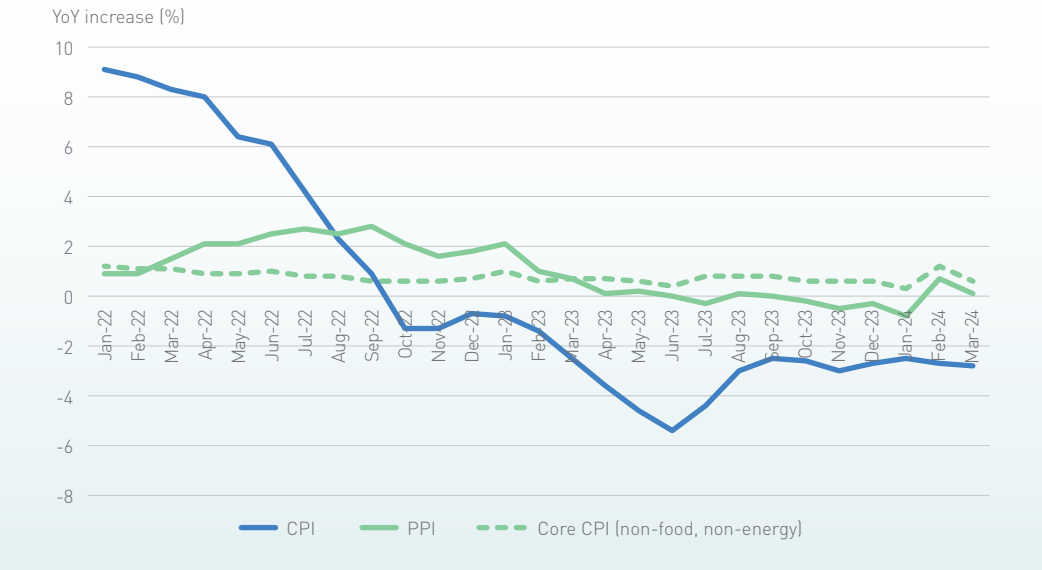
Following nearly two years of economic recovery, China's economy is now stabilizing. According to the latest data released by the National Bureau of Statistics (NBS) of China, China's GDP in the first quarter of 2024 increased by 5.3% year-on-year (YoY) at constant prices and by 1.6% compared with the fourth quarter of last year; total retail sales of consumer goods increased by 4.7% YoY; the fixed asset investment YoY growth was 4.5%, 1.5 percentage points faster than the previous year; and the total import and export of goods increased by 5.0% YoY, of which exports increased by 4.9% and imports increased 5.0%, breaking the negative growth trend that had persisted throughout 2023. The National Consumer Price Index (CPI) in the first quarter of 2024 remained stable YoY, and the core CPI after deducting food and energy prices increased by 0.7% YoY. The national industrial producer price (PPI) fell by 2.7% YoY. Meanwhile, the national average urban survey unemployment rate was 5.2%, a decrease of 0.3 percentage points over the same period last year. The per capita disposable income of residents across the country in the first quarter was CNY 11,539, a YoY nominal increase of 6.2%. From January to February, the total profits of above-scale industrial enterprises nationwide increased by 10.2% YoY. In March, the manufacturing purchasing manager index was 50.8%, an increase of 1.7 percentage points from the previous month; and the enterprise production and operation activity expectation index was 55.6%, an increase of 1.4 percentage points from the previous month. Overall, the robust performance across various economic indicators signals the recovery of China's economy.

2.1.2 China's Short-term Economic Performance

Prices

While most developed countries suffered from high inflation, China maintained stable prices, with consumer prices generally remaining steady and production prices operating at low levels (Figure 2). Since January 2023, the CPI has shown a consistent decline. From April onward, China's CPI YoY growth rate has hovered around zero, primarily due to decreases in food and energy prices, and the core CPI has remained stable, fluctuating around 0.8%. According to China's NBS, the CPI for all of 2023 increased by 0.2% compared to the previous year while the core CPI rose by 0.7% YoY. Influenced by factors such as the global decline in energy prices, the annual PPI decreased by 3% YoY in 2023. Overall, price movements have remained stable with a mild upward trend, sharply contrasting with the persistently high price levels globally.

Figure 2. China's Monthly Price Changes, January 2022–March 2024

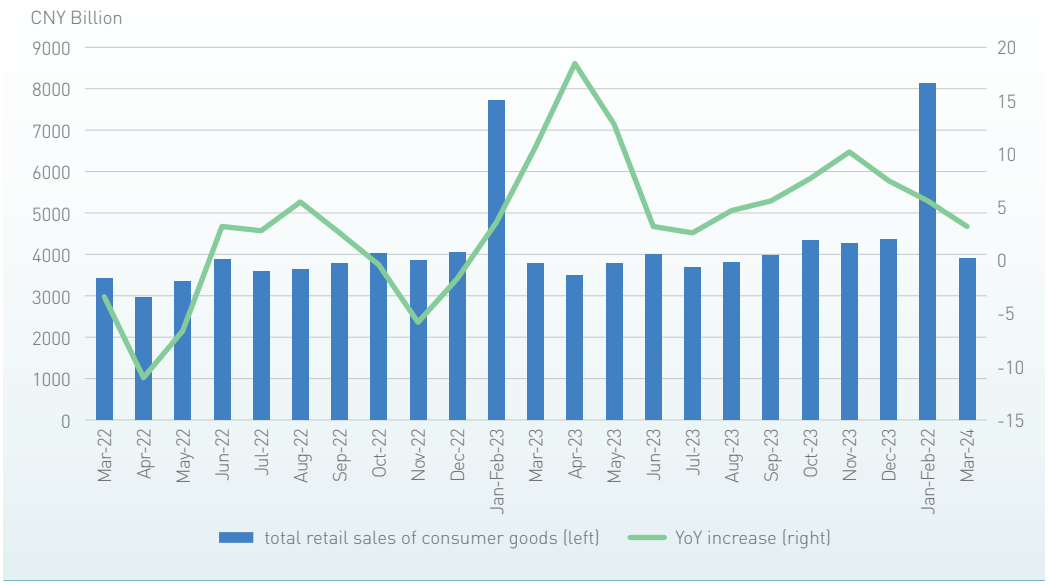


Source National Bureau of Statistics of China

Consumption

The role of consumption in driving the national economy was increasingly fortified. Total retail sales of consumer goods exceeded CNY 47 trillion in 2023, with final consumption expenditure's contribution to economic growth surging by 82.5%. This marks a notable increase of 43.1 percentage points over the previous year. In Q1 of 2024, domestic consumption has largely sustained the robust momentum observed since 2023. According to China's NBS, total retail sales of consumer goods in Q1 of 2024 were around CNY 12 trillion, indicating a 4.7% YoY increase. Travel and leisure activities have bolstered this resurgence in service consumption. During the 2024 Spring Festival, domestic tourism recorded a total of 474 million trips, reflecting a YoY increase of 34.3%; meanwhile, total spending by domestic tourists surged by 47.3% compared to the previous year. The contribution of domestic demand to economic growth soared to 111.4%, rising by 25.3 percentage points from the preceding year. Consequently, consumption is assuming a greater role in propelling domestic demand, and the impact of domestic circulation on economic development has significantly intensified.

Figure 3. China's Retail Sales of Consumer Goods, March 2022 to March 2024

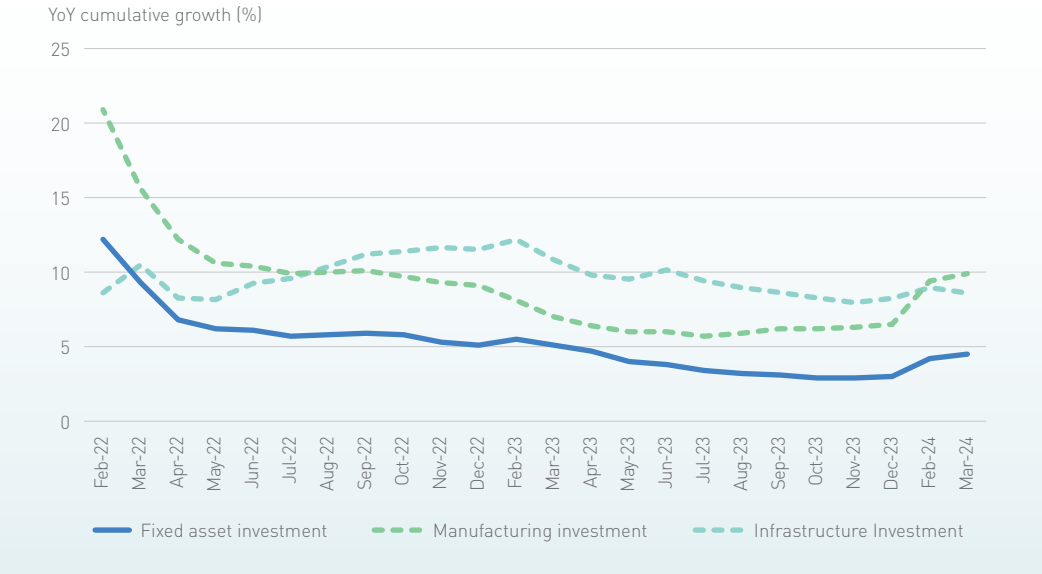


Source National Bureau of Statistics of China

Investments

Fixed asset investment exhibited consistent growth, coupled with ongoing improvements in investment structure. According to China's NBS, fixed asset investment (excluding rural residents) amounted to CNY 50.3 trillion in 2023, reflecting a 3.0% increase from the previous year, which was slightly lower than the figures for 2021 and 2022. Notably, manufacturing and infrastructure construction investments emerged as robust drivers of overall investment growth. The cumulative annual growth rate for manufacturing investment stood at 6.5% while that for infrastructure construction reached 8.2%, surpassing the growth rates of all fixed asset investments by 3.5 and 4.2 percentage points, respectively (Figure 4). Additionally, there was a steady uptick in the proportion of investments allocated to high-tech industries, which grew by 10.3% in 2023, representing a 0.7 percentage point increase in the share of total investment compared with the previous year.

Figure 4. China's Fixed Asset Investment, February 2022 to March 2024

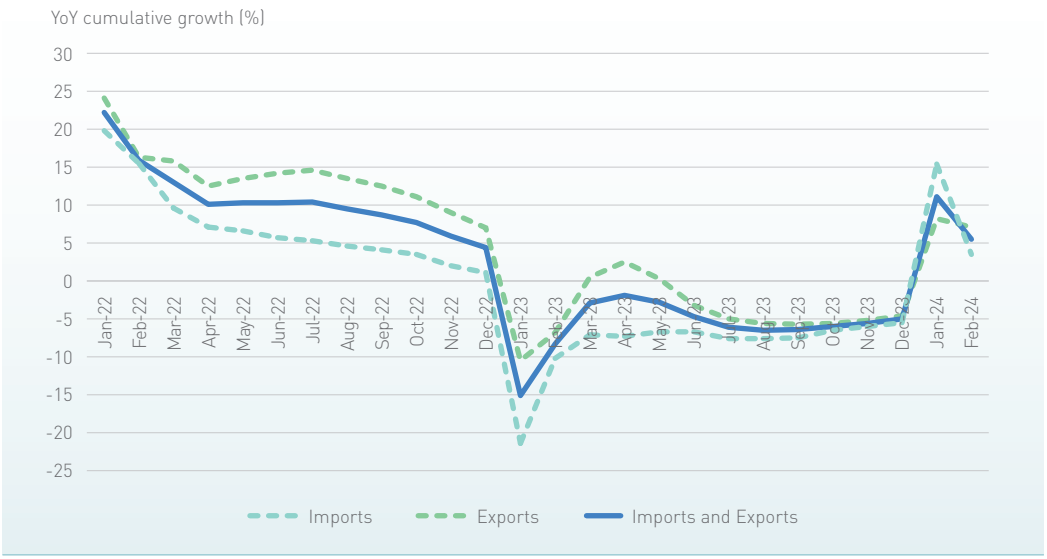


Source National Bureau of Statistics of China

Trade

Under the influence of the global economic slowdown and increased trade uncertainty, China's overall trade performance has been under pressure. In 2023, China's exports and imports amounted to USD 338.0 billion and USD 255.7 billion, respectively, dropping by 4.6% and 5.5% compared to the previous year, respectively. This contrasts with the previous three years, when exports had been a primary driver of China's economic growth. According to the Global Trade Outlook and Statistics published by the World Trade Organization (WTO), however, China's international market share for exports in 2023 stood at 14.2%, and for imports at 10.6%. China maintained its leading global position for seven consecutive years with a total trade volume of USD 56.92 billion. This stability underscores the robust resilience, immense potential, and comprehensive competitiveness of China's economy, while also making a significant contribution to stabilizing the global industrial and supply chains.

Figure 5. China's Trends in Trade Growth Rate, January 2022 to February 2024



Source National Bureau of Statistics of China

Industrial activities

Industrial production has continued its recovery since March 2023. The value-added by industries above the designated size reached CNY 39.9 trillion in 2023, increasing 4.6% over 2022. The divergence among industries in industrial production became more pronounced (Figure 6). Among the three major categories, the mining industry notably lagged, posting an annual cumulative growth rate of 2.3%, which was 2.3 percentage points lower than the cumulative YoY growth rate of the larger industrial value-added. In contrast, the manufacturing industry witnessed a cumulative growth rate of 5.0%. The electrical machinery and equipment sectors, as well as automobile manufacturing, achieved double-digit growth, providing robust support to the overall industrial economy. Additionally, the electricity, heat, gas, and water production and supply industry grew by 4.3% compared to the previous year, closely aligning with the year's average growth rate.

Figure 6. China's Industrial Value-added, January 2022 to February 2024

Source National Bureau of Statistics of China

2.1.3 China's Economic Adjustment and Policy Direction

China's economy may have hit bottom and is undergoing a profound transformation. If successful, China's economic structure will achieve a comprehensive upgrade. With the reduction in dependence on the real estate industry, the proportion of consumption in China's economy is breaking through the bottleneck. In 2023, the proportions of consumption, investment, and net exports in China's GDP were 53.7%, 43.1%, and 3.1% respectively. The proportion of consumption increased, in contrast with the decline in the proportion of investment and net exports. China's industrial structure is also changing significantly. In China's manufacturing investment in 2023, the investment growth rates in the electrical machinery and equipment manufacturing, instrumentation, automobile, chemical raw materials and chemical products industries were 32.2%, 21.5%, 19.4% and 13.4% respectively, far exceeding the 6.5% of the growth rate of total manufacturing investment. In 2023, China's exports of mechanical and electrical products accounted for 58.6% of the total value of exports, while labor-intensive product exports accounted for 17.3% of the total value of exports. The exports of electric passenger vehicles, lithium-ion batteries and solar cells (the so-called "three new items") increased by 29.9%, while exports of ships and household appliances increased by 35.4% and 9.9% respectively.

At present, China's core economic policy is to promote the formation and development of new quality productive forces and promote domestic consumption. In recent years, China has aimed to avoid introducing strongly stimulating fiscal and monetary policies and relying heavily on the real estate industry to drive economic growth. Instead, it has pursued highquality economic development, demonstrating a high degree of policy determination. China aims to promote economic development by escaping the traditional economic growth model, seizing the opportunities available in the new scientific and technological revolution and industrial transformation, using scientific and technological innovation as the core driving force to transform traditional industries and cultivate and strengthen emerging industries, and planning future industries in advance. The Ministry of Commerce of China has designated 2024 as the "Consumption Promotion Year." Through a series of "policies and activities," it aims to optimize the consumption environment, stabilize and expand traditional consumption such as automobiles, home appliances, and home furnishings, cultivate and strengthen green, healthy and smart new consumption, and expand service consumption.

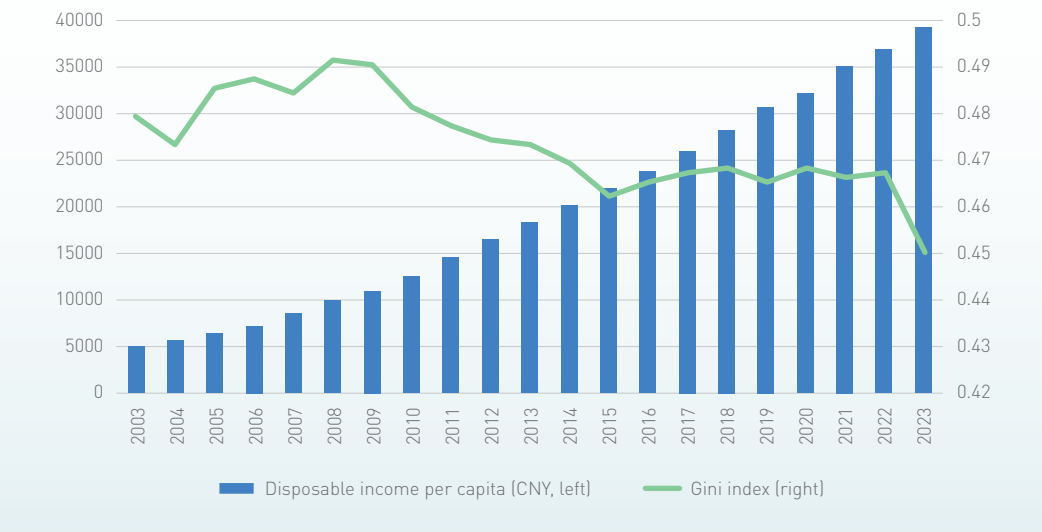
2.1.4 China's Economic Prospects

According to the World Economic Outlook released by the International Monetary Fund (IMF) in April 2024, China's 2024 and 2025 growth rates are projected to be 4.6% and 4.1%, respectively. This outlook reflects the synergistic impact of ongoing enhancements in supply quality and unlocking the potential of domestic demand. These efforts from the supply and demand sides may help China achieve sustained economic stability in the foreseeable future, for several leading reasons.

First, China's mega market may continue to release dividends. In 2023, China's total retail sales of consumer goods reached approximately CNY 47.1 trillion (Figure 3), with total imports amounting to CNY 18 trillion. China has maintained its position as the world's second-largest consumer market and commodity importer. Forecasts from the Development Research Center of the State Council of China indicate that by 2030, over 50% of China's population will join the middle-income bracket, and contribute nearly 80% to overall consumption. Increasing demand from this expanding middle-income group for high-quality products and services will present significant opportunities for China's sustained economic growth.

Second, there is significant potential for enhancing urbanization and income distribution, which will further stimulate future demand. As of 2023, China's urbanization rate has reached 66.2%, leaving a significant gap compared to developed countries whose rates exceed 80%. Nearly 260 million people live in cities but lack urban hukou,[1)] depriving them of equal access to housing, education, healthcare, and social security. OECD research suggests that granting these individuals urban household registration and equal access to public services could increase their real consumption levels by about 30%. However, according to the World Bank, China's Gini coefficient was 0.45 in 2023, exceeding the international warning line of 0.4 (Figure 7). The Chinese government prioritizes income distribution issues and considers increasing income for low-income earners and expanding the middle-income group as the main objectives of the Fourteenth Five-Year Plan. Urbanization development and income distribution improvement are expected to enhance the consumption capacity and marginal propensity to consume among low-income groups, offering sustained demand-side support for medium- and long-term economic growth.

Figure 7. China's Disposable Income per Capita and Gini index, 2003–2023

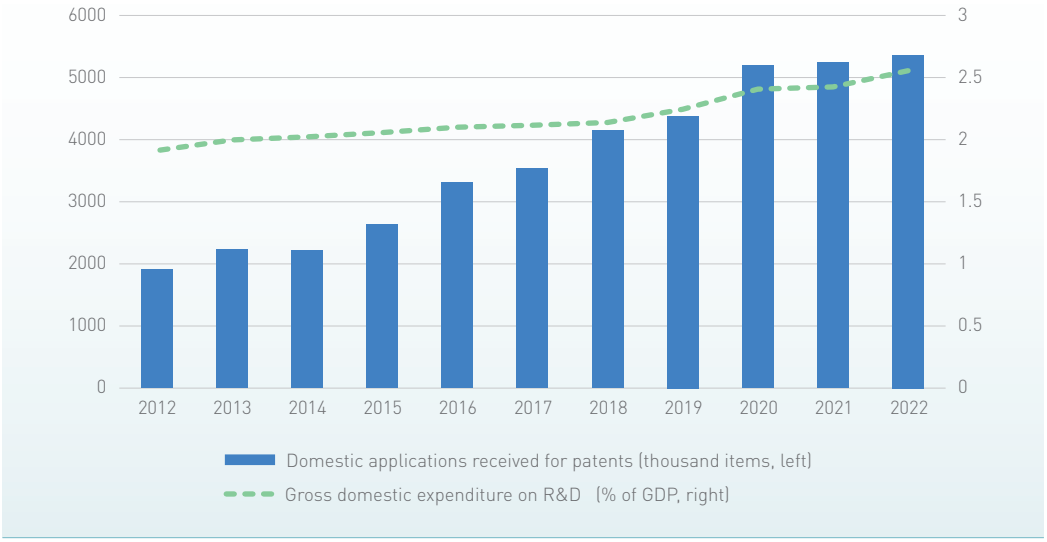


Source National Bureau of Statistics of China; World Bank (for 2023 Gini index)

1) The hukou system (or the household registration system) in China classifies each person as a rural or an urban resident and determines eligibility for state-provided services and welfare, limiting the mobility of labor across regions.

Third, China stands as one of the global leaders in ongoing technological innovations, particularly in areas of 5G technology, artificial intelligence, and new energy vehicles. This has contributed to driving China's economic development and maintaining its international competitiveness. Over the past decade, China's R&D (research and development) investments and patent applications has experienced significant growth (Figure 8). According to State Intellectual Property Office, China's R&D to GDP ratio has increased from 1.9% in 2014 to 2.6% in 2023, while the number of domestic patent applications has jumped from 1.91 to 5.36 million. In 2023, China's ranking in the Global Innovation Index soared to 12th, making it the only middle-income economy in the top 30.

Figure 8. China's R&D Expenditure and Patent Applications, 2012–2022



Source National Statistical Bulletin on Science and Technology Fund Investment, 2012-2022; State Intellectual Property Office (SIPO)

Fourth, the transformation and upgrading of China's industrial structure are shaping new competitive advantages and creating new market opportunities. The growth of traditional labor-intensive industries, such as textiles, petrochemicals and chemicals, and light industries has slowed, whereas high-tech industries, such as artificial intelligence, electric vehicles, are emerging. According to World Robotics 2023, China's installed more than 290,000 industrial robot units in 2022, a 12-fold increase from 2012 (Figure 9). Electric vehicles, lithium batteries, and photovoltaic products are gradually replacing clothing, furniture, and electrical appliances

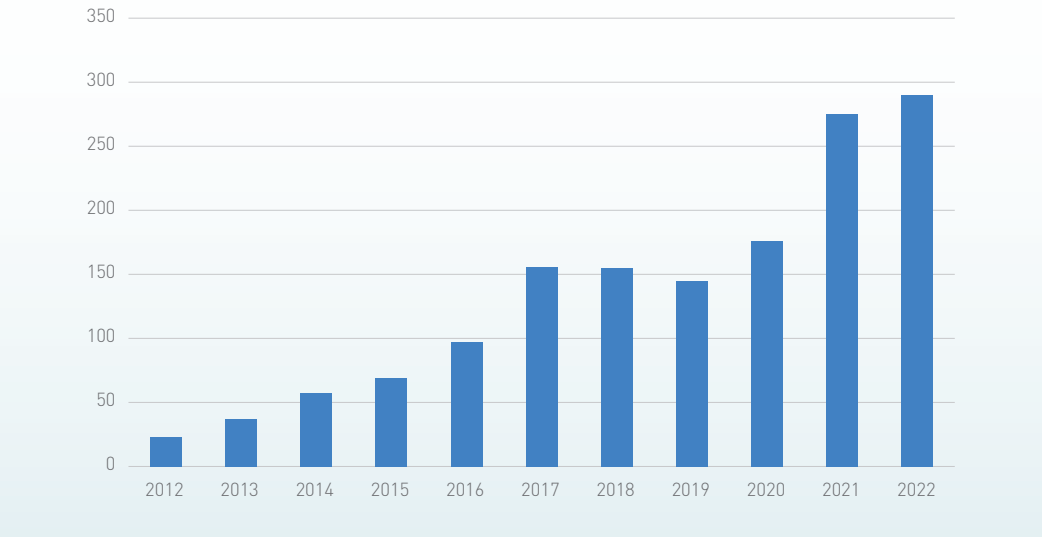
as the main drivers of China's export growth (see Table 1). Against the backdrop of an aging population, rising labor costs, and global trends toward green and low-carbon transformation, the rise of these high-tech industries will help China improve its productivity advantage in traditional manufacturing and create new demand growth and entrepreneurial employment opportunities for long-term economic development.

Table 1. Annual Growth Rate of Exports of the New Three and the Old Three, 2017-2022

	Export (billion USD)		Annual growth rate
	2017	2022	2017-2022
New Trio (new energy vehicles, lithium batteries and photovoltaic modules)	196.3	1214.2	44.0%
Old Trio (Clothing, furniture and appliances)	2687.7	3380	4.7%
Total	22633.7	35936.0	9.7%

Source World Integrated Trade Solution (WITS)

Figure 9. China's Annual Installations of Industrial Robots (1,000 units), 2012–2022



Source International Federation of Robots (IFR)

2.2 Japan's Economic Performance

2.2.1 Japan's Macroeconomic Performance

The Japanese economy was on its way to recovery from the COVID-19 pandemic during 2022 and the first half of 2023. The real side of the economy had not been materially affected by the war in Ukraine or Western sanctions on Russia starting in the spring of 2022. However, hikes in energy and food prices triggered by the war have had visible impacts on Japan's inflation. In addition, the tightening of monetary policy in the US has led to significant yen depreciation, exerting inflationary pressure.[2)]

Real GDP, Consumption, and Investment

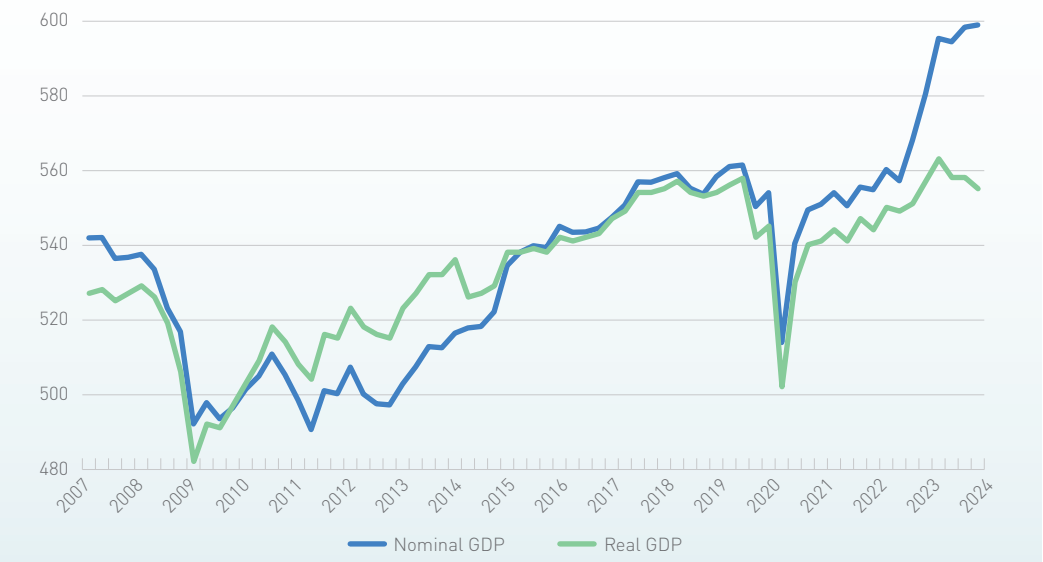
The Japanese economy showed sustained recovery from the COVID-19 pandemic starting in the second half of 2020 until the second quarter of 2023. However, the recovery process has stalled since the third quarter of 2023 due to a decline or stagnation in private consumption and investment. Real GDP in the first quarter of 2024 declined to a level below the prepandemic peak (Figure 10A), in sharp contrast to other major economies that were quickly restored to pre-COVID real GDP levels.[3)] Nevertheless, nominal GDP grew 7% between the third quarter of 2022 and the third quarter of 2023 and reached an annualized JPY 599 trillion in the first quarter of 2024, a level close to the target (JPY 600 trillion) set by former Prime Minister Shinzo Abe in September 2015.

2) See AMRO (2024), Bank of Japan (2024), Cabinet Office (2024b), IMF (2024) and OECD (2024) for discussions of the Japanese economy in the recent period.

3) For example, the real GDPs of China, the United States, the ROK, and the Euro Area exceeded their pre-COVID peak levels (all recorded in Q4 of 2019) in Q2 of 2020, Q1 of 2021, Q1 of 2021, and Q3 of 2021, respectively, and have continued to rise as a trend since then.

Figure 10. Japan's GDP, Consumption, and Investment, 2007Q1–2024Q1

10A. Nominal and Real GDP (JPY trillion)



10B. Real Private Consumption and Private Investment (JPY trillion)

Note Quarterly data are seasonally adjusted. Real values are at 2020 constant prices.

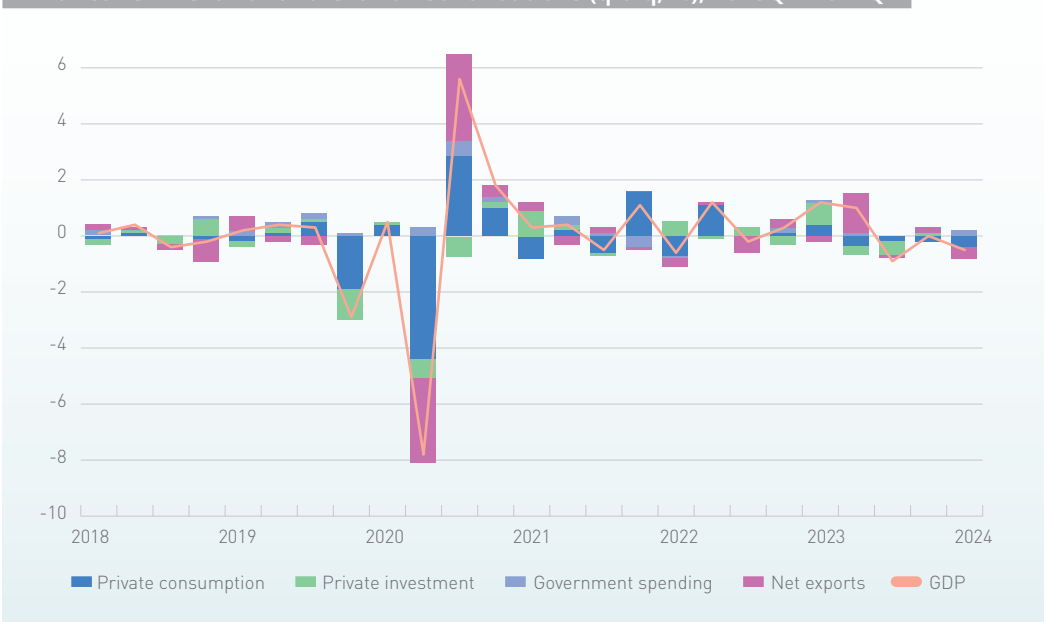
Source Constructed by the author using data from the Cabinet Office, *Quarterly Estimates of GDP, National Income Accounts.* https://www.esri.cao.go.jp/jp/sna/data/data_list/sokuhou/files/2022/qe224_2/gdemenuja.html

Real GDP declined from the third quarter of 2023 onward because of drops in real private consumption and real private investment (Figure 10B). Although real consumption recovered from the pandemic as a trend and reached its postpandemic peak in the first quarter of 2023, it has since decreased for four consecutive quarters. Real private investment also rebounded in 2021–2022 and reached the postpandemic peak in the first quarter of 2023 but has since declined and remained stagnant.

Figure 11A confirms that recent economic growth is weak, particularly due to sluggish private demand. Figure 11B illustrates that, after a sharp decline due to the COVID-19 crisis, the output gap, as a percentage ratio of potential GDP, has narrowed as a trend. The Cabinet Office estimates that the output gap became positive in the second quarter of 2023 but has reverted to being negative in the third and fourth quarters of 2023 and the first quarter of 2024 due to declines in real GDP. In contrast, the Bank of Japan (BOJ) estimates that the output gap was negative until the third quarter of 2023 and reached a very small positive value in the final quarter, indicating that the output gap has closed. The IMF (2024) shares the view that the output gap virtually closed in 2023. Despite some mixed signs in recent quarters, the output gap has clearly improved relative to the bottom level experienced in 2020–2022Q1.

Figure 11. Japan's Real GDP Growth, Growth Contributions, and the Output Gap

11A. Real GDP Growth and Growth Contributions (q-o-q, %), 2018Q1–2024Q1



11B. Output Gap, 2007Q1–2024Q1 (%)

Note Quarterly data are seasonally adjusted. The quarter over quarter (q-o-q) growth rates and GDP contribution rates in 11A are quarterly rates. The output gap is the percentage ratio of potential GDP.

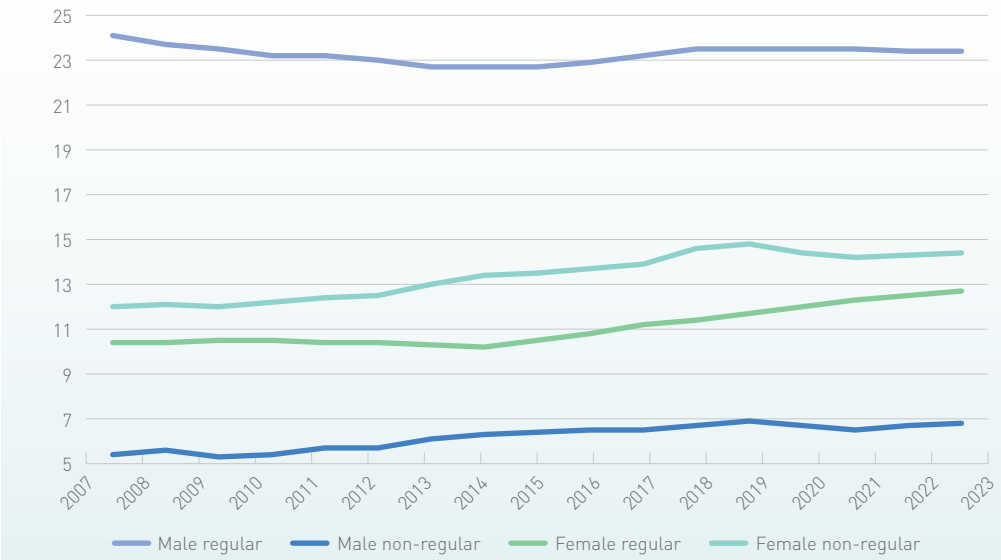
Source Constructed by the author using data from the Cabinet Office, *Quarterly Estimates of GDP, National Income Accounts;* Cabinet Office, *GDP Gap and Potential Output Growth,* https://www5.cao.go.jp/keizai3/getsurei-e/index-e.html; and BOJ, *GDP Gap and Potential Growth,* https://www.boj.or.jp/research/research_data/index.htm.

Employment and Wages

Even though the working-age population (aged 15–64) continued to shrink, total employment rose steadily after the global financial crisis until the eve of the pandemic. In particular, the female labor participation ratio (defined as a percentage ratio of working-age population) has steadily risen since the global financial crisis from 63% in 2010 to 75% in the first quarter of 2024. However, most female employment is nonregular (Figure 12A), with low wages and limited skill development and career advancement opportunities; that is, the labor market is characterized by "dualism."

Figure 12. Japan's Employment, Unemployment Rate, and Job Opening-to applicants Ratio, 2007–2024

12A. Number of Employees (Million employees)



12B. Unemployment Rate and the Job Openings-to-applicants Ratio (%)

Note Data for 2024 are the average of the first three months.

Source Constructed by the author using data from Ministry of Health, Labour and Welfare, *Labor Force Survey and Monthly Labor Survey*. https://www.stat.go.jp/data/roudou/longtime/03roudou.html;

Figure 12B demonstrates that the labor market has been tightening since recovering from the pandemic. The unemployment rate reached 3% at the height of the pandemic and has been declining since then, hovering at approximately 2.5% in early 2024. The job openings-to-applicants ratio approached 1.0 during the COVID-19 crisis and has since recovered to over 1.25. With the economic recovery following the pandemic, labor shortages have emerged in response to rising demand for labor not only in the sectors most severely affected by COVID-19, such as the hospitality and tourism sectors, but also in other sectors including construction, healthcare, logistics, and ICT.

According to the country's largest labor union group *Rengo* (Japanese Trade Union Confederation), Japanese companies agreed to raise wages by 5.2% during the annual labor negotiations—called *shunto* or the spring labor offensive—in 2024, following a 3.6% increase in 2023, reaching the highest increase since 1991. According to *Keidanren* (Japanese Business Federation), an even higher wage increase of 5.6% is reported among companies with more than 500 employees in 2024, following a rise of 4.0% in 2023 (Figure 13A). These wage increases reflect Japan's chronic labor shortage and business efforts to support employees to tackle rising costs of living.

Figure 13. Japan's Wage Growth, 2007–2024

13A. Average Wage Growth Agreed during the Annual Spring Negotiations (%)

13B. Rate of Increase in Nominal and Real Wages (%)

Note Data for 2024 in Figure 13A are preliminary: Rengo's data are based on the fifth-round response, and Keidanren's data are based on the first-round compilation. Rengo's data cover large and small businesses, whereas Kendanren's data cover large corporations.

Source Compiled by the author using data from Rengo, Keidanren, and Ministry of Health, Labour and Welfare, *Labor Force Survey and Monthly Labor Survey.*
https://www.jtuc-rengo.or.jp/activity/roudou/shuntou/chinage.html;
https://www.keidanren.or.jp/policy/index09a.html; and https://www.mhlw.go.jp/english/database/db-l/monthly-labour.html.

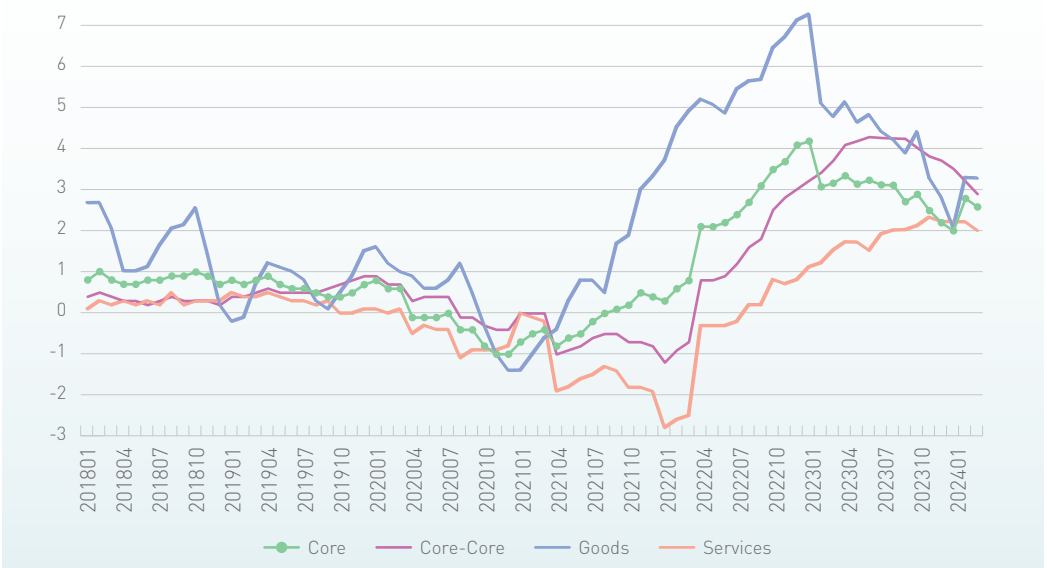
Although nominal wages started to rise in 2021, real wages adjusted for CPI inflation have been negative since 2022 (Figure 13B). An issue is whether substantial increases in wages agreed to during *shunto* will lead to substantial increases in nominal wages across many firms not engaged in *shunto*, including small and medium enterprises (SMEs), during the rest of 2024 that are higher than CPI inflation, such that real wage gains may be realized. A sustained increase in real wages is vital to stimulating real consumption and economic growth.

Inflation and the Yen Exchange Rate

Following the economic recovery from the pandemic and global hikes in energy prices, Japan's inflation started to increase visibly in 2022 (Figure 14A). Core inflation (CPI inflation excluding fresh food) began surging in the spring of 2022, reaching more than 4%—the highest level in 41 years—in January 2023, and then gradually began to decline, hovering at a level above 2% in the first quarter of 2024. Core–core inflation (CPI inflation excluding fresh food and energy) also surged and exceeded 4% in the summer of 2023 and began to slow down to a level close to 3% in early 2024. Initially, Japan's inflation was driven by external factors, such as global energy price hikes and import price rises due to yen-rate depreciation; these were soon passed on to the economy, pushing up service prices. In this sense, inflation is now increasingly demand-driven in response to labor shortages and upward pressure on service prices and wages. Whether inflation achieves the 2% target on a sustained basis will partly depend on how persistent wage growth will be.

Figure 14. Japan's Inflation and the Yen/Dollar Exchange Rate, 2007–2024

14A. Core Inflation, Core–Core Inflation, and Goods & Services Inflation (%)



14B. US–Japan Interest Rate Differential (%) and Yen/US Dollar Exchange Rate

Note Core inflation excludes fresh food and core–core inflation excludes fresh food and energy. The exchange rate is a monthly average, and the US–Japan interest rate differential is the difference between the 10-year yields of US Treasuries and Japanese government bonds (JGBs).

Source Constructed by the author using CPI data from the Ministry of Internal Affairs and Communications, e-Stat, *Consumer Price Index*; data on long-term interest rates are obtained from the Federal Reserve Bank of St. Louis' economic data (Fred); and data on the yen/dollar exchange rate are obtained from the BOJ.
https://www.e-stat.go.jp/stat-search/files?page=1&toukei=00200573&tstat=000001150147
https://fred.stlouisfed.org
https://www.stat-search.boj.or.jp/ssi/cgi-bin/famecgi2?cgi=$nme_a000_en&lstSelection=FM01

The Japanese yen began to depreciate against the US dollar from the latter half of 2021 (Figure 14B), and accelerated the pace of depreciation from the spring of 2022 due to monetary policy tightening by the US Federal Reserve and rapid hikes in oil prices as a result of the war in Ukraine. To counter the rapid pace of yen depreciation, the authorities intervened in the foreign exchange market when the rate exceeded 140 yen per dollar in September–October 2022, and the rate went beyond 150 yen in April–May 2024. Still the yen remains substantially weak.

Balance of Payments

Japan has been posting current account balance surpluses at about 3% of GDP over the last 10 years. The goods trade balance was in surplus during 2016–2021 but deteriorated sharply in 2022 due to increases in oil and gas imports, reflecting sharp hikes in mineral fuel prices, and remained in deficit in 2023. Nonetheless, the current account balance remained in a surplus of 3.6% of GDP due to a large income surplus arising from Japan's substantial, positive net international investment position. Also, the services trade balance, which improved in the second half of the 2010s but began to deteriorate due to the outbreak of COVID-19 and the resulting shrinkage of "travel" surpluses, was uplifted once again in 2023 following the recovery of inbound tourism from abroad. The financial account, the mirror image of the current account, shows that Japan continues to invest abroad on a net basis, particularly in the form of foreign direct investment (FDI).

2.2.2 Japan's Economic Adjustment and Policy Direction

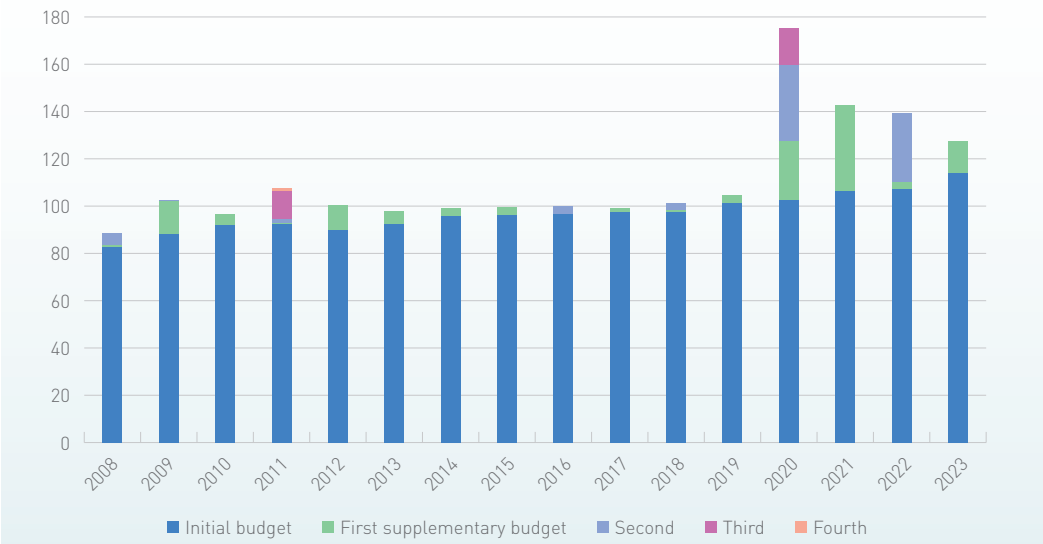
Over the last 12 years, Japan's economic policy has been largely guided by Abenomics or its variant, focusing on easy monetary policy, fiscal policy support, and structural reforms to make the economy more competitive. The Kishida administration (2021–present) introduced the concept of a "new form of capitalism," aiming to create a virtuous cycle of growth and redistribution.

Fiscal Policy

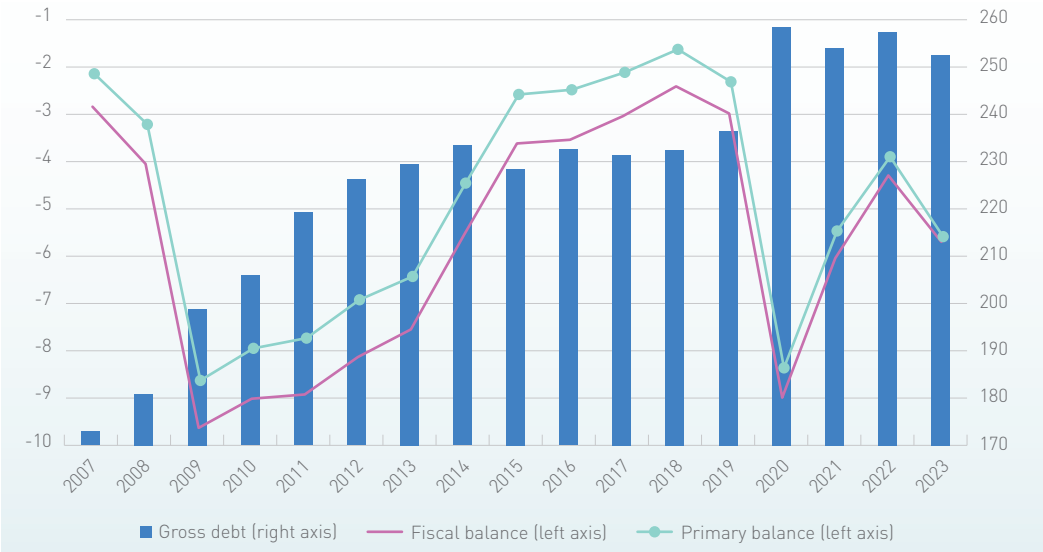
During the COVID-19 crisis, the government implemented large-scale economic packages by providing cash transfers for households and SMEs, subsidies for maintaining employment, and concessional loans for firms in need of liquidity. Following the outbreak of war in Ukraine, the administration introduced further economic packages in 2022–2023 worth 11.5% of GDP to address rising oil and general prices. These economic packages were financed largely by supplementary budgets (Figure 15A). While allowing for a swift and timely policy response to various shocks, the use of large and frequent supplementary budgets makes the initial expenditure ceilings nonbinding and threatens medium-term fiscal sustainability.

Figure 15. Japan's Supplementary Budget, Fiscal Deficit, and Public Debt, 2007–2023

15A. Supplementary Budget (JPY Trillion)



15B. General Government Fiscal Deficit, Primary Deficit, and Gross Debt (% of GDP)



Note Fiscal balance and primary balance are general government net lending and net primary lending, respectively.

Source Constructed by the author using data obtained from OECD (2024) and IMF, *World Economic Outlook Database*, April 2024. https://stat.link/4rthoq. https://www.imf.org/en/Publications/WEO/weo-database/2024/April.

There have been seven supplementary budgets since the pandemic and the ones in 2020 were most significant. The large economic packages in 2020 led to a jump in the primary deficit from 2.4% of GDP in 2019 to 8.4% in 2020, comparable to the level observed during the global financial crisis (Figure 15B). Although the primary deficit was reduced as a share of GDP in the 2021–2022 period, it worsened again in 2023. The exceptional fiscal support raised the public debt-to-GDP ratio from 236% in 2019 to 258% in 2020 and kept the ratio high (above 250%) during 2021–2023.

Monetary Policy

The BOJ adopted a highly accommodative monetary policy and provided ample liquidity to financial markets during the pandemic. As the pandemic eased in 2022, the BOJ retreated from these measures and restored its pre-COVID policy stance, characterized by yield curve control (YCC), a negative policy rate, and asset purchases. Under YCC (introduced in September 2016), the BOJ set the short-term interest rate at −0.1% and the 10-year JGB yield at 0%, allowing the yield to fluctuate within around ±0.25% in an effort to sustainably achieve 2% inflation.

In March 2024, the BOJ made a major policy change to normalize monetary policy: it abandoned YCC and ended the negative interest rate policy by raising the policy rate from −0.1% to 0%–0.1%. The BOJ has stressed that monetary policy will remain accommodative, suggesting that subsequent rate hikes may be limited. Unlike the Federal Reserve or the European Central Bank, which tightened monetary policy due to high inflation of around 10%, the BOJ's move will gradually increase policy rates toward a neutral rate to ensure that it permanently overcomes the deflationary economy.

Structural Policy

The "new form of capitalism" is the centerpiece of the Kishida administration's economic policy. Its idea is to further promote structural reforms in delivering real wage growth, creating a large middle class, and transforming social challenges into growth opportunities in close coordination with the private sector, which traditional capitalism has neglected.

Addressing demographic challenges is key to achieving resilient and sustainable growth. To cope with a decline in the labor force due to population shrinking and aging, the government

has been trying to boost the fertility rate (which declined for eight consecutive years from the recent peak of 1.45 achieved in 2015 to 1.20 in 2023), encourage women and old-age people to work, introduce more foreign workers, and boost productivity growth through innovation, investment, and labor market reform.

2.2.3 Japan's Economic Prospects

The Japanese economy continues to recover from the pandemic, although recent performance has been weak. The economy is expected to resume growth in 2024, supported by an increase in consumption with broad-based wage and price increases following three decades of deflation or lowflation. On the macroeconomic policy front, authorities should move to consolidate fiscal policy and cautiously normalize monetary policy, while maintaining financial stability. On the structural policy front, the government must address the longstanding, demographic challenges and ensure fiscal and debt sustainability through structural reforms, led by labor market reforms, to accelerate potential growth.

Macroeconomic Policy

Given a narrowing output gap relative to the pandemic level and a high debt-to-GDP ratio, the large, not-well-targeted fiscal stimulus approach should be avoided. Overreliance on supplementary budgets should also be eschewed.

The current objective of monetary policy is to achieve a sustainable 2% inflation target. State-contingent purchases of JGBs by the BOJ can help mitigate excessive rises in long-term yields that could undermine macroeconomic and financial stability during the policy transition. A clear and effective communication strategy that sets the pace of policy rate increases is critical.

The Japanese financial system, potentially affected by further interest rate hikes, is broadly resilient; nevertheless, the authorities should focus on market risks for financial institutions through close monitoring. The IMF (2024) identifies three sources of vulnerabilities in Japan's financial system and calls for macroprudential responses if needed: the sizable security holdings by financial institutions under mark-to-market accounting, notable foreign currency exposures by some banks, and signs of overheating in part of the real estate markets.

Responding to the Demographic Challenges

The projected decline in the population and employment should be mitigated by policies to reverse the contraction of the fertility rate, remove obstacles to the employment of women and older persons, and make greater use of foreign workers. Measures to support women, families, and children—including improving the work–life balance, expanding childcare facilities and resources, and facilitating fathers' contribution to home/child-care—could help reverse the decline in the fertility rate. Measures to reform labor markets and employment practices—including expanding flexible working schedules, intensifying "work style" reforms, reducing labor-market "dualism" (closing gaps between regular and nonregular employment), reducing work disincentives, and facilitating greater job mobility—could expand labor participation by women and the elderly. Another priority should be attracting foreign workers to address labor shortages and promote innovation and overseas business expansion .[4)]

Boosting Labor Productivity Growth

Boosting labor productivity growth, which stimulates potential growth amid aging pressures, is another effective way to cope with the demographic headwinds. One approach is to raise total factor productivity through innovation, technological development, and more efficient corporate organization via digital technology adoption and other measures, with a focus on improving SMEs' research and development (R&D) capabilities. Another way is to stimulate investment, particularly in green (GX) and digital transformations (DX) as well as in R&D. An additional approach is to upgrade the quality of labor through lifelong education programs, off-the-job training, and increased labor mobility. Workers who receive both off-the-job training and professional development programs tend to earn higher income than those who receive only one of the two (Cabinet Office, 2022).

4) A motivation to employ foreign human resources goes beyond merely supplementing the labor force. Many firms are now expecting foreign talents, especially high-level foreign human resources, to play a key role in advancing innovation and expanding overseas business. The employment of such advanced human resources is key for the competitive international strategy of firms and, by extension, for the national strategy of Japan.

Preserving Public Debt and Social Security Sustainability

Debt sustainability risks are expected to rise as demographic trends continue to apply upward pressure on aging-related expenditures and downward pressure on potential GDP growth. Fiscal consolidation, which is needed to avoid a sovereign debt crisis and make the social security system sustainable, should aim to lower the debt-to-GDP ratio over the medium term. This will require both improving the primary balance by cutting expenditures and raising tax revenues (particularly through increases in the consumption tax rate), as a percentage of GDP, and sustaining the growth of GDP.

The OECD (2024) demonstrates that combined productivity-enhancing reforms and fiscal reforms should result in a substantially improved primary balance and declines in the debt-to-GDP ratio. Moreover, achieving a higher fertility rate would further improve the primary balance and reduce the debt-to-GDP ratio. This underscores the importance of structural policy measures to enhance productivity, raise the fertility rate, and pursue fiscal reforms.

A viable social security system is needed to avoid large income disparities. Redistribution has contributed to a narrowing of household income gaps for more than 25 years, as observed in the reduction of the Gini coefficient (Cabinet Office, 2022). This indicates the usefulness of the social security system for lowering income inequality.

Pursuing an Open, Rules-based Trade and Investment Regime

Japan has played a regional and global leadership role in promoting an open and rules-based trade and investment regime in recent years. The country led new negotiations for the Trans-Pacific Partnership (TPP) after the departure of the US and reached a deal on the Comprehensive and Progressive Agreement for TPP (CPTPP) with 10 other member states, which was implemented in December 2018. It also forged economic partnership agreements with the EU (February 2019) and the UK (January 2021). Japan also worked with 14 East Asian countries to bring into force the Regional Comprehensive Economic Partnership (RCEP) in January 2022. Japan has been trying to expand CPTPP membership and upgrade the content of the RCEP.

Japan has been particularly supportive of WTO reforms to re-establish an effective dispute settlement mechanism, modernize trade rules, and enhance its monitoring and enforcement functions. While serving as an original member of the recent Joint Statement Initiative (plurilateral agreement) on Domestic Services Regulation (concluded in December 2021), Japan has been actively involved in negotiations on E-Commerce and Investment Facilitation for Development, the latter of which aims at a multilateral framework to increase the flow of FDI, notably toward developing countries.

The Japanese economy has weathered the impacts of the pandemic and the war in Ukraine relatively well thanks to pent-up demand, border reopening, the global economic recovery, and policy support. However, the economic recovery has stalled since the third quarter of 2023 due to sluggish private demand. The labor market remains relatively tight and nominal wages have been rising despite real wages remaining stagnant. CPI inflation is high according to Japan's standard, and the BOJ began to normalize its monetary policy by abolishing YCC and raising the policy interest rate to a positive level. Further structural reforms are needed to overcome the demographic deficit, improve potential GDP growth, ensure public debt sustainability, and improve the investment climate, thereby boosting labor productivity, real wages, and private consumption and investment.

2.3 The ROK's Economic Performance

2.3.1 The ROK's Macroeconomic Performance

Over the last six years, in the face of global economic shifts, the Republic of Korea (ROK) has demonstrated remarkable economic resilience and adaptability. This period has been characterized by significant volatility, influenced by a complex interplay of domestic and international factors, which includes changes in global demand, technological innovation, and policy evolution. This chapter comprehensively analyzes the ROK's economic performance from 2018 to 2023, examining the key indicators of growth, challenges, and the strategic responses shaping the nation's economic landscape.

2018 and 2019 marked a phase of consistent economic expansion for the ROK. The nation's growth was predominantly driven by its robust manufacturing and export sectors, with notable performance in the electronics and automotive industries. The ROK's sophisticated technological infrastructure and substantial investments in R&D played a crucial role in fostering strong GDP growth rates of 2.0% and 2.9%, respectively. The country experienced a low unemployment rate of 3.8% and moderate inflation at 0.4%, establishing a strong foundation for future economic stability.

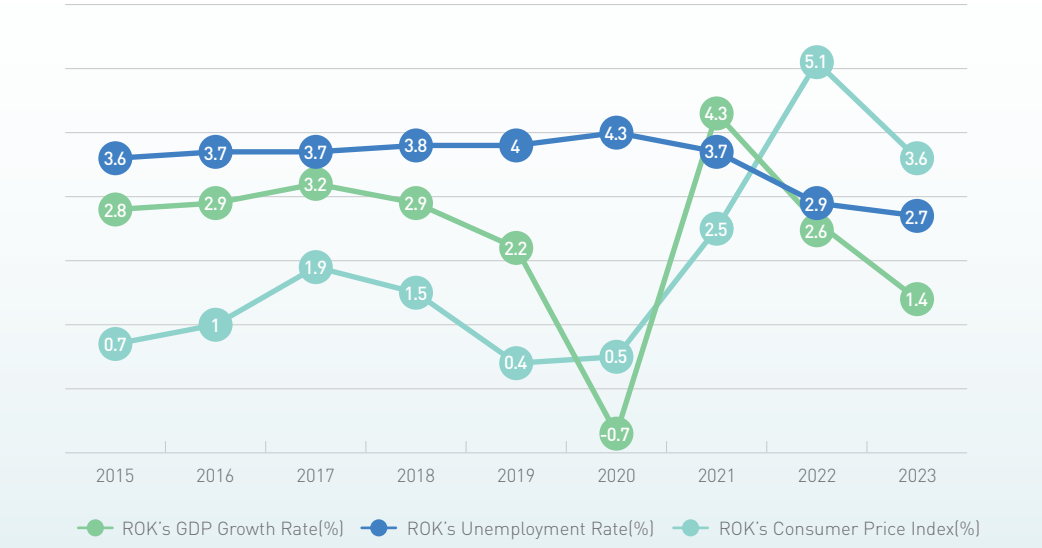
However, the COVID-19 pandemic disrupted the global economic order. The ROK managed to navigate these turbulent times with commendable efficiency. The nation's advanced digital capabilities and prompt response to the crisis facilitated a relatively swift economic rebound. Despite initial setbacks in trade and manufacturing, a resurgence in exports, particularly semiconductors and electronics—vital components of the global supply chain—propelled the recovery. The trade surplus reached a five-year high of USD 44,865 million, despite declines in export and import volumes.

In 2021, following the pandemic, the economy showed signs of a robust recovery. The GDP growth rate rebounded significantly, fueled by a surge in exports, and reached 4.3%—the highest in five years. The semiconductor sector, where the ROK is a global leader, was instrumental in this revival. The nation's export-driven economy capitalized on the resurgence in global demand for technology and consumer electronics due to the accelerated digital transformation taking place during the pandemic.

Meanwhile, the economic landscape of 2022 was fraught with challenges, including diminished global demand, supply chain interruptions, and escalating inflationary pressures. The ROK's GDP growth decelerated as exports and domestic demand faced obstacles. The electronics manufacturing sector experienced contractions due to reduced global demand and supply chain complications. Inflation saw a significant uptick, prompting the Bank of Korea (BOK) to implement a series of interest rate hikes, in turn leading to a substantial trade deficit. The inflation rate increased from 2.5% in 2021 to a peak of 5.1% in 2022. Additionally, the trade deficit for 2022 amounted to USD 47,785 million.

In 2023, the ROK's economy continued to face challenges that were particularly noticeable after a downturn in late 2022. However, the nation also observed minor recoveries, especially a slight positive shift in GDP growth in early 2023. The manufacturing and export sectors, particularly the electronics industry, faced hurdles due to diminished global demand and geopolitical tensions. Nonetheless, a modest uptick in exports to mainland China was observed, likely spurred by the relaxation of COVID-19 restrictions.

Figure 16. The ROK's Macroeconomic Data



Inflation, which escalated to 5.1% in 2022, began to show signs of easing early in 2023. The BOK's numerous base rate increases the previous year had dampened domestic consumption. By early 2023, the CPI moderated, decreasing from 5.1% in 2022 to 3.6% in 2023. Consequently, the BOK maintained a stable base rate, reflecting its cautious approach to monetary policy. The electronics sector, a cornerstone of the ROK's export economy, experienced a downturn, reflecting a global slowdown in the electronics industry. This was particularly evident in early 2023, with a marked decline in ICT exports, especially in semiconductors. Despite these challenges, the ROK's economy showcased its resilience, with modest GDP growth and recuperation in various sectors. The trade deficit notably reduced from USD 47,785 million in 2022 to USD 10,209 million in 2023.

Figure 17. The ROK's Trade

(Unit: USD Million)

Overall, the ROK's economic performance over the past six years has been a testament to the nation's resilience and adaptability amid global economic uncertainties and challenges. Despite challenges such as slowing global demand, supply chain disruptions, and inflationary pressures, its solid foundations in technology, innovation, and global trade have continued to offer pathways for growth and stability.

2.3.2 The ROK's Economic Adjustment and Policy Direction

During 2018 and 2019, the ROK's policies on innovation and inclusiveness prioritized R&D, regional development, and the creation of an environment conducive to economic growth that benefits all segments of society. The ROK was recognized as a global leader in ICT, backed by systemic reform and robust R&D investments. There was a significant focus on collaborations between government, industry, and academia to promote innovation, which was instrumental in driving economic development. Moreover, large industrial groups, known as chaebols, were encouraged to invest heavily in R&D. These efforts were supported by the government, resulting in advancements in various sectors, including consumer electronics, car manufacturing, and shipbuilding. The government aimed for well-balanced development across every region, promoting autonomy and decentralization as part of its Five-year Plan for the Administration of State Affairs. Efforts were made to develop smart cities and establish national minimum standards for access to day-to-day infrastructure. Two pilot cities, Busan and Sejong, were selected to transform into examples of smart cities, applying Industry 4.0 technologies. These initiatives reflect the ROK's commitment to fostering a dynamic and inclusive economy, where innovation is not only driven by top-tier companies and research institutions but also distributed across regions to ensure balanced growth and opportunities for all citizens.

In 2020, the ROK's economic adjustment and policy direction were significantly influenced by the COVID-19 pandemic. The government's response was multifaceted, focusing on mitigating the economic impact while setting the stage for a resilient recovery. The ROK experienced an economic downturn of just 0.9% of GDP in 2020, among the smallest declines among the OECD countries. This performance was due to strong demand for the ROK's digital technology exports, particularly semiconductors and IT products, and robust, counter-cyclical government spending.

The ROK government implemented a large economic stimulus of about 11% of GDP. This stimulus focused on enhancing the social safety net and accelerating digital and green economic transitions. Despite the pandemic, unemployment rates remained stable and modest, rising from 3.8% in 2019 to about 4% in 2020, and then falling again to 3.6% in 2021. Tax revenues were lower as a share of GDP than the OECD average, but the government deficit was just 2.3% of GDP in 2020 despite the large fiscal stimulus. Debt increased to 51% of GDP. The BOK cut its policy rate by 50 basis points twice in 2019, by another 50 basis points in March 2020 and then by 25 basis points in May, to a record low of 0.5%. The Moon government's

cornerstone economic initiative was the "people-centered economy," which focused on job creation, income-driven growth, and welfare expansion.

One of the three pillars of the ROK's New Deal-style response to COVID-19 was to enhance the social safety net (the Human New Deal). The other two pillars—the Digital New Deal and Green New Deal—focused on accelerating the ROK's economic transformation in line with the Fourth Industrial Revolution. The government committed to reform the country's business environment by reorganizing the dominant business conglomerates (chaebol), although progress was slow due to the country's reliance on chaebol-produced exports for economic recovery. These policies reflect the ROK's proactive and adaptive approach to managing the economic challenges posed by the pandemic, with a focus on maintaining economic stability, supporting employment, and laying the groundwork for a sustainable and inclusive recovery. The government's swift and effective policy response, including extensive testing and contact tracing, were crucial for containing the spread of the virus without extensive lockdowns, minimizing damage to the domestic economy.

In 2021, the ROK's economic policy continued to adapt to the challenges posed by the COVID-19 pandemic, focusing on the recovery and laying the groundwork for future growth. The government advanced the Korean New Deal, which included the Digital New Deal and the Green New Deal. The ROK's FDI hit an all-time high of USD 75.87 billion in 2021, a 32.8% increase over the previous year. The investment focused on finance and insurance, manufacturing, real estate, information and communications services, and wholesale and retail. The government implemented measures to support economic recovery, including stimulus packages and financial aid to businesses and individuals affected by the pandemic. Policies were enacted to support employment and mitigate the impact of the pandemic on the job market. The government focused on fiscal health and managing public finances to support economic recovery while aiming for long-term sustainability. The BOK maintained an accommodative monetary policy to support economic activity and provide liquidity to the financial system. Efforts continued to implement structural reforms to enhance the economy's resilience and competitiveness.

In 2022, the ROK's economic policy focused on addressing the challenges posed by the COVID-19 pandemic and charting a path toward complete economic normalization. The government aimed for a complete recovery from the pandemic crisis. To boost domestic demand, the government maintained an expansionary fiscal policy, releasing more funds to

revive domestic demand and investment that had not yet recovered from the economic shock caused by the pandemic. Special tax deductions were introduced for additional spending in traditional markets, and discount coupons were provided. The duty-free purchase ceilings for Korean nationals were removed for the first time in 43 years to support the duty-free industry and encourage tourists to spend more in the ROK. The government designated 65 technologies in areas such as semiconductors and batteries as "national strategic technologies" and expanded their tax benefits. These measures were part of a massive investment in future businesses and new technologies, including those related to semiconductors, batteries, and the hydrogen economy. An investment of USD 28 billion was planned for implementing the Korean New Deal 2.0 initiative, which aimed to achieve economic normalization beyond the pandemic and making significant investments in future businesses and new technologies. The BOK adjusted its monetary policy amid inflation concerns, expecting the country's inflation to run in its 2% target range but expressing concerns over intensifying upward pressure from global supply disruptions and a rebound in consumption.

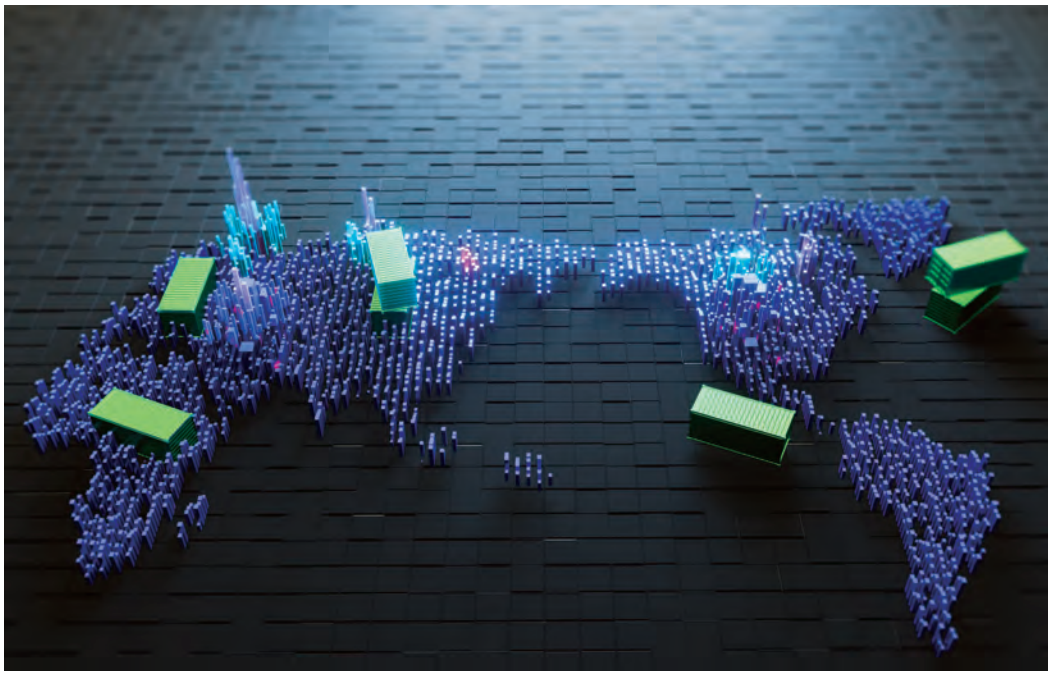
The ROK government has diligently addressed the multifaceted economic crises in 2023, including high prices, interest rates, and exchange rates. Despite these challenges, the ROK economy has performed relatively well, maintaining growth rates above the potential level and demonstrating robust employment performance. However, the economic conditions remain challenging. The impact of major economies' sharply increasing interest rates have spilled over to the ROK's real economy, especially affecting exports. Prices have gradually grown at a slower pace after peaking in July 2022, but they are expected to remain high due to uncertainties, including raw material prices. Although employment growth was exceptionally positive in 2022, it is likely to be dampened by economic slowdowns and base effects. There are growing concerns over a slump in the real estate market and risks related to marginal companies.

2.3.3 The ROK's Economic Prospects

The ROK's economic outlook for 2024 and beyond is cautiously optimistic, with growth projections hovering around 2.2%–2.3% for 2024. The economy is expected to record a growth rate of 2.2% in 2024. There is an anticipated slowdown in domestic demand, with private consumption expected to increase by 1.7%, reflecting a slowdown in goods consumption. Equipment investment is projected to grow by 2.3% while construction investment is expected

to decline by −1.4%, indicating a downturn in the real estate market. Total exports are projected to increase by 4.7%, driven by a rebound in the semiconductor market and positive adjustments in global economic growth rates. The current account surplus is anticipated to be approximately USD 56 billion, exceeding earlier forecasts. Headline inflation is projected at 2.5%. The number of employed persons is expected to grow by 220,000, reflecting an increase in the labor supply from women in their 30s and older Koreans.

Looking beyond 2024, the Ministry of Economy and Finance indicates a rebound to 2.3% in 2024, followed by a slight dip to 2.1% in 2025. The recovery is expected to be mainly driven by exports, particularly in the semiconductor industry, a key sector for the ROK. Overall, despite the challenges, such as weak private consumption and a sluggish construction investment, the prospects of a soft landing for the global economy and growth in the global IT industry provide a positive outlook for the ROK's economic future.

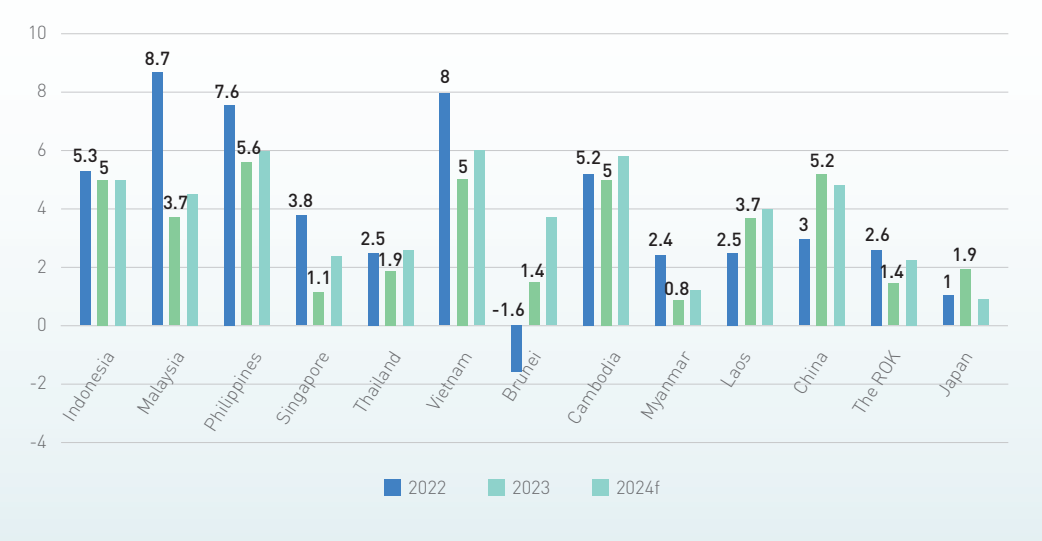


2.4 Economic Circumstances in ASEAN + 3

By the end of 2023, all Association of Southeast Asian Nations (ASEAN) + 3 economies had recovered from the COVID-19 pandemic. Their (real) GDP had returned to its pre-COVID-19 crisis figures, i.e., 2019. Nonetheless, their growth performance varied greatly in 2023. Their (real) annual GDP growth in 2023 ranged from 0.8 % to 5.6% (Figure 18).

Myanmar registered the lowest growth, mainly due to ongoing internal political unrest. It is difficult to predict when and how the unrest will be resolved; however, it continues to play a crucial role in determining the country's overall economic performance. Meanwhile, the Philippines recorded the highest growth at 5.6%. China, Vietnam, Indonesia, and Cambodia exhibited the same annual growth rate of 5%, followed by Malaysia and Laos at 3.7%. Singapore's annual economic growth was only 1.1%, whereas the ROK's and Brunei's were 1.4%, Japan's and Thailand's were 1.9%, respectively (Figure 18).

Figure 18. Annual Growth of ASEAN + 3 Economies from 2022–2024 (Unit: %)

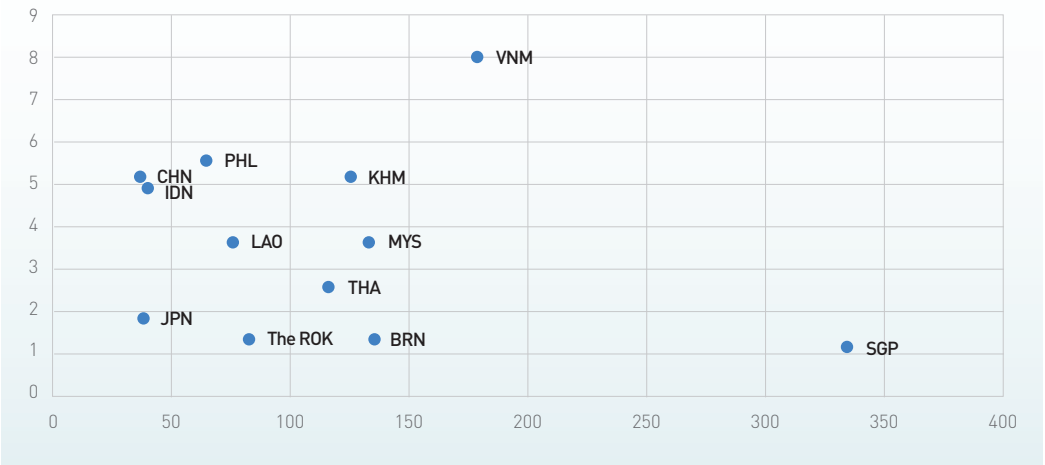


Source CEIC database

By 2023, the GDP of all ASEAN + 3 economies, except Thailand and Japan, noticeably surpassed pre-COVID-19 levels (i.e., 2019). Japan and Thailand were the slowest in terms of economic recovery. By the end of 2023, their (real) GDP levels had just reached pre-COVID levels. Interestingly, the regional growth outlook remains stable or better for ASEAN + 3 economies, with the exception of Thailand, according to the forecast by the Asian Development Bank (ADB) in April 2024.[5] Thailand's 2024 economic growth forecast was revised downward consecutively from 3.7% in September 2023 to 2.6% in April 2024.

The difference in growth performance varied somewhat according to market orientations and domestic circumstances. In 2023, global trade was not in favorable; thus, the growth performance of those exposed to the global economy, all other things being equal, was more adversely affected (Figure 19). In an unfavorable global trade environment, domestic absorption played a crucial role to cushion any negative effect, which was vastly different across the ASEAN + 3 economies.

Figure 19. Correlation between Trade Openness (2020–2022) and (real) GDP Growth of ASEAN + 3 Economies in 2023



Note Horizontal axis is trade openness averaging out in 2020–2022 whereas the vertical axis is (real) annual GDP growth in 2023.

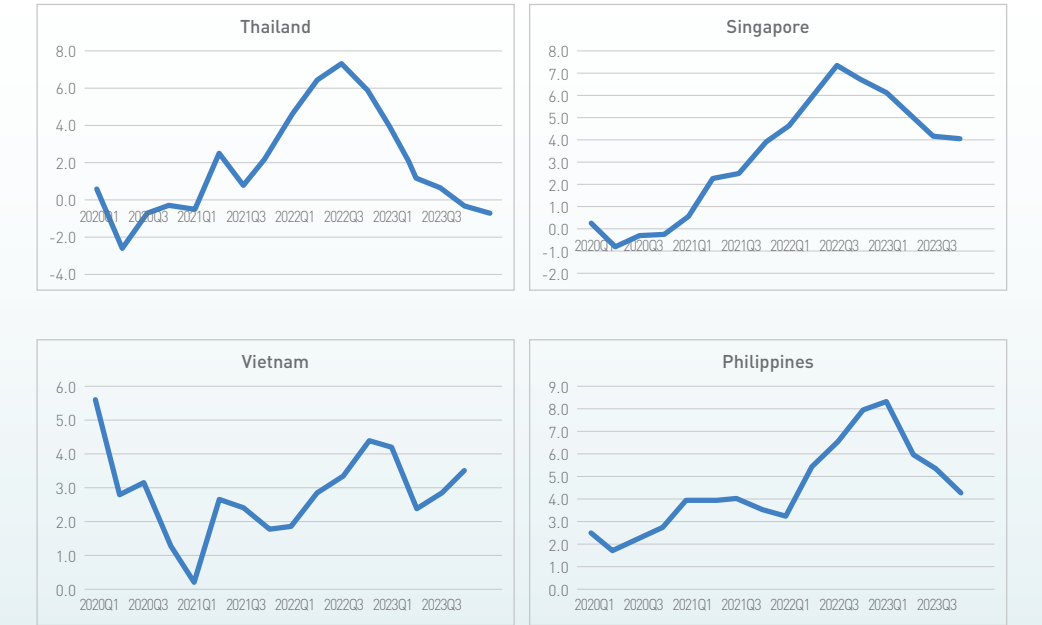
Source World Development Indicator Database Online

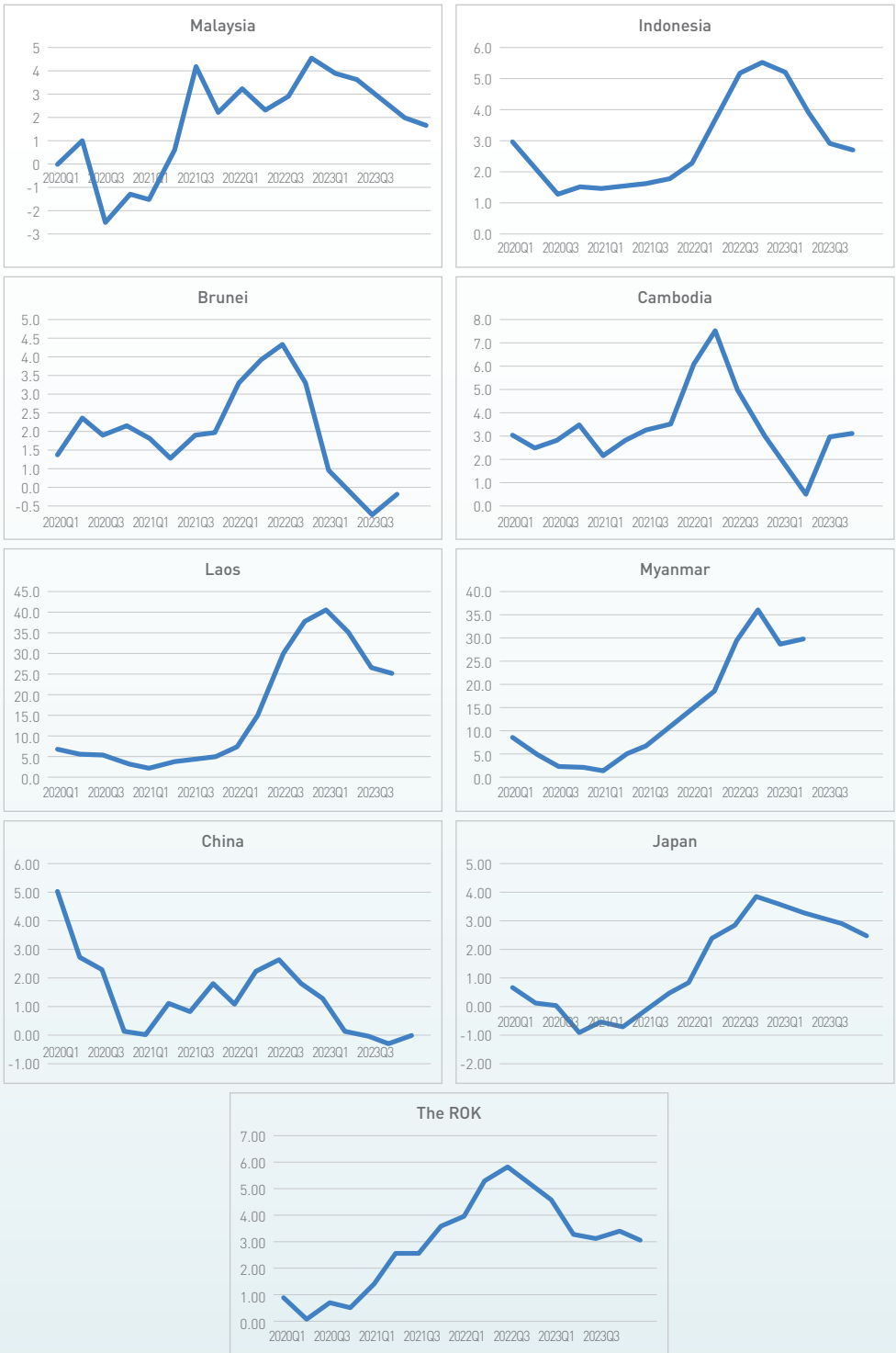
5) Note that in the case of Japan, the growth forecast is based on World Economic Outlook 2023 December and 2024 April by International Monetary Fund (IMF).

For example, in the case of Indonesia, public spending on the new capital city project and its multiplier effect on private consumption cushioned the slowdown in global trade. Similar evidence was found in the case of the Philippines, which upgraded their public infrastructure. Such spending induced increased private consumption and investment, maintaining the economic growth momentum. By contrast, the slow growth of Thailand in 2023 was attributed to a contraction of government spending due to political circumstances after the elections. Nonetheless, as most Southeast Asian economies are facing two internal challenges, high household debt and rising public debts, the capability of domestic absorption to keep growth momentum would reduce.

Inflation in the ASEAN + 3 economies, with the exception of China, indicated by changes in CPI, soared in the first three quarters of 2023 before fading out in the last quarter (Figure 20). The 2023 inflation cycle was driven largely by oil price hikes and currency depreciation against the US dollar, both of which have resumed again starting in the first quarter of 2024.

Figure 20. Inflation (% CPI) of ASEAN + 3 Economies from 2020Q1 to 2023Q4





Source CEIC database

The inflation rate still varied greatly across the countries, driven largely by domestic-specific circumstances. Laos' two-digit inflation rate experienced since Q2 of 2022 was due to the massive currency depreciation against the US dollar. By March 2024, the Lao kip depreciated against the US dollar by 109.2% as compared with the first quarter of 2022. This differs from the two-digit inflation rate in Myanmar, largely derived from internal political circumstances causing logistic services disruption and goods shortages.

China seems to be the exception; the YoY CPI changes has exhibited negative growth since the second quarter of 2023. In January 2024, the CPI change fell by −0.8%, the largest decline since September 2009. The deflation was largely due to the slowdown in growth in the postpandemic era, the property crisis, the slump in the Chinese stock market, and local government debt risks (Li and Woo, 2024). These remain challenges to be overcome by the Chinese government.

Thailand was another country in Southeast Asian economies to face a deflationary threat. Starting from September 2023, the inflation rate has been negative in the past seven months. The CPI change rose 0.19% in April. Inflation will be expected to the target by the end of 2024 (Nikkei Asia, 2024). The inflation rate of the rest of the region has been conducive to spurring growth, that is, lower than 5%.

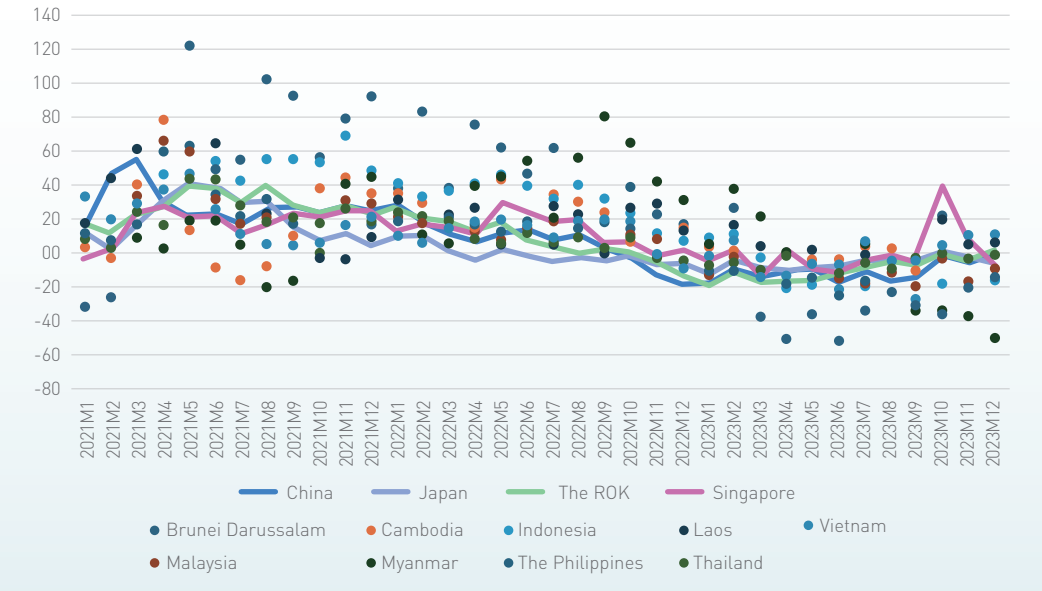
The conflict in the Middle East, which is expected to be prolonged and involve more parties, could cause oil prices to soar and resume inflationary pressures, which threaten ASEAN + 3 economies. Since January 2024, world oil prices, proxied by West Texas Intermediate oil price, have bottomed up and soared from USD 71.9/barrel to USD 81.4/barrel by April 21, 2024.[6)]

The above inflation threat has been worsened by the currency depreciation trend of the ASEAN + 3 economies against the US dollar that has been observed since 2022. Noticeable changes were observed in the Japanese yen, Korean won, Thai baht, Malaysian ringgit, Philippine peso, Indonesian peso, and, recently, the Vietnamese dong. The currencies of the other Southeast Asian economies were only slightly changed over the period under consideration due to their different exchange rate regimes (Figure 20).

6) Data from trading economies website accessed by 21 April 2024.

While a weaker currency generally benefits exporters and tourism, its net impact on promoting merchandise exports barely materialized. The export performance of most ASEAN + 3 economies continued to exhibit a downward trend in 2023 (Figure 21). This was especially true for East Asian economies (i.e., China, Japan, and the ROK) illustrated in Figure 21 by lines. In contrast, monthly export performance of Southeast Asian economies, measured by YoY export growth and indicated by the dots in Figure 21, often stayed above the three lines. Since the last quarter of 2023, monthly export growth rates have exhibited an upward trend.

Figure 21. YoY monthly export growth (%) of ASEAN + 3 economies from 2021 to 2023



Source Authors' compiled from UN Comtrade database.

Vietnam was the top performer in terms of monthly export growth. Vietnam registered positive monthly export growth consecutively in the last quarter of 2023. Thailand shared a similar recovery trend, whereas the other Southeast Asian economies' export growth has not exhibited a clear recovery sign. The three East Asian economies are still facing hurdles in their export recovery.

The export performance revealed above was largely affected by uncertainties prevailing in their export destinations. China has become the main export destination for many Southeast Asian economies. Chinese import sources have shifted toward Southeast Asian economies. This is

especially true for agricultural products, intermediates (such as mineral products, the pulp of woods, raw leathers, and nickels), and global value chain (GVC)-intensive duos, that is, machinery, mechanical appliances, electrical machinery, and equipment. China's overall economic performance inevitably affected the export recovery path of these economies. This also highlights the intensive intraregional economic linkages and the need for regional cooperation to promote growth in the region.

In contrast, the US has gained in relative importance as an export destination for Vietnam and Thailand. Their export performance benefited from the resilient US economy and exhibited a different path. Arguably, they may benefit to an extent from the currency depreciation.

There was a declining trend of FDI inflows into ASEAN + 3 economies, influenced by those destinated to East Asian economies, accounting for nearly 60% of the total inflows into the ASEAN + 3 economies between 2019 and 2021 (Figure 22). Since then, FDI inflows to East Asian economies have declined from USD 59.1 billion in 2019 to USD 19.3 billion in 2023. The declining trend was largely driven by FDI inflows to China, whereas the inflows to the other two East Asian economies were virtually stable. Such a trend has seemed to gain policy attention in China and explains some of the recent growth slowdown.

Figure 22. FDI Inflow Trends to ASEAN + 3 Economies (Unit: USD Million)

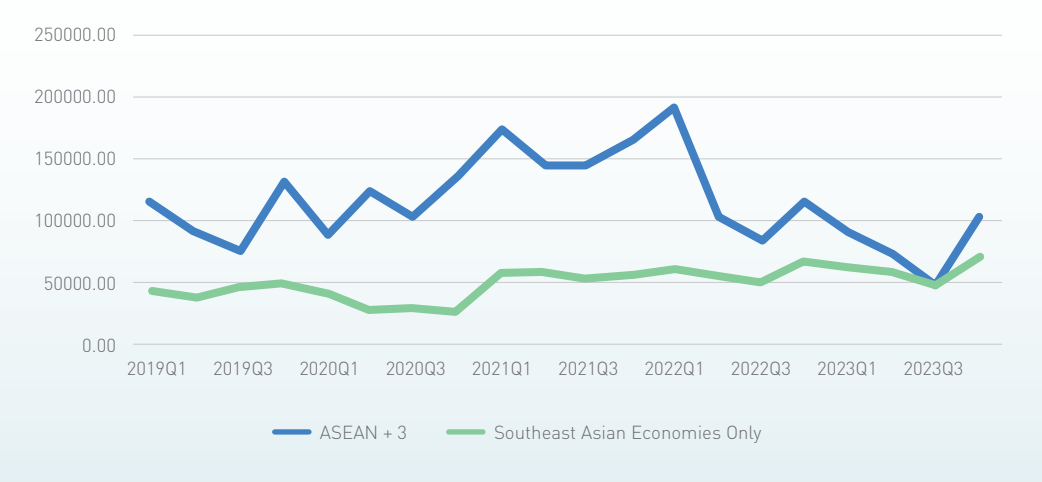
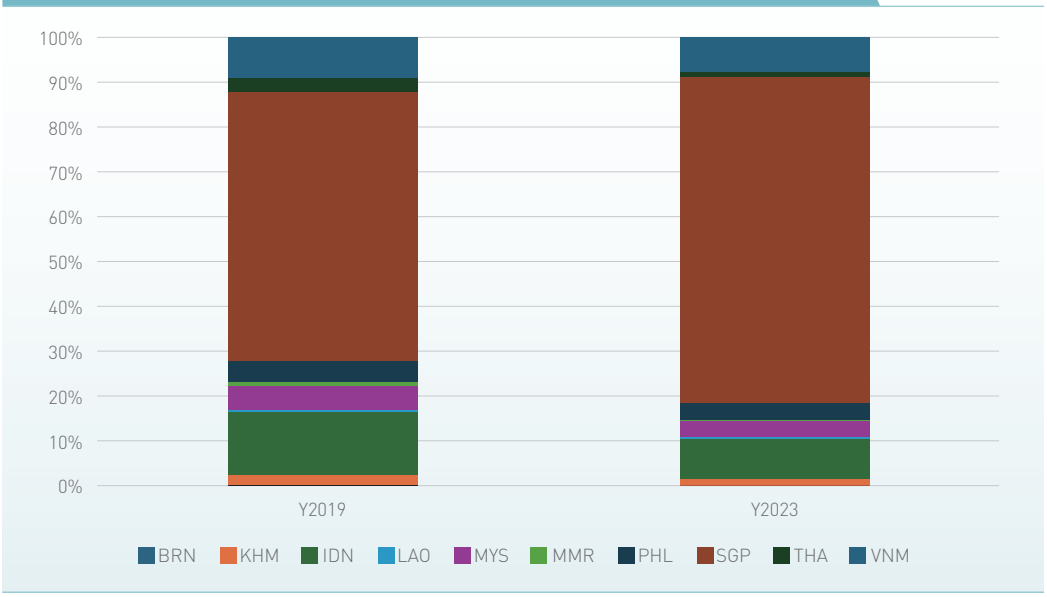


Figure 23. FDI Inflows across Countries in Southeast Asian Economies (% to total FDI inflows to Southeast Asian Economies)



Source CEIC database

Note BRN = Brunei; KHM = Cambodia; IDN = Indonesia; LAO= Laos; MYS= Malaysia; MMR= Myanmar; PHL= the Philippines; SGP = Singapore; THA= Thailand; and VNM = Vietnam

In contrast, Southeast Asian economies have gained relative importance in terms as investment bases for multinational enterprises (MNEs). The quarterly FDI inflows to Southeast Asian economies grew from USD 43.1 billion in Q1 of 2019 to USD 71.1 billion in Q4 of 2023. The increasing importance of Southeast Asian economies as FDI investment destinations was somewhat equally distributed. Singapore remained the largest FDI recipient in the region. From 2022 to 2023, FDI inflows to Singapore accounted, on average, for 68.2% of total FDI inflows to the Southeast Asian economies. Indonesia and Vietnam were the first and second runners-up after Singapore in enticing FDI inflows between 2022 and 2023. Their shares averaged out at 9.8% and 7.7% between 2022 and 2023, from 14.13% and 9.1% in 2019, respectively. The FDI inflows of other major Southeast Asian economies also experienced a slight decline over the period under consideration.

Another upcoming challenge is the dilemma of conducting monetary policy. Policy interest rates were raised in the ASEAN + 3 economies as a precautionary action to address the threat

of inflation in the second half of 2022 and remained unchanged throughout 2023 (World Bank, 2024). Note that the policy rate increases in the ASEAN + 3 economies were mild compared to other emerging markets and developing economies.

As inflationary pressure started fading in the fourth quarter, pressure on central banks to ease their monetary policy stance has been growing. The policy rate cut is expected to spur economic growth. Nonetheless, recent developments could go in the opposite direction, including the recent uptick in oil prices, the stronger-than-expected US economy, and persistent weaker currencies, all of which added inflationary pressure. Overall, this could be another challenge for ASEAN + 3 economies to overcome.

Reference

- ADB (2024), '*Asian Development Outlook*, Asian Development Bank (ADB), Manila.
- AMRO. 2024. "AMRO Annual Consultation Report: Japan-2023." *AMRO Country Report* 24/03 (March). Singapore: ASEAN+3 Macroeconomic Research Office. https://www.amro-asia.org/amros-2023-annual-consultation-report-on-japan/
- Bank of Japan. 2024. *Outlook for Economic Activity and Prices*. April. Tokyo: Bank of Japan. https://www.boj.or.jp/en/mopo/outlook/gor2404b.pdf
- Cabinet Office. 2022. *Annual Report on the Japanese Economy and Public Finance 2022,* July. https://www5.cao.go.jp/keizai3/whitepaper-e.html
- Cabinet Office. 2024a. *Economic and Fiscal Projections for Medium to Long Term Analysis*. January. Tokyo: Cabinet Office. https://www5.cao.go.jp/keizai3/projection-e.html
- Cabinet Office. 2024b. *Monthly Economic Report*. January-April. Tokyo: Cabinet Office. https://www5.cao.go.jp/keizai3/getsurei-e/index-e.html
- Cabinet Secretariat. 2023. "Grand Design and Action Plan for a New Form of Capitalism, 2023 Revised Version." June. Tokyo: Cabinet Office. https://www.cas.go.jp/jp/seisaku/atarashii_sihonsyugi/pdf/ap2023en.pdf
- European Commission (2024), 'European Economic Forecast Winter 2024', European Economy Institutional Paper 268, February available at https://economy-finance.ec.europa.eu/document/download/2b7b7fae-0844-4dd1-bedd-619c3544aaed_en?filename=ip268_en_0.pdf
- IMF. 2024. "Japan: 2024 Article IV Consultation—Press Release; Staff Report: and Statement by the Executive Director for Japan." *IMF Country Report* No. 24/118 (May). Washington, DC: International Monetary Fund.

- IMF (2024), *World Economic Outlook: Steady but slow: resilience amid divergence'*, International Monetary Fund (IMF), April, Washington.
- Li, Qiaoyi, and R. Woo (2024), 'China's consumer prices suffer biggest fall since 2009 as deflation risks stalk economy', Reuters, 8 February available at https://www.reuters.com/world/china/chinas-consumer-prices-suffer-steepest-fall-since-2009-deflation-risks-stalk-2024-02-08/
- Ma, J. (2024), 'The US economy is headed for a hard landing, and Fed rate cuts won't be enough to rescue it, Citi says', Fortune, 6 May available at https://fortune.com/2024/05/05/economic-outlook-hard-landing-recession-fed-rate-cuts-forecast-citi/
- Nikkei Asia (2024), 'Thai inflation rate positive for the first time in seven months', 3 May available at https://asia.nikkei.com/Economy/Inflation/Thai-inflation-rate-positive-for-first-time-in-seven-months
- OECD. 2024. *OECD Economic Surveys: Japan 2024*. January. Paris: Organization for Economic Cooperation and Development. https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-japan-2024_41e807f9-en
- Tran, Hung (2024), 'Breaking down Janet Yellen's comments on Chinese overcapacity', Atlantic Council April 9, available at https://www.atlanticcouncil.org/blogs/econographics/sinographs/breaking-down-janet-yellens-comments-on-chinese-overcapacity/
- World Bank (2024), *East Asia and the Pacific Economic Update: Firm foundations of growth'*, April, Washington.

CHAPTER III

Economic and Trade Cooperation in East Asia

Authors

LIU Qing, Deputy Dean & Professor of Economics, National Academy of Development and Strategy, Renmin University of China

KAWAI Masahiro, Emeritus Professor, The University of Tokyo

JEONG Hyung-Gon, Senior Research Fellow, Japan and East Asia Team, Korea Institute for International Economic Policy (KIEP)

III Economic and Trade Cooperation in East Asia

3.1 Bilateral Economic Relations between China, Japan, and the ROK

3.1.1 Bilateral Economic Relations between China and Japan

China's Perspective

As essential trading partners, China and Japan have deepened their economic interdependence over recent decades. China's customs statistics reveal that bilateral trade between the two countries surged from USD 101.9 billion in 2002 to USD 318 billion in 2023. Exports from China to Japan grew from USD 48.4 billion to USD 157.5 billion, while imports to China from Japan surged from USD 53.5 billion to USD 160 billion. Against the backdrop of multifaceted challenges, such as the global economic slowdown, the COVID-19 pandemic, and Sino-US trade tensions, the volume of bilateral trade experienced periodic declines in 2015, 2019, and 2022. Nevertheless, the overall trend has remained stable, reflecting a sustained growth trajectory and robust trade cooperation. Over the past two decades, Japan has maintained a steady trade surplus with China.

Bilateral trade between China and Japan remained highly concentrated in a few specific industries. In 2023, machinery and electronics, miscellaneous, textiles, chemicals, metals, and transportation products accounted for more than 80% of Chinese exports to Japan and 87% of imports from Japan. While labor-intensive products continue to constitute a significant portion of China's exports to Japan compared to 2002, there has been a notable increase in capital- and technology-intensive products. Notably, intraindustry vertical trade, represented by machinery and electronic products, has become a new feature of the trade structure between China and Japan, suggesting complementarity of both countries in the global supply chain.

Table 1. The Sino-Japanese Trade Structure in 2002 and 2023

HS Sections	The Sino-Japanese trade structure in 2002 and 2023			
	Export structure		Import structure	
	2023	2002	2023	2002
Machinery and Electronics	41.0%	29.1%	48.5%	52.2%
Miscellaneous products	11.4%	7.4%	8.8%	7.4%
Textiles and Clothing	10.6%	26.5%	1.3%	5.9%
Chemicals	7.1%	3.3%	13.2%	7.4%
Metals	6.0%	3.9%	8.4%	11.1%
Transportation products	4.6%	2.5%	7.6%	5.5%
Others	19.3%	27.2%	12.2%	10.4%
Total	100%	100%	100%	100%

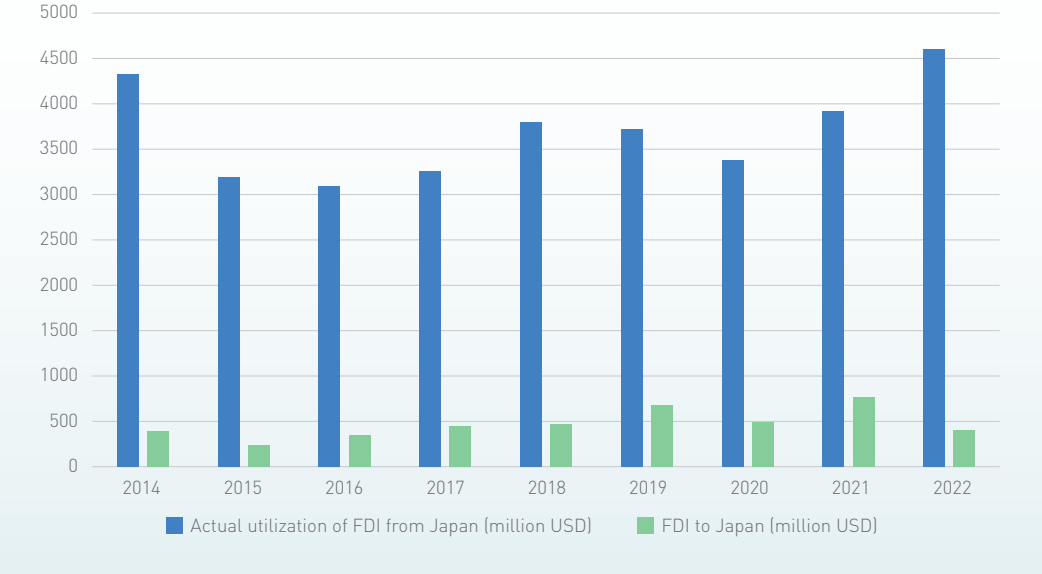
Source World Integrated Trade Solution (WITS)

Note Other products including plastic or rubber, food, footwears, wood, vegetables, hides and skins, minerals, stone and glass, fuels, animal products.

Bilateral FDI between China and Japan was volatile and marked by imbalanced FDI flows. The total FDI between the two countries decreased by 27.2% in 2015 and 12.1% in 2020 compared to previous years. In 2022, despite the challenging environment, bilateral FDI saw an upward trend, largely driven by a significant increase in Japanese investments in China. China's outward FDI in Japan, however, dropped by 36.2% compared with the previous year. Overall, China's investments in Japan remain comparatively small. This imbalance and asymmetry in bilateral

FDI could pose potential risks to the future deepening of economic integration and cooperation between the two countries.

Figure 1. Bilateral Investment between China and Japan, 2014–2022



Source National Bureau of Statistics of China; Ministry of Commerce of China

Japan's position in the strategic competition between China and the United States introduced high uncertainty to Sino-Japanese cooperation. On one hand, Japan sought to build a "mutually beneficial" strategic relationship with China. On November 17, 2023, Chinese President Xi Jinping met Japanese Prime Minister Fumio Kishida in San Francisco on the sidelines of the APEC meetings, reaffirming the positioning of mutually beneficial relationship based on common strategic interests. On the other hand, the Japanese government continued to promote the "Indo-Pacific Strategy" and economic security strategies, actively cooperating with the United States in implementing technological blockades against China. As a strategic ally of the United States and an important trading partner of China, Japan attempted a delicate balance in the Sino-US rivalry. However, this policy inconsistency might increase uncertainty in Sino-Japanese cooperation, especially in critical sectors like electronics and semiconductors.

Japan's Perspective

China, Japan, and the ROK have deepened their mutual economic interdependence over the last several decades. Table 2 summarizes Japan's top ten partners in tourism, goods trade, and FDI stock. Since recovering from the COVID-19 pandemic, the numbers of Japanese travelers visiting abroad (outbound) and foreign travelers visiting Japan (inbound) have increased. In 2023, 9.6 million Japanese travelers went abroad and 20.0 million foreign travelers visited Japan. In 2023, Japan exported USD 717 billion and imported USD 786 billion of goods vis-à-vis the world. Also, Japan had accumulated JPY 288.9 trillion (USD 2.0 trillion at the end of the year exchange rate of 144.1 yen per US dollar) of outward FDI stock and JPY 31.7 trillion (USD 220 billion) in inward FDI stock by the end of 2023. Although Japan's trade and FDI stocks have not expanded in US dollar terms over the last few years, the country maintains strong economic relationships with China and the ROK.

Table 2. Japan's Top-10 Partners in Tourism, Goods Trade, and FDI stock, 2023

Tourism		Goods trade		FDI stock	
Outbound	Inbound	Export	Import	Outward	Inward
The ROK	The ROK	US	China	US	US
US	Taiwan, China	China	US	Netherlands	Singapore
Taiwan, China	China	The ROK	Australia	UK	France
Thailand	Hong Kong, China	Taiwan, China	UAE	China	Cayman Is.
Vietnam	US	Hong Kong, China	Taiwan, China	Singapore	UK
Singapore	Thailand	Thailand	Saudi Arabia	Australia	Hong Kong, China
Hong Kong, China	Philippines	Germany	The ROK	Thailand	Switzerland
Philippines	Australia	Singapore	Vietnam	Switzerland	Netherlands
Spain	Singapore	Vietnam	Thailand	The ROK	Taiwan, China
Australia	Vietnam	Australia	Indonesia	Germany	The ROK
China (N/A)					China (13)

Note The shaded area refers to China or the ROK. China's position for Japan's outbound tourism is not shown as information is unavailable.

Source Compiled by the author using data obtained from: Japan National Tourism Organization (JNTO), *Japan Tourism Statistics*; JTB Tourism & Research Consulting Co., *Japanese Outbound Tourists Statistics*; JETRO, *Top 50 Trading Partners; and Bank of Japan, Japan's Foreign Direct Investment Stock*.
https://www.jnto.go.jp/jpn/statistics/visitor_trends/index.html
https://www.tourism.jp/en/tourism-database/stats/outbound/
https://www.jetro.go.jp/world/japan/stats/trade/
https://www.boj.or.jp/en/statistics/br/bop_06/bpdata/index.htm

As recent data on outbound tourism to China are unavailable, it is difficult to determine whether the number of Japanese travelers visiting China has increased or not over the last several years. The number of Chinese travelers visiting Japan has been recovering, albeit slowly. In 2023, the number of Chinese visitors to Japan was only about a quarter (25.3%) of the peak number recorded in 2019, accounting for 12.1% of the total number of foreign visitors, which reached about three-quarters (74.5%) of the 2019 peak. In the first four months of 2024, many more foreign travelers visited Japan, with the total number of foreign visitors exceeding the number recorded in the first four months of 2019. The number of Chinese visitors also rose in early 2024 but remained less than two-thirds of the 2019 level, accounting for 16.0% of the total. It is important to find ways to increase the flow of two-way visitors between Japan and China to promote mutual understanding at the citizen level.

For Japan, China is the second-largest export market, after the US, and the largest import source. Japan's exports to China peaked in 2020 as a share of total exports, recording 22.0%, but has since steadily declined to 17.6% in 2023. Still this share is much higher than the share of trade with ASEAN countries as a whole and the EU. Japan's imports from China also peaked in 2020 as a share of total imports, accounting for 26.0% of the total, and started to show a declining trend, reaching 22.1% in 2023. Nevertheless, this share is far larger than the shares of imports from ASEAN member states, the US, and the EU.

Japan exports general machinery, electric machinery, chemicals, and transport equipment, and imports electric machinery, miscellaneous articles, general machinery, and chemicals, exhibiting a high degree of intraindustry trade with China.[7)] Japan has a comparative advantage in

7) Data are obtained from Ministry of Finance, Trade Statistics of Japan. https://www.customs.go.jp/toukei/info/tsdl.htm.

chemicals and transport equipment (and to some extent general machinery), while China has a comparative advantage in miscellaneous articles other than precision instruments (and to some extent electric machinery).

Japan's FDI outflows to China have declined over the last two years. Nonetheless, China remains an attractive investment destination for Japanese multinational corporations. China is the fourth-ranked host of Japanese outward FDI stock (after the US, Netherlands, and the UK), accounting for 6.5% of Japan's total FDI stock abroad, and the second-ranked country generating FDI investment income for Japanese firms (after the US), accounting for 10% of total income. As a result, the implied rate of return on Japanese FDI investment in China is high at 14.3% in comparison to 7.6% in the US and 8.7% in the EU (Japan's world average rate of return is 9.7%).[8)] Japanese firms in the communications, construction, transport equipment, transportation services, and wholesale and retail sectors earn high rates of return.

In contrast, China is not a major FDI investor in Japan, registering the 13th position and accounting for only 1.2% of Japanese inward FDI stock. The rate of return of Chinese firms from investing in Japan is low at 3.8%. To further encourage mutual FDI, improving the business and investment climate in both countries is indispensable.

3.1.2 Bilateral Economic Relations between China and the ROK

China's Perspective

Since the establishment of diplomatic relations in August 1992, China and the ROK have been steadily expanding their trade based on industrial complementarities. Over the past three decades, bilateral trade volume has surged from USD 5 billion at the outset of diplomatic relations to USD 311 billion in 2023, boasting an average annual growth rate of 14.3%. Despite a slight decline in trade volume starting in 2022, the significance of bilateral trade between two countries has been profound. The ROK has consecutively surpassed Japan for two years as

8) The implied rate of return is computed as investment income of the current year (2023) as a ratio of the average FDI stock balance of the current year, defined as the average of FDI stocks at the end of 2022 and 2023. Data are obtained from BOJ, Direct Investment by Region and Industry, https://www.boj.or.jp/en/statistics/br/bop_06/bpdata/index.htm.

China's fourth-largest trading partner, and China has maintained its position as the ROK's top trading partner for 20 consecutive years. Over the past two decades, the ROK has consistently maintained a trade surplus with China.

As the technological gap diminishes, China–ROK interindustry trade driven by differences in factor endowments has steadily decreased, while intraindustry trade of differentiated products has risen. In 2023, machinery and electronic products constituted 40.9% of China's exports to the ROK and 63.8% of its imports from the ROK, marking increases of 14.9% and 21.8% since 2002, respectively. Moreover, the bilateral trade structure has shifted swiftly from traditional light and heavy chemical industries to high-tech sectors. The proportion of labor-intensive industries, such as textiles and primary raw material processing, has declined, while trade in high value-added intermediate products, including semiconductors, auto parts, and electronic appliances, has become predominant.

Table 3. The Sino-Korean Trade Structure in 2002 and 2023

HS Sections	The Sino-Korean trade structure in 2002 and 2023			
	Export structure		Import structure	
	2023	2002	2023	2002
Machinery and Electronics	40.9%	26.0%	63.8%	42.0%
Chemicals	14.8%	6.2%	13.3%	10.8%
Metals	10.2%	9.0%	5.2%	10.1%
Miscellaneous products	8.1%	3.0%	2.9%	5.1%
Textiles and Clothing	6.5%	22.0%	0.8%	9.3%
Plastic OR Rubber	3.7%	1.4%	6.8%	10.7%
Others	15.8%	32.4%	7.2%	12.0%
Total	100%	100%	100%	100%

Note Other products including transportation, stone and glass, food products, fuels, footwear, hides and skins, vegetables, wood, animal products, minerals.

Source World Integrated Trade Solution (WITS)

Bilateral FDI flows between China and the ROK have also been diverging. The ROK's FDI in China has risen from USD 3.966 billion in 2014 to USD 6.599 billion in 2023, indicating an overall fluctuating upward trajectory. However, China's investment in the ROK has experienced a volatile drop, with only USD 139.1 million invested in 2020, making it the third-lowest level since the 2008 financial crisis. Moreover, China's investment in the ROK remains relatively modest compared to bilateral trade between the two countries and the ROK's investment in China.

In 2023, China and the ROK demonstrated notable interest in economic cooperation and took proactive measures to enhance this dimension of the bilateral relationship. Various forums were initiated in both countries, enabling thorough deliberations on investment, trade, technology, industry, and talent. A survey revealed that 82% of Korean respondents expressed support for maintaining friendly or cooperative relations with China. The RCEP has played a pivotal role in fostering deeper economic collaboration, paving the way for the potential renewal of negotiations on a free trade agreement between the countries.

The ROK Perspective

In recent years, the economic relationship between China and the ROK has undergone various changes, reflecting broader global economic trends, policy shifts, and significant events such as the COVID-19 pandemic. Between 2019 and 2023, the ROK–China trade relations have evolved against the backdrop of a complex geopolitical landscape marked by strategic shifts and global economic trends. In 2019, bilateral trade was significant, with the ROK exporting goods valued at approximately USD 136 billion to China. China is the ROK's most important export partner, with exports briefly dipping to USD 132 billion in 2020 but rising again since 2021. The ROK's imports from China have consistently been on an upward trend. However, the growth in imports from China has outpaced exports, reducing the trade surplus from USD 62.8 billion in 2013 to USD 1.2 billion in 2022. As of 2022, China accounts for 19.7% of the ROK's total exports and 22.2% of its imports. The major categories of exports included machinery, chemical products, instruments, plastics, rubbers, and mineral products, with key products like integrated circuits and refined petroleum. This robust trade relationship underscores the deep economic interdependence between the two countries.

However, this period also saw strategic recalibrations, particularly from the ROK, in response to broader regional dynamics. The Yoon administration, which took office in May 2022, departed

from previous policies by adopting a clearer Indo-Pacific strategy. This shift aimed at balancing the strategic dilemma of aligning closely with the US while not overtly antagonizing China during the ongoing US–China strategic competition. This nuanced foreign policy approach reflects the ROK's efforts to navigate the complexities of its trade and diplomatic relations with China, balancing economic interests with broader strategic considerations.

Furthermore, the evolving landscape of digital technology and the potential for cooperation in areas like economic security and defense in the Indo-Pacific region have also influenced trade relations. The focus on developing "likeminded" partnerships and securing a rules-based international order highlights the broader strategic context of ROK–China trade relations. Therefore, trade relations between two countries from 2019 to 2023 have been shaped by a mix of strong economic ties and strategic recalibrations, reflecting the countries' efforts to navigate the challenges and opportunities of a rapidly changing regional and global environment.

Table 4. The ROK's Trading Partners and Their Share (2022) (Unit: Million USD, %)

Countries/regions	Export	Share	Countries/regions	Import	Share
China	124,813	19.7	China	142,849	22.2
United States	115,710	18.3	United States	71,247	11.1
Vietnam	53,489	8.5	Japan	47,656	7.4
Japan	29,020	4.6	Australia	32,830	5.1
Hong Kong, China	25,191	4	Singapore	32,763	5.1
Taiwan, China	20,182	3.2	Vietnam	25,939	4
Singapore	18,758	3	Taiwan, China	24,370	3.8
India	17,948	2.8	Germany	23,610	3.7
Australia	17,799	2.8	UAE	16,419	2.6
Mexico	12,227	1.9	Malaysia	15,236	2.4
Rest of the World	197,249	31.2	Rest of the World	209,672	32.6
Sum	632,384	100	Sum	642,593	100

Source Korea Trade Statistics Promotion Agency

The ROK has been a significant investor in China, with cumulative FDI reaching approximately USD 94.9 billion by the end of 2022. This investment has been consistent, averaging USD 87 billion annually from 2018 through 2022. The ROK's FDI has predominantly targeted the electronics, automobiles, and chemicals sectors, with the electronics sector alone accounting for approximately 30% of the total investment. Chinese FDI in the ROK experienced a modest increase

to USD 8.8 billion in 2022 from USD 8.4 billion in 2018. These investments primarily targeted the service sector, real estate, and manufacturing industries. Efforts to strengthen investment agreements have been ongoing; in 2020, China and the ROK agreed to enhance their bilateral investment treaty that has been active since 2007. Both governments have also developed various economic zones and industrial parks designed to attract and support foreign investment.

Collaboration has been particularly evident in the electric vehicle (EV) battery sector, where companies like LG Chem and CATL have established strategic partnerships to expand their market presence. However, the investment landscape has faced challenges, including the THAAD (Terminal High Altitude Area Defense) missile defense system dispute, which temporarily reduced Chinese investments in the ROK. Geopolitical tensions and trade conflicts have also intermittently impacted investor confidence and caused fluctuations in investment flows. Looking forward, the ROK–China investment relationship is poised for growth, with both countries keen on deepening economic cooperation. The focus is increasingly shifting toward high-tech industries, green energy, and digital services.

3.1.3 Bilateral Economic Relations between Japan and the ROK

Japan's Perspective

One of the most notable developments for Japan in the post-COVID period is that the ROK has emerged as the most important partner country in crossborder tourism. Before the pandemic, the US was the most preferred tourist destination for Japan; after the pandemic, however, it was replaced by the ROK. More than 24% of Japanese travelers going abroad visited the ROK in 2023, a substantial increase from the 16% share recorded in 2019. The number of ROK nationals visiting Japan has also expanded. Before the pandemic, China was the largest country sending crossborder tourists to Japan, but after the pandemic, it was replaced by the ROK. Close to 35% of foreign tourists visiting Japan in 2023 were from the ROK, a substantial increase from 21% in 2019. The total number of Japanese and ROK travelers visiting each other is expected to grow from 9.3 million in 2023 to more than 10 million in 2024, possibly reaching the peak level achieved in 2018 (10.5 million).[9)]

9) Data are from Japan National Tourism Organization (JNTO), Japan Tourism Statistics and JTB Tourism & Research Consulting Co., Japanese Outbound Tourists Statistics. https://www.jnto.go.jp/jpn/statistics/visitor_trends/index.html and https://www.tourism.jp/en/tourism-database/stats/outbound/.

The ROK is also Japan's important trade partner. It is Japan's third-largest export market and seventh-largest import source. Japan's exports to the ROK peaked in 2009 at 8.1% as a share of total exports, but have since gradually declined, reaching 6.5% in 2023. Japan's imports from the ROK peaked much earlier in 1988, accounting for 6.3% of total imports, gradually declining to 3.9% in 2023. Japan exports chemicals, electric machinery, general machinery, and iron and steel products and imports mineral fuels, chemicals, electric machinery, general machinery, and iron and steel products.[10] A great deal of intraindustry trade takes place through highly developed supply chains between the two countries. Japan has a comparative advantage in general machinery and electric machinery while the ROK enjoys a comparative advantage in mineral fuels and iron and steel products.

In terms of FDI stock, the ROK is Japan's ninth-largest FDI destination and its tenth-largest FDI investor. Japanese firms invest in finance and insurance, chemicals and pharmaceuticals, communications, services, and wholesale and retail, whereas ROK firms tend to invest in communications, finance and insurance, wholesale and retail, services, and real estate. However, the implied rates of return on FDI investment are low for both outward and inward FDI. Japanese firms earn an 8.3% rate of return on FDI investment in the ROK, which is lower than the average rate of return of 9.7% which Japanese firms earn from global FDI. ROK firms earn 11.4% by investing in Japan; however, this rate of return is lower than the average rate of return of 18.1% earned by all foreign investors in Japan.[11]

The ROK Perspective

From 2008 to 2023, trade relations between Japan and the ROK experienced fluctuations, primarily driven by historical disagreements and changes in trade policies. Initially marked by a stable trade relationship, the relations faced a downturn due to political tensions around 2019. Breaking it down by year, the ROK exported USD 30.5 billion worth of goods to Japan in 2018 and imported USD 54.6 billion. Due to diplomatic tensions arising from Japan's removal of the ROK from its whitelist, which impacted the export of semiconductor materials, exports fell to USD 28.4 billion in 2019 and further to USD 25.1 billion in 2020. Correspondingly, imports

10) See Ministry of Finance, Trade Statistics of Japan. https://www.customs.go.jp/toukei/info/tsdl.htm.

11) Computed from data from BOJ, Direct Investment by Region and Industry, https://www.boj.or.jp/en/statistics/br/bop_06/bpdata/index.htm.

decreased to USD 47.6 billion in 2019 and USD 46 billion in 2020. However, trade began to rebound in 2021, and by 2022, ROK exports to Japan had recovered to USD 30.6 billion, with imports rising to USD 54.7 billion. The key exported commodities were refined petroleum, integrated circuits, and hot-rolled iron products.

In 2023, Japan reinstated the ROK as a preferred trading nation, signaling an end to the economic disputes that began in 2019. The ROK reciprocated in kind by reinstating Japan's preferential trade status. The mutual restoration of preferential trade status in 2023 is expected to simplify import and export procedures, accelerating exchanges and cooperation between companies from both countries. Recent developments since 2023 indicate a significant improvement in bilateral ties, with both countries actively working toward fostering a cooperative and mutually beneficial economic relationship. The enhanced cooperation and restored trade policies are likely to contribute to robust economic growth and stability in the region. This evolving partnership may also influence broader economic and political alliances in East Asia, particularly in response to regional challenges and global economic trends.
The FDI landscape in the ROK has witnessed fluctuations, with a considerable 18.4% decrease in 2022, bringing total FDI to USD 18 billion. Nonetheless, FDI commitments experienced a resurgence in 2023, increasing by 7.5% YoY to reach a new high of USD 32.7 billion. This increase was fueled by strong performances in the semiconductor technology, battery, and transportation sectors.

The ROK's FDI in Japan has focused on manufacturing, technology, and the services sectors. The cumulative FDI from the ROK to Japan showed a steady increase, with significant investments in the electronics, automotive, and financial services sectors. Japan has been a consistent investor in the ROK, with a focus on the electronics, automotive, and chemical industries. The FDI from Japan to the ROK also saw a steady increase, with Japan being one of the top investors in the ROK. The Japan's investments were aimed at tapping into the ROK's advanced technology and skilled workforce. The investment trends between the two countries have been influenced by various factors, including trade policies, economic agreements, and geopolitical dynamics. Despite some political tensions, the economic interdependence between the two countries has facilitated continued investment ties.

The ROK and Japan also have several bilateral agreements that encourage investment, such as the Japan–ROK Investment Agreement, which provides a legal framework for investors and

investments between the two countries. The bilateral investment relationship faces challenges, including trade disputes and restrictions. However, both countries have shown resilience and continued to find new opportunities for investment. The service sector, particularly in areas such as finance and tourism, has experienced growth in investments from both sides. The investments between the ROK and Japan have had a significant impact on both economies, contributing to job creation, technological advancement, and increased competitiveness in global markets. The future outlook for bilateral investment between the ROK and Japan remains positive, with both countries seeking to enhance cooperation in emerging sectors such as digital technology, renewable energy, and healthcare.

3.2 Trilateral Free Trade Agreement (FTA) between China, Japan, and the ROK

3.2.1 Negotiations History of Trilateral FTA

At the ninth Trilateral Summit of China, Japan, and the ROK, held in late May 2024, the leaders of the three countries decided to restart negotiations on a trilateral FTA (CJK FTA). In a joint declaration, they stated: "... we will keep discussions for speeding up negotiations for a trilateral FTA, aiming at realizing a free, fair, comprehensive, high-quality, and mutually beneficial FTA with its own value."[12)]

Back in November 2012, the three countries announced negotiations for a CJK FTA would be launched and the first round of negotiations was held in March 2013. A total of 16 rounds of negotiations were held until November 2019, after which they stopped. Even though a wide range of issues, including goods trade, services trade, investment, and rules (such as e-commerce and intellectual property rights) were discussed during negotiations, no substantial progress was made.

Earlier in 2003-2004, Japan and the ROK held bilateral FTA negotiations but suspended talks soon without reaching any agreement. In 2012, China and the ROK launched bilateral FTA negotiations and signed an agreement in three years, which went into force in 2015. While the three countries implemented the trilateral investment agreement in 2012, Japan did not have an FTA with China or the ROK. This gap was closed by the implementation of the RCEP, whose negotiations were held in parallel to CJK FTA negotiations, in January 2022 (the ROK implemented the agreement in February). As the RCEP is a regional agreement among 15 countries, including China, Japan, and the ROK, it naturally presented the first FTA for the three countries. Separately, Japan also led new negotiations on the TPP after the departure of the US and reached an agreement on the CPTPP with 10 other members, excluding China and the ROK, which was implemented in December 2018.

12) See paragraph 24 of the Joint Declaration of the Ninth ROK-Japan-China Trilateral Summit (May 2024). https://japan.kantei.go.jp/101_kishida/diplomatic/202405/27chnrok.html

Several reasons can be cited for the failure to make progress on CJK FTA negotiations. First, bilateral political relations between Japan, China, and the ROK were not favorable at various points in time, making it difficult to complete the negotiations. Second, varied industry interests prevented concessions in the three countries: China was unwilling to open major manufacturing and services sectors to Japanese and ROK firms; Japan was reluctant to liberalize the fishery and agriculture sector; and the ROK lacked interest in liberalizing its industries with comparative disadvantage vis-à-vis Japan and had concerns about the growing trade deficit with Japan. Third, the three countries adopted different FTA strategies: China chose a selective and gradualist approach and preferred to have a moderate- rather than high-level FTA, primarily focusing on trade in goods; Japan preferred a comprehensive high-level economic partnership agreement (EPA) to achieve substantial trade and investment liberalization and set advanced trade and investment rules, as in the case of the CPTPP, the Japan–EU EPA, and the Japan–UK Comprehensive EPA (CEPA); and the ROK also preferred a comprehensive FTA in terms of scope and content. Fourth, recent geopolitical conflict between the US and China has cast a shadow over the FTA negotiations: China has been pushing for CJK FTA talks to check US influence in Northeast Asia, while Japan and the ROK have been striving to achieve the right balance between the US and China.

After the implementation of the RCEP, several of the above impediments may have eased. Bilateral tensions can be better managed, as indicated by the holding of the most recent trilateral summit. China is now more willing to sign a comprehensive higher-level FTA and further open up the manufacturing and services sectors. A CJK FTA, designed to be an RCEP-plus agreement, likely produces net benefits for each country, and the interests of the industries affected by a new agreement can be accommodated through domestic policy measures in the respective countries. Even under US–China strategic competition, Japan and the ROK can benefit economically by having greater access to the Chinese market and diplomatically by maintaining more stable relationships with China through a new trilateral FTA.

3.2.2 CJK's Possibilities and Benefits of Deepening Economic Integration

China Perspective

As engines of global economic growth and significant trade and investment partners for each other, CJK cooperation has a solid foundation and enormous potential and is important for

promoting economic integration in Asia, fostering global economic growth, and maintaining a development environment conducive to peace and stability.

First, CJK deepening economic integration could expand the regional market size, thus injecting new impetus into global economic growth. By 2023, CJK's GDP represented approximately one-fifth of the global economy, with over 1.6 billion inhabitants; China, notably harbors the world's largest and fastest-growing middle-income cohort. However, amid challenges including the COVID-19 pandemic and Sino-US trade tensions, bilateral trade and FDI volumes, particularly between China and Japan but also between China and the ROK, have significantly declined in recent years. Economic integration within CJK facilitates the eradication of trade and investment barriers among the three countries, thereby unleashing regional demand potential.

Second, CJK's deepening economic integration is crucial for the existence and strengthening of Asian value chains. CJK demonstrate robust complementarity in their respective industries. China, known as the "world's factory," possesses a highly integrated industrial chain and a vast labor market. Japan excels in precision manufacturing and high-tech manufacturing and services. The ROK holds significant advantages in the cultural sector and leads globally in the domains of semiconductors, electronics, and communications technology. By dismantling trade and investment barriers, these countries can harness complementary advantages. CJK cooperation would facilitate the smooth transfer of intermediate links within the industry chain to ASEAN economies, bolstering the development of a well-defined and secure industrial and supply chain network in Asia.

Third, CJK's deepening economic integration helps reduce economic policy uncertainty, which is crucial for firms' operations and investments. In a stable and predictable environment, firms are more inclined to invest in R&D, pursue technological innovation, and undertake long-term investments, despite the higher risks involved, as these actions yield enduring benefits for individual companies and the broader economy. The stable environment spanning the three countries helps mitigate risks associated with crossborder operations, providing firms with access to a wider market and increased development prospects.

Despite the extensive shared interests, the current possibility of economic integration among CJK may be low if governments cannot control geopolitics. On the one hand, US influence significantly constrains cooperation among the three countries. Japan and the ROK, as key US

allies, have traditionally depended on the US for military and security support, limiting their full economic autonomy. On the other hand, historical issues, territorial disputes and differences in political positions have kept the relations between CJK in a state of tension. This has not only affected economic cooperation among the three countries but has also obstructed high-level dialogue and civil exchanges.

Japan's Perspective

A high-level CJK FTA, as an RCEP-plus agreement, is expected to produce substantial benefits for Japan (as well as China and the ROK). One benefit is improved market access in goods and services trade. Another is the introduction of more open trade and investment rules to improve the partners' business climate, while a third benefit is the opportunities provided by negotiations to resolve pending issues.

First, the chapter on trade in goods under the RCEP agreement takes the approach of "gradual liberalization" as it aims to provide tariff concessions rather than aiming for tariff elimination. There is a long list of products excluded from liberalization schedules. The speed of liberalization is slow, in some cases requiring 11, 16, or 21 years to completely eliminate tariffs. Unlike other members, China, Japan, and the ROK adopt the "country-specific concession scheme" that commits to different tariff schedules and liberalization speeds depending on the partner country, making rules of origin and regional cumulation complicated.

Through a CJK FTA, Japan can expect to achieve higher levels of liberalization than it could through the RCEP. For example, under the RCEP, the tariff elimination rate, on an item basis, on manufacturing products rose from 8% to 86% in the case of Japan's exports to China and from 19% to 92% for Japan's exports to the ROK. This means that, although the RCEP is already creating significant benefits, there remains scope for further tariff reduction and elimination even in the areas of manufacturing exports. For example, Japan's automobile exports to the ROK can be stimulated by substantially reducing or fully abolishing tariffs on autos and their components, which the RCEP has not done.

In contrast, Japan's tariff elimination rate was set at 86% with China and 81% with the ROK under the RCEP, which is conservative compared to the CPTPP's tariff elimination rate of 95%. However, this is mainly due to the low level of liberalization of agriculture, forestry, and fisheries products

(with tariff elimination rates of 56% and 49% with China and the ROK, respectively), while the level of liberalization of manufacturing products is high. This poses a challenge for Japan as it must be ready to further open up the sensitive fishery and agricultural sector to China and the ROK during CJK FTA talks.

Second, in the course of the new CJK FTA negotiations, Japan can discuss with China regarding the curbing of its industrial subsidies, preferential treatment of state-owned enterprises (SOEs), domestic biases toward government procurement, and excessive regulations on digital trade. The digital regulations, which impede crossborder flows of electronic data and require local server establishment (data localization) and "source code" disclosure, are prohibited under the CPTPP agreement, but not under the RCEP. Through FTA negotiations, Japan can call for a ban on such data regulations, as they are an obstacle to Japanese businesses operating in China. If China makes certain credible commitments to them in negotiations, the resulting high-level CJK FTA can serve as a solid pathway for consultations with China on its accession to the CPTPP.

Third, FTA negotiations can provide excellent opportunities for Japan to discuss important unresolved issues with China. For example, China has been criticized for "overproducing" solar panels and EVs and distorting the global market with low-cost exports and encountered friction with major trading partner economies. Japan can discuss with China the need for fair trade rules through FTA negotiations. In 2023, China banned imports of Japanese marine products to protest the discharge of treated radioactive wastewater from TEPCO's Fukushima Daiichi nuclear power plant into the ocean. Japan can discuss the immediate elimination of the ban with China, based on scientific evidence, at the FTA negotiation meetings. Japan can also discuss with China improving its business climate, focusing on the need for stronger national treatment of Japanese firms in China and for transparency in applying the expanded Counter-Espionage Law, which is creating anxiety among Japanese business persons working in China.

Another strategy to achieve a high-level trade agreement among the three countries would be to upgrade the standard and quality of the RCEP. The scope and speed of liberalization under the RCEP can be substantially improved and trade and investment rules can be uplifted considerably, both toward those of the CPTPP. To deepen trilateral economic integration, Japan may adopt a two-track approach of pursuing a high-level CJK FTA and upgrading the content of RCEP chapters. The two processes can mutually reinforce each other, resulting in a high-level agreement among the three countries. Such an approach is consistent with the Japanese

position that a rules-based international economic system is vital to promoting stable and sustained expansion of trade, investment, and economic growth for all countries involved.

The ROK Perspective

The possibilities and benefits of deepening economic integration among CJK are substantial, given the significant economic potential of these three countries when acting in concert.

First of all, the CJK region is one of the most economically dynamic in the world. Its combined population and global trade volume position it to become one of the largest economic blocs, comparable to the EU and the North American FTA.

A CJK FTA is seen as a viable institutionalized option to spur economic cooperation among the three countries. Studies using computable general equilibrium (CGE) models have concluded that a CJK FTA would be a "win-win-win strategy," benefiting all members. A CJK FTA is expected increase trade flows, achieve economic growth, and create jobs in the region. It could also enhance the region's global competitiveness by creating larger and more comprehensive economic clusters.

Beyond economic benefits, there are strong political and economic pressures and expectations motivating each nation to pursue the CJK FTA, including responding to the rapidly changing internal and external political economy environment. While there is broad consensus on the need for a CJK FTA, competition between the major industries in the three countries is intensifying, which could make reaching a high-standard agreement challenging. The negotiations must consider the extent of liberalization desired and the path they should take to achieve it.

Economic integration through the CJK FTA could finally contribute to regional stability by fostering closer economic ties and interdependence. Through integration, the region is expected to evolve into a "Global Mall," with the potential to attract investment and enhance consumer markets. The trend of pursuing mega-FTA blocs by advanced countries supports the argument for a CJK FTA, which could enrich the region as a whole. The CJK FTA could also counterbalance the other major trade agreements, such as the CPTPP and the RCEP.

Deepening CJK economic integration could unlock substantial benefits, leveraging each country's complementary economic structures. Enhanced cooperation could streamline trade, reduce tariffs, and promote investment, fostering a unified market. This integration would boost innovation through enhanced supply chain efficiency and expand market access, potentially resulting in increased regional and global competitiveness. Additionally, addressing shared challenges such as environmental issues and aging populations through collaborative policies could further strengthen their economic ties and stability.

However, the path forward for the CJK FTA contains obstacles due to political tensions, historical disputes, and economic competition among the three countries. Additionally, differing economic policies and priorities, along with concerns over market access and protections for domestic industries, contribute to the slow pace of negotiations. The CJK FTA faces challenges due to similar industrial structures and export competition among the three countries. Vulnerable industries may feel significant threats from trade liberalization. Additionally, geopolitical tensions, including the US–China and Japan–China rivalries and regional security conflicts, pose hurdles to concluding the FTA.

Thus, deepening economic integration through a CJK FTA offers numerous benefits, including economic growth, political stability, and enhanced regional competitiveness. However, the path to such integration involves navigating complex political and economic landscapes, as well as addressing competitive pressures among the three countries. The overall outlook remains positive, with significant potential economic and strategic gains for China, Japan, and the ROK.

2024 Trilateral Economic Report

CHAPTER IV

Regional Trade Agreement in the Asia–Pacific Region

Authors

Dionisius A. Narjoko, Senior Economist, Economic Research Institute for ASEAN and East Asia (ERIA)

ZHANG Jianping, Deputy Director, Academic Steering Committee, Chinese Academy of International Trade and Economic Cooperation

KUNO Arata, Professor, Faculty of International Relations, Asia University

AHN Choong Yong, Distinguished Professor, Graduate School of International Studies, ChungAng University

IV Regional Trade Agreement in the Asia–Pacific Region

4.1 Regional Comprehensive Economic Partnership (RCEP)

4.1.1 Background of the RCEP

The RCEP, signed on November 15, 2020 and that came into effect on January 1, 2022, is one of the largest FTAs in the world. It comprises the 10 ASEAN member states (Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) and 5 countries in the region with which they have FTAs, Australia, China, Japan, the ROK, and New Zealand. The RCEP represents approximately 30% of the global population and accounts for about 30% of the world's GDP and trade volume. It has an important agenda for global trade and investment in terms of opening large domestic markets (demand), releasing huge resources, and creating dynamic regional and GVC activities.

The RCEP was born out of the economic vulnerabilities exposed by the 1997 Asian financial crisis, which underscored the urgency for strengthened economic cooperation to enhance regional resilience (Rillo et al., 2022). This crisis catalyzed initial discussions among ASEAN members about the potential for an East Asia–wide FTA. The negotiations for the RCEP, however, officially began in 2012, propelled by China's economic ascendance, perceived limitations of WTO-led trade liberalization, and an intensified demand for deeper intraregional economic integration. It was influenced significantly by global economic shifts and strategic geopolitical movements, including the US pivot to Asia and the emergence of—at that time—the TPP, which introduced additional layers of urgency and complexity into the RCEP negotiations.

ASEAN had a critical role in orchestrating the RCEP negotiations (Thangavelu et al., 2022). ASEAN effectively managed the negotiation process, ensuring that the diverse economic agendas of the large, economically varied countries involved were carefully aligned. This was particularly

challenging given the distinct levels of development and the varied strategic interests among ASEAN member states and their additional FTA partners.

One of the primary rationales for the RCEP was streamlining and simplifying the rules governing regional trade, which had previously existed under a complex web of bilateral agreements. The RCEP consolidated these into a single, unified framework, reducing transaction costs and simplifying the trade processes for countries in the bloc.

Moreover, the RCEP is significant for integrating East Asian economies—one of the world's most dynamic economic corridors—into a formalized trade framework. The agreement also addresses key trade and investment issues, promoting liberalization and facilitating greater access to a broad range of regional markets.

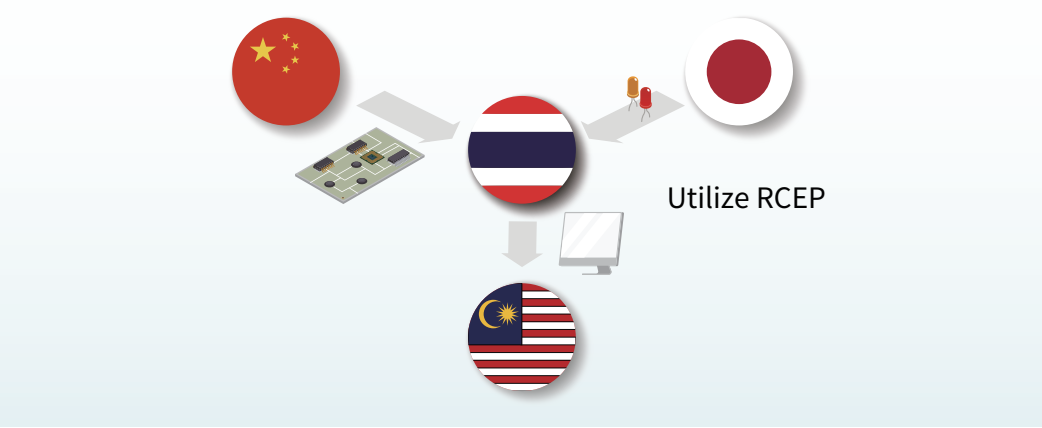
One of the key impacts of the integration between CJK in RCEP is the potential acceleration and enhancement of international production networks (IPNs) or GVC activities in the region. The agreement is expected to streamline and strengthen supply chains, reduce trade barriers, and increase economic CJK cooperation. This could lead to increased efficiencies and robust economic ties, enhancing the overall economic stability and growth potential of East Asia. Moreover, CJK integration through the RCEP is expected to foster a unified approach to digital transformation and services liberalization, which are critical areas for modern economic development. In essence, the inclusion of CJK in the RCEP is not only a milestone in regional economic diplomacy but also serves as a foundational platform for these countries to drive further regional integration and development. It is designed to protect the region from external economic shocks and financial crises by enhancing the collective economic strength of its members. The RCEP also strategically positions the ASEAN bloc and its partners to better negotiate with larger global powers, presenting a unified front in global economic forums and negotiations.

The RCEP presents a liberalized commitment to trade in goods and services. Commitments of low or no tariffs in the RCEP are applied to 90% of intraregional trade, compared with 60% or less in some bilateral ASEAN FTAs.

The RCEP significantly facilitates IPN or GVC for its members by introducing liberal rules of origin (ROOs) and the mechanisms governing it, especially self-certification. Meanwhile, self-certification should magnify the gains from less-restrictive ROOs as it allows faster movement

of parts and components at the heart of IPNs/GVC. Figure 1 shows how the RCEP lowered IPN or GVC transaction costs as it allows multiple sourcing between countries using the preference only from one FTA.

Figure 1. Horizontally linked supply chains under the RCEP



Source Adopted from Hayakawa (2022)

The flexibility of the RCEP, characterized as a "living" agreement, is critical in its capacity to adapt to changing economic and technological landscapes.

Considering rising global protectionism and geopolitical tensions, the RCEP offers a counterbalance emphasizing the importance of regional cohesion and open trade. The agreement arrives at a time when the need for resilient supply chains is starkly evident by the widespread disruptions caused by the COVID-19 pandemic. In this regard, the RCEP serves as a strategic response, promoting stability and recovery through enhanced economic cooperation and a shared commitment to multilateral trade.

Impact on Global Trade Patterns

Itakura (2022) examined the economic implications of the RCEP using a CGE model that incorporates the GVC structure. The analysis uses the Global Trade Analysis Project database to simulate the impact of the RCEP from 2022 to 2035 across various scenarios, highlighting the

potential growth in GDP, trade volumes, and investment for member countries. The estimation considers four progressive scenarios: tariff reductions, liberalization of trade in services, logistics improvements, and investment commitments.

The estimation suggests that the RCEP will play a crucial role in shaping economic outcomes for its members by facilitating more open trade and investment flows. The integration of services and digital trade, alongside traditional trade measures, points to the RCEP's potential as a blueprint for future regional trade agreements.

The initial scenario examines the effects of import tariff reductions among RCEP members. The simulation projects an increase in RCEP members' real GDP by USD 53 billion. This scenario lays the foundational benefits of reduced trade barriers, setting the stage for more comprehensive gains in subsequent scenarios. With the inclusion of services liberalization in the scenario, projected GDP growth increases to USD 148 billion. This scenario highlights the critical role of service sectors, which are becoming increasingly dominant in modern economies, and suggests substantial value in liberalizing service trade.

Meanwhile, the scenario that adds logistics improvement shows a further increase in projected GDP to USD 235 billion, underscoring the importance of efficient logistics and customs processes. Finally, the most comprehensive scenario, which includes investment commitments, boosts projected GDP growth to USD 675 billion. This significant jump indicates the pivotal role of secure and increased FDI inflows, driven by greater investor confidence and enhanced market access.

These progressive scenarios are expected to increase the total GDP of all ASEAN member states to USD 160 billion, highlighting the substantial benefits of deeper economic integration the RCEP can offer to ASEAN countries.

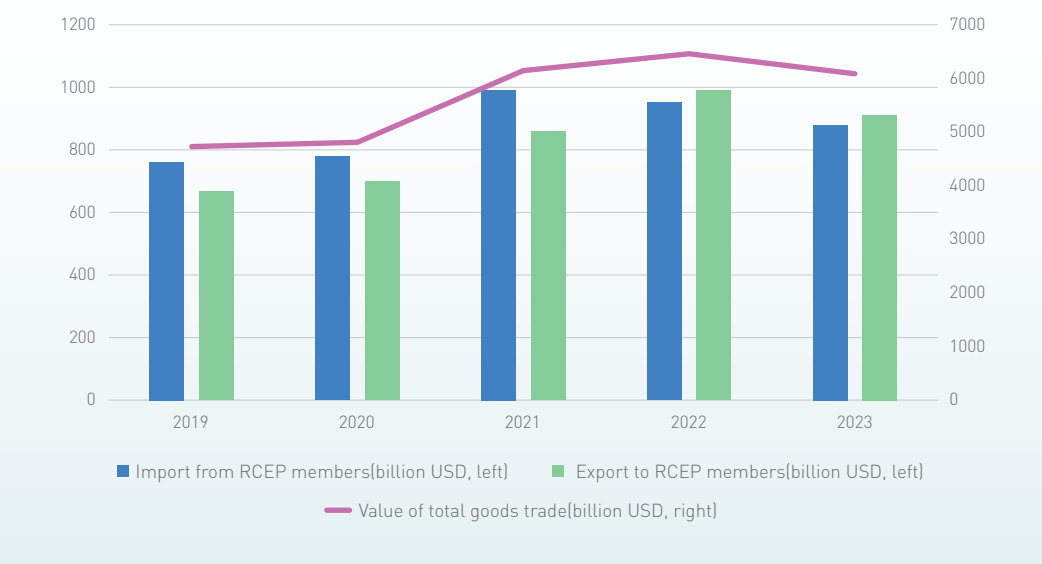
4.1.2 Implementation Status of the RCEP in China

Significant Trade Creation Effect Trade in Goods

The RCEP is committed to promoting high-level trade liberalization within the region and

making provisions for commitments related to goods trade. After the RCEP takes effect, over 90% of the goods traded by enterprises in RCEP member countries will be subject to zero tariffs. Implementing the RCEP has brought about business growth created by tariff reductions.

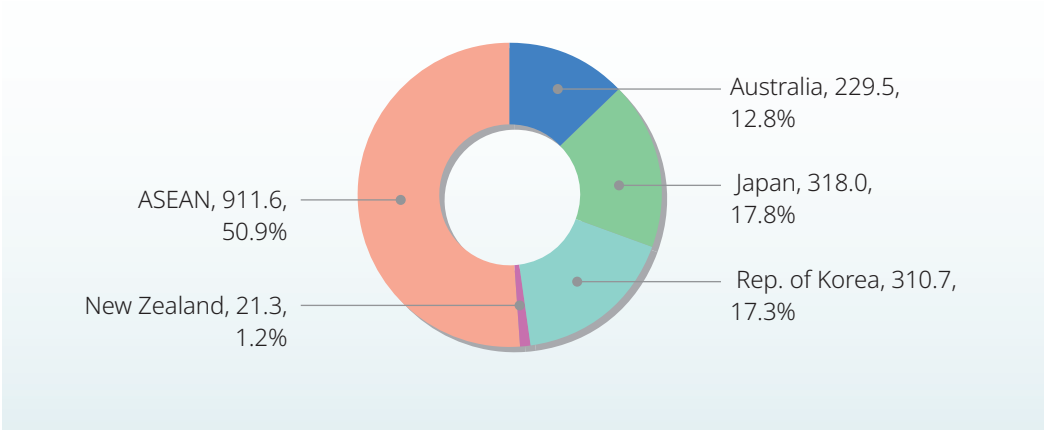
Figure 2. China's Trade with RCEP Members, 2019–2023



Source UN Comtrade

In 2023, the total import and export volume between China and the 14 other RCEP member countries reached USD 1.79 trillion, accounting for 30.2% of the total import and export value of China's foreign trade. In 2023, China's exports to other RCEP member countries reached USD 911.7 billion, accounting for 1.1 percentage points of China's exports compared to 2021, reaching 27%. The export scale of the equipment manufacturing industry expanded by 32.8%, accounting for 6.5 percentage points of China's exports to other RCEP member countries. During the same period, China imported USD 879.3 billion from other RCEP member countries, accounting for 34.4% of China's total import value. The import volume of energy products increased by 31.2% over 2021, and the proportion of energy product imports in China increased by 2.5 percentage points to 32.4%. Among the RCEP member countries, China's imports and exports to ASEAN members states account for 50.9%.

Figure 3. China's Goods Trade with RCEP Members, 2023 (in billion USD)



Source UN Comtrade

Trade in Services

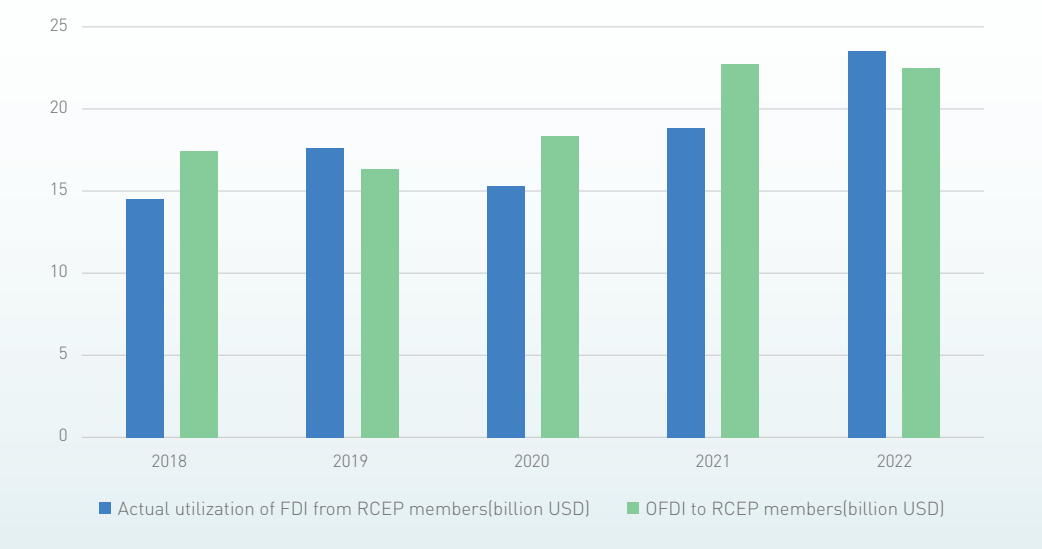
In 2023, China undertook offshore service outsourcing execution of CNY 259.2 billion from RCEP member countries, a year-on-year increase of 24.1%, accounting for a total of 24.9% of the total offshore service outsourcing execution. Among them, the execution volume of offshore service outsourcing undertaken by Cambodia, Vietnam, and Indonesia increased rapidly, with year-on-year growth of 78.1%, 56%, and 47.3%, respectively.

The RCEP has reduced restrictive and discriminatory measures affecting crossborder service trade among its members, creating conditions for further expansion of service trade among contracting parties. China's commitment to opening up its service trade has reached the highest level of existing free trade agreements. Based on China's WTO accession commitment of about 100 departments, it has added 22 departments, including R&D, management consulting, manufacturing-related services, and air transportation, and increased the commitment level of 37 departments, including finance, law, construction, and sea transportation. Within 6 years after the official implementation of RCEP, China's service trade will complete the transition from a positive to a negative list. Based on the pioneering exploration of Hainan Free Trade Port in 2021, the Chinese government formulated and issued a negative list of crossborder service trade applicable to the whole country and free trade pilot zones in March 2024, actively connecting with international high-standard economic and trade rules, promoting institutional openness, and playing an important role implementing RCEP rules.

Significant Investment Increase Effect

The RCEP investment rules cover four aspects: investment protection, investment liberalization, investment promotion, and investment facilitation. Under the RCEP investment rules, China has made commitments to expand the scope of investments, lower investment market access thresholds, clarify national treatment for investors in RCEP member countries, prohibit performance requirements, and adopt a negative-list management model for investments. In 2022, China's actual use of RCEP partner foreign investments reached USD 23.53 billion, a YoY increase of 24.8%, far higher than the 9% growth rate of global investment in China. The contribution rate of the RCEP region to China's actual utilization of foreign investment growth reached 29.9%, an increase of 17.7 percentage points from 2021.

Figure 4. Bilateral Investment Between China and RCEP Members, 2018–2022



Source National Bureau of Statistics of China

Strong Promotion of ROOs

In 2023, the proportion of intermediate goods trade within the RCEP region was about 66%, an increase of approximately 1.5% compared to 2021. A key breakthrough of the RCEP is the development of common ROOs for the entire region. Under the RCEP framework, import and export enterprises enjoy tariff reductions and accumulation ROOs. Since implementing the RCEP two years ago, China's intermediate goods trade with other RCEP member countries has remained at the high level of CNY 8 trillion. The RCEP ROO accumulation stipulates that, except for some characteristic

products, most products can enjoy corresponding tariff preferences as long as the value-added part achieved during the process belongs to 15 member countries and the cumulative value-added exceeds 40%. The Chinese government vigorously promotes the RCEP ROO accumulation, fully leveraging its role in reducing the tariff preference threshold, promoting regional trade cooperation, and stabilizing and strengthening regional industrial and supply chains.

The Chinese government helps enterprises correctly use certificates of origin (CO), ensuring that products comply with RCEP ROOs and enjoy tariff preferences by organizing specialized training on foreign trade practices for enterprises and simplifying the process of applying for CO. In 2023, the total amount of RCEP origin certificate visas in China's trade promotion system increased by 5.54% YoY to USD 7.21 billion. The total number of visas was 218,100, a YoY increase of 38.15%. In 2023, China's RCEP enjoyed preferential imports valued at CNY 90.52 billion, with a tax reduction of CNY 2.36 billion. The main preferential imported goods were plastics and their products, machinery and their parts, and organic chemicals, which enjoy preferential exports of CNY 2,707 billion and a tariff reduction of CNY 4.05 billion from member countries. The main visa exported goods include inorganic chemicals, clothing and clothing accessories, plastics and their products, among other products.

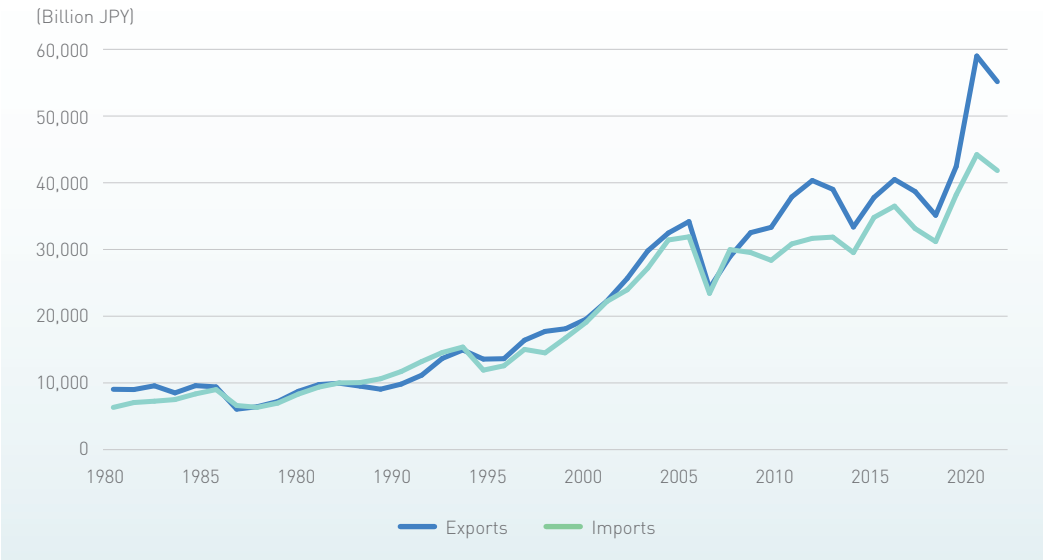
Negative List Commitments for Investment and Services

At present, under the RCEP framework, China adopts a negative-list management model for investment and has made high-level open commitments to investment in five nonservice industries: manufacturing, agriculture, forestry, fisheries, and mining. This is the first time China has made commitments in the investment field in the form of a negative list in a FTA. For service trade, a positive list management model is adopted, and China has committed to complete the transformation of the service trade management model from a positive to a negative list, representing the highest level of China's current commitment to open up service trade. In 2021, China's Ministry of Commerce released a negative list for crossborder trade in services in the southern island province of Hainan, the first of its kind in the country. Scheduled to become effective on August 26, the negative list widens market access to trade in services and makes higher-level opening up arrangements in professional, transport and financial services. The list outlines 70 special management measures in 11 categories for overseas services providers, to close the commitment in the service trade under the RCEP.

4.1.3 Implementation Status of the RCEP in Japan

In 2023, Japan's exports to RCEP member countries totaled JPY 41.8 trillion, while imports amounted to JPY 55.2 trillion. Compared to the previous year, exports and imports decreased by 5.4% and 6.5%, respectively, but both remained the second highest on record in 2023 (Figure 5). Focusing on Japan's trade dependence on RCEP members, export dependence dropped significantly from 45% in the previous year to 41.5%. This might be attributed to the expansion of Japan's exports to the world to a record high level in 2023, driven by the depreciation of the yen, while exports to China and ASEAN countries decreased by a total of about JPY 2 trillion. In contrast, Japan's import dependence on RCEP members has consistently remained at approximately 50% since the late 2010s.

Figure 5. Trends in Japan's Trade with RCEP members

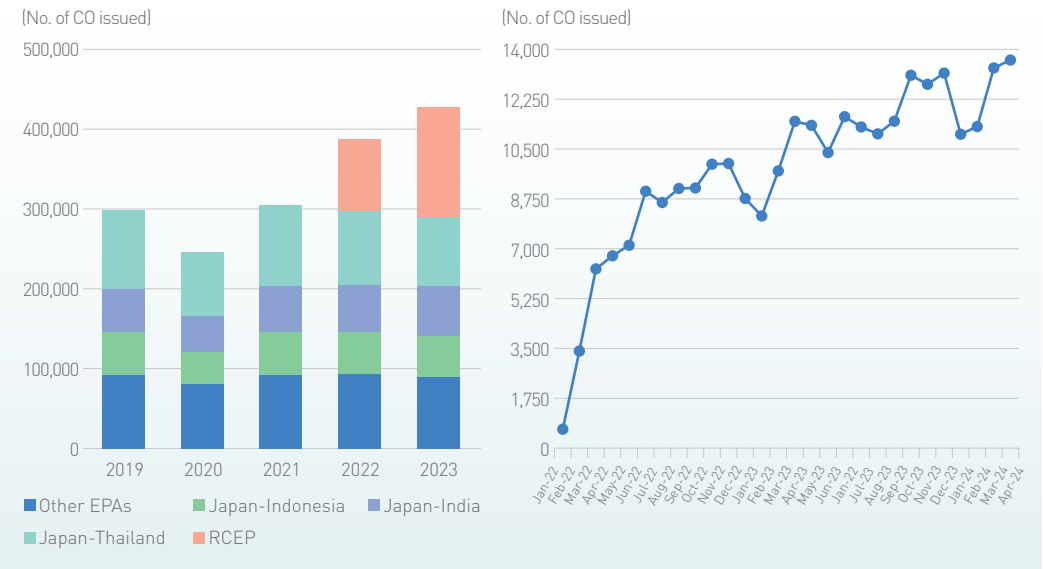


Source Ministry of Finance (MOF).

Meanwhile, the utilization of the RCEP by Japanese companies has been expanding. In 2023, the number of COs issued to exporters utilizing preferential tariffs under FTAs reached a record 427,527 (Figure 6). Among them, the number of COs issued for the RCEP reached 137,199, up more than 50% from the previous year and accounting for 32% of all FTAs. Monthly data also

reveal a growing trend in the number of COs issued for the RCEP, reaching a record high of 13,793 in March 2024.

Figure 6. The Number of Certificates of Origin Issued for Exports under the RCEP



Source Ministry of Economy, Trade and Industry (METI).

Nevertheless, there remains room for further utilization of the RCEP among Japanese exporters. According to the results of a firm survey conducted by the Japan External Trade Organization (JETRO), 35.4% and 35% of Japanese exporters to China and the ROK, respectively, have expressed interest in using FTAs but have never done so, while only 26.9% and 28.4% of exporters have actually utilized them (JETRO, 2023). Hayakawa et al. (2024) demonstrated that in 2022, only 15% of the ROK's imports from Japan that were eligible for RCEP preferential tariffs actually utilized these tariffs. Another questionnaire pointed out that some exporters do not use FTAs due to the significant costs of preparing the necessary documents, lack of cooperation among suppliers in preparing the necessary documents, export items not meeting ROOs, and/or the difference between most-favored nation (MFN) tariff rates under the WTO and preferential rates under an FTA is small (Japan Customs, 2023).

Next, we examine the utilization of the RCEP in terms of imports to Japan. As mentioned earlier, while Japan's imports from RCEP members decreased in 2023, imports utilizing RCEP's preferential tariffs expanded by 17.8%, from JPY 4.1 trillion to JPY 4.8 trillion. Among these, 85.5% originated from China and 7.8% from the ROK, collectively accounting for 93.5% of total imports applied with RCEP's preferential tariffs. Hayakawa (2023) pointed out that, when considering only items where RCEP preferential tariff rates were lower than MFN tariff rates, the actual application rate of RCEP preferential tariffs in Japan's imports from China was 63% in 2022, whereas it was 55% for the ROK. While these figures may be relatively high, there remains room to further encourage companies to utilize the RCEP when importing into Japan.

Imports from China and the ROK utilizing the RCEP are concentrated in specific product categories (Table 1). For China, textile products comprise the largest share at 41.1% of the total, followed by chemical products (19.3%), plastics and rubber (10.6%), footwear (6.9%), and base metals (5.9%). In the case of the ROK, plastic products account for the largest share of imports at 36.9%, followed by chemical products (35.4%), base metals (10.3%), textile products (8.8%), and mineral products (2.0%). Unlike the CPTPP, which will be discussed below, Japanese importers tend to utilize RCEP's preferential tariffs when importing industrial products rather than agricultural products.

Table 1. Japan's Imports from China and the ROK under the RCEP in 2023

	From China		From The ROK	
	Import value (Billion JPY)	%	Import value (Billion JPY)	%
Textiles	1,696.5	41.1%	33.0	8.8%
Chemical products	799.4	19.3%	132.3	35.4%
Plastics and rubber	437.1	10.6%	137.9	36.9%
Footwear	287.0	6.9%	0.2	0.1%
Base metals	242.0	5.9%	38.6	10.3%
Mineral products	7.9	0.2%	7.4	2.0%
Others	661.8	16.0%	24.3	6.5%
Total	4,131.6	100.0%	373.6	100.0%

Source Ministry of Finance (MOF).

To encourage Japanese companies to utilize the RCEP, the government has implemented various policies. For example, the customs authority has initiated a system of advance rulings, in accordance with Article 4.10 of the RCEP agreement, to respond to inquiries from companies about whether goods imported from RCEP members qualify for preferential tariff rates. Past rulings are published on its website (MOF, 2023). Furthermore, the METI regularly convenes the Council for Promoting EPA Utilization, which engages in discussions with industry and academia to foster understanding of the meaning of FTAs, including the RCEP, and to advance the digitization of the issuance and receipt of COs (METI, 2024).

4.1.4 Implementation Status of the RCEP in the ROK

The ROK government and private sector have continued their efforts to utilize the RCEP trade concessions in the second year of implementation. Especially, the utilization of accumulated ROOs and tariff concessions have been diffused to the ROK's exporters and importers via the Korea Trade-Investment Promotion Agency (KOTRA)'s RCEP Users' guidebook. In addition, the ROK local governments, the Korea International Traders' Association, the Korea Federation of SMEs, and the Korea Chamber of Commerce have also been providing tailor-made services for ROK firms to utilize the advantages of the RCEP.

Given the RCEP's execution period, it is still premature to assess the full impacts of the RCEP on the economies of the ROK and other RCEP member states. The ROK exports and import activities using the RCEP tariff concessions from February to November, 2022, recorded USD 8.9 billion, sharing only 0.68% of the ROK's total trade in 2022 (Table 2.1).[13] The trade volume with the RCEP concessions jumped to USD 9.3 billion in 2023, still sharing only 0.72% of the 2023 total trade volume (Table 2.2). The temporary impacts on the ROK's trade during the first two years are almost negligible;[14] however, the full impacts of the RCEP on the ROK's economy are likely to increase as Korean firms start to utilize various RCEP liberalization benefits. The cases

13) The export figures cover only those items processed with official COs. If self-certification by approved exporters is included, the figures are likely to increase slightly.

14) Ahn, Choong Yong (2023), "Implementation status of RCEP in the ROK," in the chapter of "Regional comprehensive partnership (RCEP) for China, Japan, and the ROK, 2023 Trilateral Economic Report, ERIA, Economic Research Institute for ASEAN and East Asia

issued by the CO authorities in the export as well as import sides have increased substantially in two years, implying that utilization of the RCEP advantages is rising.

Table 2.1. ROK's Trade Data Utilizing RCEP (Unit: USD Million, each)

Period	Export		Import		Total	
	Amount	Cases	Amount	Cases	Amount	Cases
Feb-Dec, 2022 (11 months)	3,319	39,998	5,628	77,837	8,947	117,730
Jan-Oct, 2023 (10 months)	3,139	41,749	6,143	114,795	9,282	156,544

Source Jeong, Goo Chun,"Guide to utilize RCEP in Korea" RCEP webinar PPT, marking the 2nd Year EIF, 21 December 2023, https://www.customs.go.jp/kyotsu/kokusai/news/rcep/rcep_20231221_a.pdf

In terms of the ROK's utilization of RCEP concessions on an individual country basis, ROK–Japan trade utilization with almost 67% and 61% for 2022 and 2023, respectively, stands out as the most significant because the RCEP provides tariff concessions between the ROK and Japan for the first time in a formally agreed-upon framework (Table 2.2 and Table 2.3). ROK–China trade using RCEP concessions is the second highest two years in a row because the RCEP framework provides better concessions in some traded goods than those available in the existing China–ROK FTA.

Table 2.2. The ROK's Top Five RCEP Trading Partners Using RCEP Tariff Concessions during February - November, 2022

Country	Exports (USD Million)		Imports (USD Million)	
	Amount	Ratio (%)	Amount	Ratio (%)
Japan	2,234	67.4	2,716	48.3
China	920	27.3	2,178	38.7
Thailand	81	2.5	649	11.5
Vietnam	48	1.6	27	0.5
Singapore	24	0.8	51	0.9
Others	12	0.4	7.1	0.1
Total	3,319	100	5,628	100

Source Korea Custom Service, Press Release on the first year trade performance under RCEP, February 1, 2023

Table 2.3. The ROK's Top Five RCEP Trading Partners using RCEP Tariff Concessions during January – October 2023

Country	Exports (USD Million)		Imports (USD Million)	
	Amount	Ratio (%)	Amount	Ratio (%)
Japan	1,909	60.8	3,108	50.8
China	933	29.7	2,386	38.8
Thailand	138	4.4	489	8.0
Vietnam	65	2.1	40	0.6
Singapore	28	1.1	64	1.0
Others	58.1	1.8	56.1	0.9
Total	3,139	100	5,628	100

Source Jeong, Goo Chun, "Guide to utilize RCEP in Korea" RCEP webinar PPT, marking the 2nd Year of RCEP, 21 December 2023, http://www.custom.go.jp>RCEP 20231231

For the ROK's trade with individual RCEP partners during 2023, the ROK's Custom Services provides only the ROK exports to Japan, suggesting that the ROK exports to other RCEP partners using the RCEP concessions are less significant and, thus, are lumped together under bilateral preferential trade agreements including FTAs, the CEPA, and the RCEP, however small impacts (Table 2.4). The ROK's export values to trading partners using preferential trade agreements (PTAs) concessions show very small shares of total exports, less than 5%, except in the case of China, which records 16.7%. This suggests that the ROK has very limited export items eligible for the RCEP tariff concessions; therefore, the scope and depth of commodities for the RCEP tariff concessions must be expanded. At the end of the 4th quarter in 2023, the ROK's overall utilization ratio of applicable tariff concessions on the export side was 83%.

Table 2.4: The ROK's Utilization of Preferential Trade Agreements (PTA) including RCEP at the End of the Q4 in 2023

(Unit: USD million)

Trading partners	ROK's Export	Applicable PTA concession		Applied PTA concession		Utilization ratio
		Value (A)	%	Value (B)	%	B/A (%)
Japan (RCEP)	29,020	3,879	1.7	2,641	1.4	68.1
China	124,813	42,382	18.9	31,087	16.7	73.3
ASEAN	109,153	8,307	3.7	5,753	3.1	69.2
Vietnam	53,489	14,068	6.3	9,138	4.9	65.0
Cambodia	575	421	0.2	178	0.1	42.3
Indonesia	9,142	6,167	2.7	4,533	2.4	73.5
Australia	17,799	5,425	2.4	4,806	2.0	88.6
New Zealand	2,858	284	0.1	140	0.1	49.1
Grand Total*	516,992	224,351	100.0	185,883	100.0	82.9

*refers to global total including all other ROK's trading partners.

Source Korea Custom Service, accessed https://custom.go,kr/upload/ftaportalkor/ebook/FTA-20240201-1/

Despite the ROK's high utilization of the RCEP's given concessions the ROK is not heavily relying on the RCEP because of its low level of liberalized commodities and the availability of other bilateral preferential agreements. Regardless, the ROK should campaign to diffuse the merits and awareness of RCEP advantages to concerned traders, especially SMEs, including potential traders, that are unfamiliar with the advantages of the RCEP.

4.1.5 Regional Economic Cooperation under the RCEP

Chapter 15 of the RCEP delineates the framework for economic and technical collaboration (ETC), which is designed to bridge developmental disparities among member states and optimize the benefits derived from the agreement's execution and usage. The primary objectives of ETC under the RCEP include reducing developmental discrepancies and enhancing the collective benefits for all parties to the agreement. This objective stems from the varying developmental stages of the member countries, which necessitate tailored technical cooperation and capacity building to achieve mutual advantages.

Including CJK in the RCEP in terms of ETC allows for more coordinated economic policies and regulatory alignment between CJK and the other RCEP members, especially the ASEAN states (Armstrong and Drysdale, 2022). This is crucial for the smooth operation and expansion of regional supply chains within East and Southeast Asia. Furthermore, the agreement helps govern and deepen the economic relationships between CJK, which could lead to enhanced mutual economic growth and potentially a more cohesive economic bloc in East Asia.

In terms of scope, the RCEP agreement specified that ETC activities, including capacity building and technical assistance, should focus on trade and investment-related activities (Lee, 2022). The agreements go on to list the specific areas that correspond to the agreement's key chapters, such as trade in goods, trade in services, investment, intellectual property, e-commerce, competition, and SMEs.

The RCEP agreement outlines specific areas where ETC should be prioritized. Implementing many RCEP commitments often requires significant capacity building and technical support, particularly within the public sector. While the primary focus is on ASEAN least developed countries (LDCs) including Cambodia, Lao PRD, and Myanmar, it is noteworthy that special and differential treatment, such as exemptions or deferred implementations, are stipulated within the RCEP commitments for these countries.

Special provisions and treatments for ASEAN LDCs are detailed extensively, suggesting prioritization of sectors such as e-commerce and competition for capacity-building efforts. These provisions also allow extended periods for implementing ROOs and service trade, which might necessitate reevaluating the support needs of non-LDC ASEAN nations in these domains. A summary and listing of these special and differential treatments are provided in Table 3 below, illustrating various timelines and exceptions across different chapters.

Table 3. Special and Differential Treatment for ASEAN LDCs in RCEP

Chapters	Special and Differential Treatment for ASEAN LDCs
Chapter 2: Trade	• **Tariff elimination** - ASEAN LDCs: 30% of trade - Others: Up to 65% of trade • **Time for tariff elimination** - ASEAN LDCs: 15 years - Others: 10 years
Chapter 3: Rules of Origin	**1(c) a Declaration of Origin by an exporter or producer in accordance with subparagraph 1(b) of Article 3.18 (Declaration of Origin) ...** • Australia, Brunei Darussalam, China, Indonesia, Japan, the ROK, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Viet Nam shall implement subparagraph 1(c) no later than 10 years after their respective dates of entry into force of this Agreement. • Cambodia, Lao PDR, and Myanmar shall implement subparagraph 1(c) no later than 20 years after their respective dates of entry into force of this Agreement.
Chapter 8: Trade in Services	• **Article 8.12: Transition** 1. A Party making commitments in accordance with Article 8.7 (Schedules of Specific Commitments) (hereinafter referred to as a "transitioning Party" in this Article) shall submit a proposed Schedule of Non-Conforming Measures (hereinafter referred to as a "Proposed Schedule" in this Article) that accords with Article 8.8 (Schedules of Non-Conforming Measures) to the Committee on Services and Investment for circulation to the other Parties, no later than three years, or for Cambodia, Lao PDR, and Myanmar, no later than 12 years, after the date of entry into force of this Agreement. The process referred to in paragraphs 1 through 4 shall be completed no later than six years, or for Cambodia, Lao PDR, and Myanmar, no later than 15 years, after the date of entry into force of this Agreement.
Chapter 10: Investment	• **Article 10.4: Most-Favoured-Nation Treatment** This Article shall not apply to Cambodia, Lao PDR, Myanmar, and Viet Nam. The treatment under this Article shall not be accorded to investors of Cambodia, Lao PDR, Myanmar, and Viet Nam, and to covered investments of such investors.

Chapters	Special and Differential Treatment for ASEAN LDCs
Chapter 10: Investment	• **Article 10.6: Prohibition of Performance Requirements** (f) to transfer a particular technology, a production process, or other proprietary knowledge to a person in its territory; (h) to adopt a given rate or amount of royalty under a licence contract, in regard to any licence contract in existence at the time the requirement is imposed or enforced, or any future licence contract freely entered into between the investor and a person in its territory, provided that the requirement is imposed or enforced in a manner that constitutes direct interference with that licence contract by an exercise of non-judicial governmental authority of a Party.22 For greater certainty, this subparagraph does not apply when the licence contract is concluded between the investor and a Party. Notwithstanding this Article, subparagraphs (f) and (h) shall not apply to Cambodia, Lao PDR, and Myanmar.
Chapter 12: E-Commerce	• **Article 12.5: Paperless Trading: 1. Each Party shall** (a) work towards implementing initiatives which provide for the use of paperless trading, taking into account the methods agreed by international organisations including the World Customs Organization; Cambodia, Lao PDR, and Myanmar shall not be obliged to apply this subparagraph for a period of five years after the date of entry into force of this Agreement. • **Article 12.6: Electronic Authentication and Electronic Signature** 1. Except in circumstances otherwise provided for under its laws and regulations, a Party shall not deny the legal validity of a signature solely on the basis that the signature is in electronic form. Cambodia, Lao PDR, and Myanmar shall not be obliged to apply this paragraph for a period of five years after the date of entry into force of this Agreement. • Each Party shall adopt or maintain laws or regulations to provide protection for consumers using electronic commerce against fraudulent and misleading practices that cause harm or potential harm to such consumers. Cambodia, Lao PDR, and Myanmar shall not be obliged to apply this paragraph for a period of five years after the date of entry into force of this Agreement.

Chapters	Special and Differential Treatment for ASEAN LDCs
Chapter 12: E-Commerce	• Each Party shall adopt or maintain a legal framework which ensures the protection of personal information of the users of electronic commerce. Cambodia, Lao PDR, and Myanmar shall not be obliged to apply this paragraph for a period of five years after the date of entry into force of this Agreement.
Chapter 13: Competition	Article 13.3: Appropriate Measures against Anti-Competitive Activities1 • Grace period of 3 years for Brunei, Cambodia, Laos and Myanmar

Source Adopted from Lee (2022).

ETC activities for enhancing public awareness are relevant to commitments that directly affect individuals. These include RCEP commitments in investments, IP, e-commerce, competition, and SMEs. ETC support for this activity can be channeled to ASEAN countries (it need not be confined to ASEAN LDCs). Finally, ETC, which aims to enhance business information, applies to almost all areas of the RCEP.

Chapter 14, which focuses on SMEs, provides the other element of technical cooperation in the RCEP. This chapter's objective is to increase SMEs' ability to utilize and benefit from the opportunities created by the agreement. The agreement also specifies two approaches for achieving this goal: the promotion of information sharing and cooperation.

Regarding information sharing, the agreement also provides details on the types of information to be placed on the platform, including the full text of the RCEP agreement, information on trade and investment-related laws and regulations relevant to SMEs, or additional business-related information useful to SMEs interested in benefiting from the opportunities provided by the RCEP.

The list of activities identified for cooperation under the SME Chapter (Article 14.3) is quite extensive but fairly broad. They range from encouraging facilitative and transparent trade rules and regulations, improving SMEs' access to markets and participation in global value chains, to promoting the use of electronic commerce.

Measures listed under "information sharing" and "cooperation" in the SMEs Chapter 14 overlap and are relevant to the activities listed under the ETC of Chapter 15. Collectively, these measures

aim to build capacity, increase public awareness, and provide valuable business information to support the growth and competitiveness of SMEs in the ASEAN region.

Reflecting these overlapping measures or activities begs the question of whether they should be confined to ASEAN LDCs. Many middle-income ASEAN countries might also require capacity building and technical assistance in some areas.

Therefore, it would be beneficial to pinpoint the areas that require cooperation measures as defined under Chapter 15 (ETC) for most or all ASEAN member states, as well as those specifically relevant to the LDCs. This approach necessitates thoroughly examining the individual needs of each member state regarding the development of SMEs.

4.2 Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

4.2.1 Background of the CPTPP

The CPTPP is a FTA comprising 11 nations from the Asia–Pacific region: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. This alliance covers a population of approximately half a billion people and represents 13.3% of global GDP and 14.4% of worldwide trade (Seshadri, 2023). CPTPP members vary significantly in economic status, with per capita incomes as low as USD 3,526 in the case of Vietnam and as high as USD 60,729 in the case of Singapore.

The CPTPP originated with the smaller Trans-Pacific Strategic Economic Partnership and expanded under US leadership to include more countries, eventually formalized as the TPP. Despite US withdrawal from the alliance under President Trump, the remaining countries formed the Japan-led CPTPP after suspending certain provisions prioritized by the US.

The CPTPP distinguishes itself from other FTAs through extensive membership across continents, comprehensive market access using a negative-list approach for services and investments, and progressive provisions on digital trade. It further enhances standards in intellectual property rights, labor, and environmental protection. Additionally, the CPTPP addresses the challenges posed by state-owned enterprises, ensuring they operate competitively and transparently. Its robust dispute-resolution mechanisms, including state-to-state and investor–state processes, provide a framework for effectively resolving trade disputes, making it a modern, high-standard agreement in global trade dynamics.

A number of key elements of the agreement and their features are presented below, summarizing Seshadri (2023). The CPTPP significantly improves market access of its members, particularly in the trade in goods. The agreement established ambitious goals for duty elimination, and countries such as Vietnam, Peru, and Malaysia agreed to substantial reductions from their entry into the trade bloc. The CPTPP will virtually eliminate import duties over time, averaging a 98% reduction across all current 12 member states. While duties on industrial products are expected to be entirely abolished, agricultural products, especially in Japan, will continue to see some tariff lines maintaining restrictions.

More importantly, the CPTPP could be utilized by ASEAN countries to gain preferential market access to countries in other regions, especially in North or South America. For Latin American countries, in addition to Ecuador and Costa Rica, which are now in the process of accession to the CPTPP, other economies, such as Brazil, could join the agreement in the future. Supporting the idea for market access expansion are a number of ASEAN countries, namely, Indonesia, the Philippines, and Thailand.

The CPTPP employs a unified framework of product-specific rules to determine origin, offering certain flexibilities for specific goods. The formulation of these rules appears to have been guided by several principal considerations. Primarily, the benefits derived from the reduced tariff measures of the CPTPP are intended to be exclusive to the member states, thereby preventing advantages for nonmember entities, a strategy particularly observable in the rules crafted for textiles and apparel. The rules are designed to support the operational continuity of IPN or GVC, which is evident from the inclusion of cumulation provisions.

The investment chapter of the CPTPP enhances protections for investors while addressing global civil society concerns about previous agreements that disproportionately favored investor rights. A novel aspect of the CPTPP is its use of a "negative-list" model for these commitments, where all sectors are covered except those explicitly listed as exceptions by the parties.[15)]

The chapter on Cross-border Trade in Services within the CPTPP diverges significantly from the General Agreement on Trade in Services (GATS). Unlike GATS, which utilizes a positive list approach, the CPTPP adopts a negative-list basis for market access commitments, thereby setting a higher standard. This means that any new services emerging due to technological advancements are automatically considered free among CPTPP members, unless explicitly restricted by the negative list.

Market access under the CPTPP is comprehensive, prohibiting limitations on the number of service suppliers, transactions, or employment, and eschewing economic needs tests.

15) These exceptions, or nonconforming measures (NCMs), are cataloged in two annexes: Annex 1, which details existing NCMs with commitments to neither increase restrictions nor reduce them without further liberalization, and Annex 2, which lists sectors where parties retain full discretion to modify obligations in the future.

National treatment and MFN treatment is mandated, ensuring nondiscrimination among CPTPP members and equitable treatment compared to nonmembers. Notably, any preferential treatment granted to a non-CPTPP party through other agreements automatically extends to CPTPP members.

The CPTPP significantly impacts digital trade, reflecting its advanced approach to e-commerce and the broader digital economy (Suominen, 2021). Central to this is the CPTPP's E-commerce Chapter, which establishes a comprehensive framework to govern digital trade among member countries. It enhances consumer confidence and protects personal data by setting high privacy standards, harmonizing the approach across member states.

With respect to the other topics of the 21st-century type of FTAs, first, the CPTPP's Intellectual Property Rights (IPR) chapter presents a set of commitments that extends beyond the WTO's TRIPS agreement to establish stricter protections and enforcement standards. Second, the labor chapter of the CPTPP incorporates fundamental labor principles from the 1998 International Labour Organization Declaration, requiring members to adopt these standards into national law.

Third, the CPTPP's environment chapter focuses on stringent enforcement of member countries' environmental laws and their adherence to key Multilateral Environmental Agreements. Despite its comprehensive scope, the chapter is designed to accommodate varied developmental stages of its member countries, opting for a cooperative rather than prescriptive approach.

Fourth, the state-owned enterprises (SOEs) and designated monopolies chapter in the CPTPP ensures that these entities operate under commercial principles without distorting competitive market conditions. A critical aspect of this chapter is its prohibition of noncommercial assistance, reflecting greater discipline than that typically found in WTO subsidy frameworks. The CPTPP requires stringent transparency, necessitating detailed public disclosure about SOEs and monopolies, as well as their financial assistance, to prevent adverse effects on trade and investment.

Overall, the CPTPP is a significant advancement in the landscape of free trade agreements, incorporating extensive and innovative provisions that address contemporary global trade issues. The CPTPP facilitates not only extensive market access but also sets high standards in digital commerce, intellectual property, labor rights, and environmental protection. Its chapters reflect a meticulous balance between liberalizing trade and ensuring sustainable and equitable

growth for its member states. The CPTPP serves as a model for future agreements in addressing the complexities of global economic integration in the 21st century.

4.2.2 Impact of the CPTPP on China

Promote China's Trade and Investment Reform

Since applying to join the CPTPP in 2021, China has communicated and consulted with all members in compliance with the accession process. The Chinese government has conducted a comprehensive, full and in-depth study and evaluation of the agreement's content, including its more than 2,300 provisions. China will use a variety of channels to engage in multilevel communication and exchanges with all relevant parties to speed up its accession to the CPTPP.

The high standard requirements of the CPTPP can encourage China to actively improve its trade and investment rules, thereby enhancing the Chinese domestic market's competitiveness. The wide range of areas covered by the CPTPP, such as intellectual property protection, liberalization of trade in services, e-commerce, government procurement, and environmental and labor standards, all set standards higher than those of general international trade agreements. The high international trade standards of the CPTPP have put pressure and impetus on China's domestic reform and provided a reference example for China's economic reform and further market opening. To maintain competitiveness in the global supply chain, China will accelerate the pace of its domestic reforms to comply with higher international standards, including further opening up of its market, strengthening intellectual property protection, optimizing the regulatory environment, improving transparency, and strengthening environmental and social responsibility policies.

Promote China to Continue Expanding and Deepening Regional Cooperation

The CPTPP provides a unique opportunity for China to view regional trade cooperation from a strategic and forward-looking perspective, ensuring its competitiveness in the Asia–Pacific region and paving the way for future possibilities. The CPTPP member countries have important supply and industrial chain connections throughout the Asia–Pacific region. By cooperating with existing the CPTPP member countries, China can better understand the restructuring of

its domestic supply chain and ensure its important position in the global supply chain. In the environment of regional economic integration and supply chain connectivity, it contributes to ensuring the integrity and stability of China's industrial chain. The CPTPP provides a framework for trade and economic cooperation in the Asia–Pacific region, including higher standards of trade and investment rules, intellectual property protection, and liberalization of trade in services. This system promotes unity and transparency among Asia–Pacific economies, providing clear standards and paths for China to deepen cooperation with other economies.

Increase China's Competitive Pressure in the International Market

CPTPP member countries enjoy favorable tariffs and lower trade barriers, placing greater competitive pressure on Chinese goods in these markets. In particular, some countries with similar export commodity structures as China's may leverage the advantages of the agreement to expand their share in the CPTPP market. As tariffs and trade barriers among CPTPP member countries decrease, multinational corporations may shift their production and supply chains to member countries to enjoy preferential policies. This may weaken China's position as a global manufacturing center and have some impact on exports in the electronics, textiles, and clothing industries. However, it is highly possible that China may retain the largest manufacturing center in the world for a long time, given China's manufacturing value-added represents more than 32% of the global total.

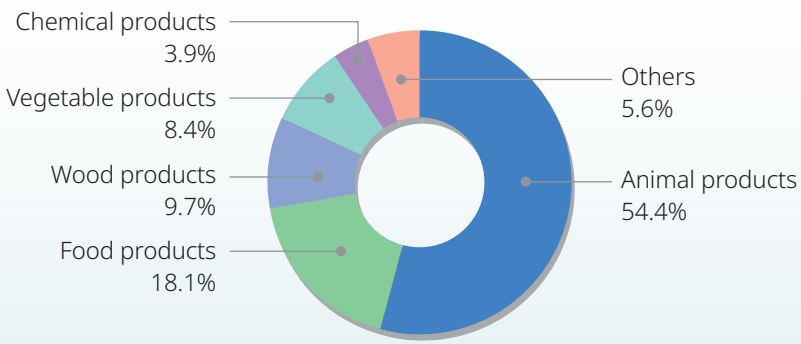
4.2.3 Implementation Status of the CPTPP in Japan

The CPTPP targets an ambitious level of trade liberalization. All members, except Japan, have pledged to eliminate tariffs on at least 99% of their products after certain staging periods; meanwhile, Japan has committed to eliminating tariffs on approximately 95% of its products (Cabinet Secretariat, 2017). Simultaneously, the agreement seeks swift liberalization across a broad range of products, with all members, except Mexico and Vietnam, having immediately eliminated tariffs on more than 80% of products upon the agreement's entry into force (MOFA, 2017).

In 2023, Japan's imports utilizing CPTPP preferential tariffs reached JPY 1.3 trillion, an increase of approximately 50% compared with the amount in 2019 immediately following the agreement's

enactment (JPY 835.2 billion).[16)17)] When examining the share of imports by country in 2023, Canada held the largest portion at 26.5%, followed by Australia (24.5%), New Zealand (16.6%), and Mexico (10.2%), collectively accounting for 77.8% of Japan's imports utilizing the CPTPP. Regarding the share by product category, about 90% of the imports comprise agriculture, forestry, and fisheries products, with animal products such as beef, pork, and marine products accounting for more than half of the total (Figure 7). This contrasts with the situation under the RCEP, where preferential tariffs are mainly used on imports of manufacturing products such as textiles, chemicals, and plastic products.

Figure 7. Share of Japan's imports under the CPTPP by product category (2023)



Source Ministry of Finance (MOF).

According to a previous study, Japan's real GDP is expected to increase by 0.65% as a result of the CPTPP coming into effect. Agricultural production is expected to decrease by about 1% due to intensified competition with imported products (Kawasaki, 2023). To expand the number of beneficiaries and alleviate the adverse impacts, the Japanese government established "TPP Headquarters" within the Cabinet Secretariat in 2015 when the original TPP agreement was

16) Since the CPTPP ROOs adopt a "self-certification system," there are no statistics on the number of COs issued to exporters. Therefore, the discussion below focuses solely on the import aspect.

17) Note that the number of member countries where the agreement is in force differs between 2019 and 2023.

preliminarily agreed upon. Since then, various measures have been implemented to improve agricultural productivity, promote agricultural exports, and encourage SMEs to utilize the CPTPP. A more general policy has now been developed to help Japanese industries respond to any FTA, with a budget of more than JPY 310 billion for the fiscal year 2023 alone (Cabinet Secretariat, 2024).

Since 2021, some countries and regions have submitted applications to join the CPTPP. Among these, the UK concluded its accession negotiations in March 2023, and the accession protocol was signed at the TPP Commission meeting held in New Zealand in July. Japan has already completed its domestic procedures for the protocol's entry into force in December 2023. Regarding new membership in the CPTPP, the TPP Commission reaffirmed that "the CPTPP is open to accession requests by economies that are ready to meet the high standards of the Agreement and with a demonstrated pattern of complying with their trade commitments" (CPTPP, 2023a). At a subsequent CPTPP Ministerial Meeting in November 2023, members approved the terms of reference for conducting the general review of the agreement, including supply chain resilience, environment, and labor issues, among other topics (CPTPP, 2023b).

4.2.4 Impact of the CPTPP on the ROK

Unlike the RCEP, the CPTPP explicitly addresses new rules and standards on labor and the environment, IPR, and investor–state disputes settlements beyond tariff reductions and removal of some nontariff barriers. In fact, the KOREA–US (KORUS) FTA has provided a backbone structure for the most advanced deal, TPP, the predecessor of CPTPP.

The ROK has not joined as a signatory state during the TPP negotiations for three reasons. First, the ROK was then negotiating an FTA with China, the ROK's largest trading partner over the past two decades. The ROK concentrated on China FTA negotiation, believing they could gain more immediate benefits from the Chinese market than through the TPP. Second, the ROK already had bilateral deals with most TPP members, which would allow the ROK to join the TPP at any time. Third, negotiations with Japan, Australia, and New Zealand required additional market openings for agricultural sectors, which were difficult to push for after experiencing anti-FTA demonstrations during the KORUS FTA negotiation, especially against the beef sector by citing potential risks of mad cow disease.

At the end of 2023, the ROK had 21 effective or agreed FTAs with 59 countries, representing approximately 85% of global GDP.[18] Most importantly, the ROK had an effective FTA with the US in 2012. Table 4.1 also shows that only three countries (Japan, Malaysia, and Mexico) have connected with the ROK through bilateral preferential trade schemes. Therefore, the ROK's losses due to nonmembership in the CPTPP may not be significant in the early stage of implementation.

Table 4.1. The ROK's FTA status with individual CPTPP members as of November, 2023

Partnering Countries	Status	Significance
Chile	Effective in 2004	First FTA for ROK
Singapore	Effective in 2006	Bridgehead for ASEAN connectivity
Brunei	Effective in 2007 indirectly via ASEAN-ROK FTA	Activated via ROK's New Southern Policy
Peru	Effective in 2011	Bridgehead for Latin American connectivity
Australia	Effective in 2014	Comprehensive partner in Oceania
Canada	Effective in 2015	Major economy in North America
New Zealand	Effective in 2015	Strong agricultural sector
Vietnam	Effective in 2015	The 3rd trading partner as on 2022
United Kingdom	Effective in 2021	The 2nd largest European economy

Source Korea Customs Service, Total Solution FTA-Related Sites

Table 4.2 shows the ROK's trade flows with CPTPP members over 2011–2022. Surprisingly, the ROK's trade share with CPTPP members over the ROK's global trade remains almost constant during 2018–2022, even after the enactment of the CPTPP. Whether the ROK lost any significant degree of trade linkages with CPTPP members due to its nonmembership is uncertain. It is possible that the ROK's bilateral FTAs with most CPTPP members, especially with the US, compensated for any potential losses.

18) For details of the ROK's FTA partners, see Korea Custom Service, total solution FTAS-Related Sites.

Table 4.2. The ROK's trade with CPTPP member states and its share of ROK's global trade

(Unit: USD Million)

Year	Exports with CPTPP members	Imports with CPTPP members	ROK's Global Exports	ROK's Global Imports
2011	105,836 (19.1)	115,875 (21.0)	555,214	524,413
2012	109,668 (20.0)	113,396 (21.8)	547,870	519,584
2013	111,863 (20.0)	111,850 (21.7)	559,632	515,586
2014	113,412 (19.8)	109,392 (21.2)	572,664	515,515
2015	103,959 (19.7)	93,512 (21.4)	526,757	436,499
2016	102,643 (20.7)	93,931 (23.1)	495,426	406,193
2017	122,358 (21.3)	112,635 (23.5)	573,694	478.478
2018	127,901 (21.1)	119,913 (22.4)	604,860	535,202
2019	123,667 (22.8)	108,624 (21.6)	542,233	503,343
2020	113,648 (22.2)	106,741 (22.8)	512,498	467,633
2021	139,370 (21.6)	129,778 (21.1)	644,400	615,093
2022	155,911 (22.8)	141,726 (20.7)	683,585	731,370

Source The ROK's trade with CPTPP member states are derived from the World Bank's UNcomtrade.

Note The numbers in the parentheses indicate percentage of the ROK's trade with CPTPP members over the ROK's global trade.

According to the ROK government, the CPTPP is expected to boost trade, production, investments, and employment, increasing its real GDP in the range of 0.33% to 0.35%.[19] In particular, net exports in the manufacturing industry are forecast to rise to USD 900 million per year on average over the next 15 years, while ensuring stable supply chains and strengthening ties with partner countries.

To embrace its expected benefits, the ROK government decided to officially promote joining the CPTPP at an economy-wide ministers' meeting in April 2022.[20] In accordance with the ROK's

19) ROK Yonhap News Agency, "S. Korea's accession to CPTPP likely to boost real GDP, damage agricultural sector." April 30, 2024

20) ROK Yonhap News Agency, "South Korea decides to join CPTPP trade agreements," https://m-en.yna.co.kr, April 15, 2022

Commercial Treaties Act, the government must report to the National Assembly before officially applying to the CPTPP membership.

However, the agricultural and fishery industries are likely to oppose the application, which requires market openings demanded by agricultural powerhouses such as Australia and New Zealand. Furthermore, the ROK's opposition-party-dominant National Assembly is not likely to support the CPTPP to protect domestic agricultural and fishery sectors.

Nevertheless, the ROK should continue with its adjustments to speed up joining the CPTPP to enhance the economy's competitiveness by utilizing new norms, such as digital economy and service trades. According to Peter A. Petri and Michael Plummer (2021), if the CPTPP expands before the ROK joins, the ROK's benefits may grow, although its unique bargaining power will diminish, making it more costly to negotiate. As an FTA "champion" country, the ROK should apply to the CPTPP to play an active role in combining the RCEP and the CPTPP to move toward the goal of an FTA in the Asia–Pacific (FTAAP).[21)]

21) For the long-term vision of East Asian Community, see Ahn Choong Yong (2018), "Toward an East Asian Economic community: Opportunities and Challenges" in (Coed) Peter Hays and Chung-In Moon, The future of East Asia, Asia Today, Palgrave Macmillan 2018, pp. 131-164

Reference

- Ahn Choong Yong (2018), "Toward an East Asian Economic community: Opportunities and Challenges" in (Coed) Peter Hays and Chung-In Moon, The future of East Asia, Asia Today , Palgrave Macmillan 2018, pp. 131-164
- Ahn, Choong Yong (2023), "Implementation status of RCEP in the ROK", in the chapter of "Regional comprehensive partnership (RCEP) for China, Japan, and the ROK, 2023 Trilateral Economic Report, ERIA, Economic Research Institute for ASEAN and East Asia
- Armstrong, S., and Drysdale, P. (2022). The implications of the regional comprehensive economic partnership for asian regional architecture. In F. Kimura, S. Thangavelu, and D. Narjoko (Eds.), *Regional Comprehensive Economic Partnership: Implications, Challenges, and Future Growth of East Asia and ASEAN* (pp. 247-265). ERIA.
- Cabinet Secretariat (2015). The Outcome of Tariff Negotiations in the TPP (in Japanese). Cabinet Secretariat. https://www.cas.go.jp/jp/tpp/tppinfo/2015/pdf/151020_tpp_kanzeikousyoukekka.pdf
- Cabinet Secretariat (2024). Comprehensive Policy Framework for TPP and Other Related Policies (in Japanese). https://www.cas.go.jp/jp/tpp/tppinfo/taiko/index.html
- Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (2023a). Joint Ministerial Statement on the Occasion of the Seventh Commission Meeting. CPTPP/JS/2023/001. https://www.cas.go.jp/jp/tpp/tppinfo/2023/pdf/20230716_cptpp_seimei_en.pdf
- Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (2023b). Terms of Reference for Conducting the General Review of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) endorsed at CPTPP Ministerial meeting on 15 November 2023 PST. https://www.cas.go.jp/jp/tpp/tppinfo/2023/pdf/20231120_cptpp_tor_en.pdf
- Hayakawa, K. (2022). How Preferential are RCEP Tariffs?. In F. Kimura, S. Thangavelu, and D. Narjoko (Eds.), *Regional Comprehensive Economic Partnership: Implications, Challenges, and Future Growth of East Asia and ASEAN* (pp. 171-94). ERIA.
- Hayakawa, Kazunobu, Nuttawut Laksanapanyakul, and Ju-Hyun Pyun (2024). Status of RCEP Utilization: Japan's Exports in 2022 (in Japanese). *IDE Policy Brief*, No. 181. IDE-JETRO. https://www.ide.go.jp/Japanese/Publish/Reports/AjikenPolicyBrief/181.html
- Hayakawa, Kazunobu (2023). Status of RCEP Utilization: Japan's Imports in 2022 (in Japanese) *IDE Policy Brief*, No. 178. IDE-JETRO. https://www.ide.go.jp/Japanese/Publish/Reports/AjikenPolicyBrief/178.html
- Itakura, K. (2022). Impact of the regional comprehensive economic partnership: a global computable general equilibrium simulation. In F. Kimura, S. Thangavelu, and D. Narjoko (Eds.), *Regional Comprehensive Economic Partnership: Implications, Challenges, and Future Growth of East Asia and ASEAN* (pp. 111-141). ERIA.
- Japan Customs (2023). Questionnaire on the Utilization of Economic Partnership Agreements (EPAs): Survey Results (in Japanese). Japan Customs. https://www.customs.go.jp/kyotsu/kokusai/epa_answer.pdf

- Japan External Trade Organization (JETRO) (2023). Report on Questionnaire Survey on FTAs for Exporters in FY2022 (in Japanese). JETRO. https://www.jetro.go.jp/world/reports/2023/01/b028f1cad079540d.html
- Jeong, Goo Chun, "Guide to utilize RCEP in Korea" , RCEP webinar PPT, marking the 2nd Year EIF, 21 December 2023, https://www.customs.go.jp/kyotsu/kokusai/news/rcep/rcep_20231221_a.pdf
- Kawasaki, Kenichi (2021). Economic Impact of the US and/or China joining CPTPP. *Policy Analysis Focus*, 23-4. National Graduate Institute for Policy Studies (GRIPS). https://www.grips.ac.jp/cms/wp-content/uploads/2023/10/PAF23-4%20Economic%20Impact%20of%20the%20US%20and%20or%20China%20joining%20CPTPP.pdf
- Korea Trade and Promotion Agency (2022), RCEP Users' guidebook, 2022
- Korea Custom Services (2023), Press Release on the first year trade performance under RCEP, February 1, 2023
- Lee, C. (2022). Focus areas and support for small and medium-sized enterprises. In F. Kimura, S. Urata, S. Thangavelu, and D. Narjoko (Eds.), *Dynamism of East Asia and RCEP: the framework for regional integration* (pp. 277-298). ERIA.
- Ministry of Economy, Trade and Industry (METI) (2024). Council for Promoting EPA Utilization (in Japanese). METI. https://www.meti.go.jp/shingikai/external_economy/epa_katsuyo/index.html
- Ministry of Foreign Affairs (MOFA) (2017). Explanation of the Trans-Pacific Partnership Agreement (in Japanese). MOFA. https://www.mofa.go.jp/mofaj/files/000138054.pdf
- Ministry of Finance (MOF) (2023). Recent Status on Economic Partnership Agreements (EPAs). December 21, 2023. MOF. https://www.customs.go.jp/kyotsu/kokusai/news/rcep/rcep_20231221_b.pdf
- Petri Peter A. and Michael Plummer (2021) "Why South Korea should join the CPTPP", Brooking commentary, December 2, 2021
- Rillo, A.D., Robeniol, A.M.R.D and Buban, S. M. (2022). The story of RCEP: history, negotiations, structure, and future directions. In F. Kimura, S. Thangavelu, and D. Narjoko (Eds.), *Regional Comprehensive Economic Partnership: Implications, Challenges, and Future Growth of East Asia and ASEAN* (pp. 171-94). ERIA.
- ROK, Korea Custom Services (2024) "ROK's FTA partners", total solution FTAS-Related Sites
- ROK, Yonhap News Agency (2024), "S. Korea's accession to CPTPP likely to boost real GDP, damage agricultural sector," April 30, 2024
- ROK, Korea Custom Service (2024), total solution FTAS-Related Sites.
- Seshadri, V.S. (2023). *Free Trade Agreements: India and the World*. Oxford University Press.
- Suominen, K. (2021). *The CPTPP's Impacts on Digital Trade and the Path Forward*. Center for Strategic and International Studies.
- Thangavelu, T., Urata, S., and Narjoko, D. (2022). The post COVID-19 and RCEP: pandemic recovery in East Asia. In F. Kimura, S. Urata, S. Thangavelu, and D. Narjoko (Eds.), *Dynamism of East Asia and RCEP: the framework for regional integration* (pp. 13-39). ERIA.

2024 Trilateral Economic Report

CHAPTER V

Trilateral + ASEAN for Regional Economic Integration

Authors

ZHANG Jianping, Deputy Director, Academic Steering Committee, Chinese Academy of International Trade and Economic Cooperation

KUNO Arata, Professor, Faculty of International Relations, Asia University

AHN Choong Yong, Distinguished Professor, Graduate School of International Studies, ChungAng University

Archanun Kohpaiboon, Associate Professor, Thammasat University

V Trilateral + ASEAN for Regional Economic Integration

5.1 ASEAN + 1

5.1.1 China–ASEAN Economic Relation

China and ASEAN states are close neighbors with good economic complementarity and interdependence. After the Asian financial crisis, the China–ASEAN FTA started the process of East Asian economic integration and laid the foundation for ASEAN to propose the RCEP. The establishment of the China–ASEAN FTA has generated significant trade, investment and job growth effects. It is a win–win arrangement that marks an early golden decade of China–ASEAN cooperation. China and ASEAN countries are now building a bright decade of cooperation through upgrading the FTA and implementing the RCEP.

China and ASEAN: Top trading partners

Over the past two years, driven by RCEP policy dividends, China–ASEAN industrial cooperation has been deepened, boosting regional economic development. With the entry into force of the RCEP and the continuous release of policy dividends, such as the construction of the new land–sea corridor in the western region, the scale of bilateral trade has further expanded. Economic and trade cooperation between China and ASEAN member states has maintained good momentum, with bilateral trade in goods increasing from USD 472.162 billion in 2015 to USD 911.718 billion in 2023, with an average annual growth rate of 8.57%. Since 2020, ASEAN countries have been China's largest trading partners for four consecutive years.

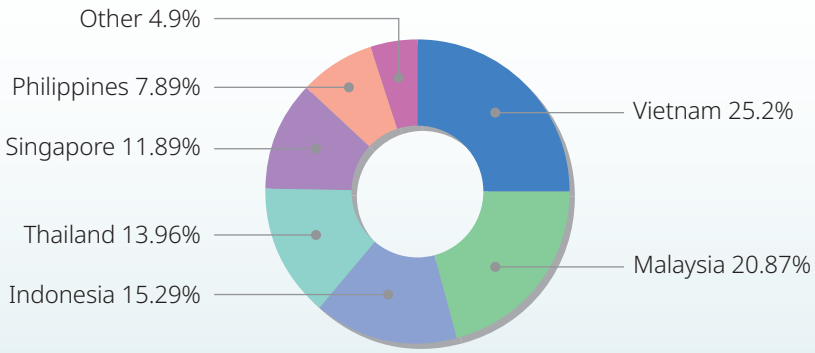
In 2023, the total trade in goods between China and ASEAN members will be USD 911.718 billion, down 4.9% YoY. China's exports to ASEAN members in 2023 will be USD 523.674 billion, a YoY decrease of 5%, while China's imports from ASEAN economies were USD 388.044 billion, down 4.8% YoY.

Figure 1. Trade between China and ASEAN, 2015–2023 (billions of US dollars)

Source General Administration of Customs of China

In terms of country composition, Vietnam, Malaysia, Indonesia, Thailand and Singapore were China's top five trading ASEAN partners in 2023, with trade accounting for 25.20%, 20.87%, 15.29%, 13.96% and 11.89% of China's total trade with ASEAN countries, respectively.

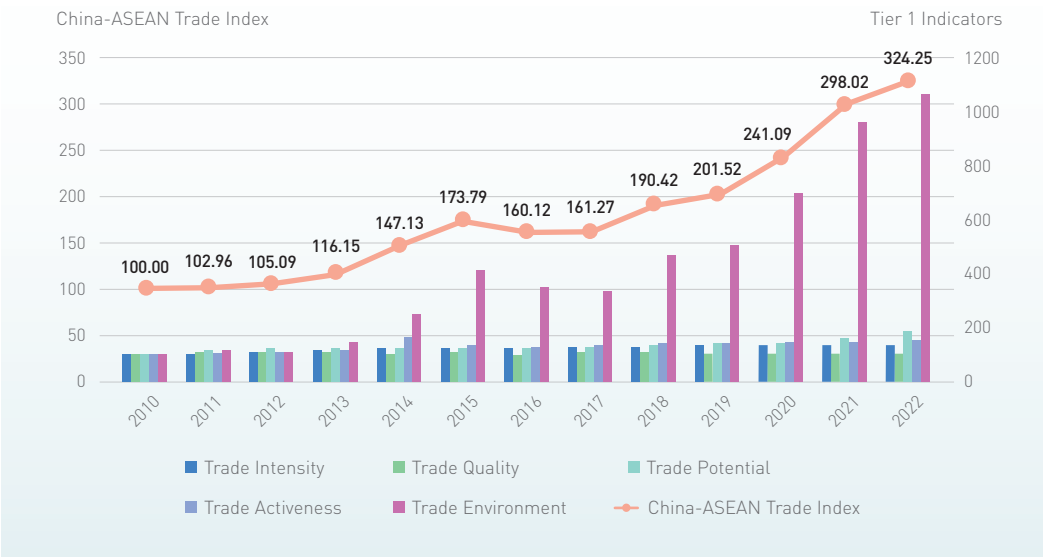
Figure 2. Share of Total Trade in Goods between China and ASEAN Members in 2023 (%)



Source General Administration of Customs of China

Since 2013, China's trade with ASEAN members has grown at an average annual rate of 8.8%, 3.8 percentage points higher than China's overall average annual growth rate in the same period. In addition, after the RCEP came into effect, tariff reduction, cumulative ROOs, and other policies have brought significant benefits to the economic and trade exchanges between China and ASEAN member states, as well as the construction of the industrial chain. In 2023, trade volume between China and the ASEAN bloc increased by 4.9% compared with 2021, before the RCEP came into effect, which is higher than the growth rate of intra-RCEP trade. As a "barometer" and "wind vane" of bilateral trade development, the China–ASEAN Trade Index intuitively reflects the health and future potential of bilateral trade. According to the "China-ASEAN Trade Index Report 2022," the China–ASEAN Trade Index has maintained a good growth trend in general, rising to 324.25 in 2022, an increase of 26.23 over 2021, reaching a new historical high. The growth of the Trade Index reflects the deepening of regional economic integration, which helps promote economic integration between China and ASEAN member states and strengthens their cooperation in the regional economy.

Figure 3. China–ASEAN Trade Index and Its First-level Indicators, 2010–2022



Source China-ASEAN Trade Index Report 2022

According to IMF data, it is estimated that China and ASEAN countries will contribute 84% to the economic growth of the RCEP region and more than 30% to global economic growth in 2023–2029. The next 5–10 years will be a period of faster economic growth for ASEAN economies and an important period of structural transformation and upgrading for China's economy.

Deep Interconnection of the Industrial Chain and Supply Chain

Studies have shown that the RCEP can promote the economic growth of member countries by 2%, CPTPP can promote growth by about 1%, and the integration of the two will promote GDP growth of member countries by 3.4%. China and ASEAN countries have gradually formed a mutually beneficial "regional cycle" model in which "ASEAN exports primary goods to China - imports machinery and equipment (capital-intensive) and intermediate goods (technology-intensive) from China - and exports consumer goods (labor-intensive) to China and third countries." In 2023, the share of trade in intermediate goods in the RCEP region will be about 66%, up 1.5 percentage points from 2021, and trade in intermediate goods between China and ASEAN members will account for 64.4% of total bilateral trade. China's import and export of intermediates to ASEAN countries amounted to CNY 4.13 trillion, and ASEAN countries have remained China's top trading partners in intermediates for many consecutive years.

China and ASEAN member states have given full play to their respective comparative advantages and deepened integration and development of the industrial and supply chains. Both sides have deepened cooperation in green energy, consumer electronics and other industries, and China's exports of lithium batteries and solar cells to ASEAN countries, as well as imports of audio and video equipment parts, have all grown at a high rate. At the same time, ASEAN members are an important source of imports of Chinese agricultural and energy products, almost all of China's palm oil imports are from Indonesia and Malaysia, and Indonesia and Myanmar are China's largest source of imports of coal and tin ore, respectively.

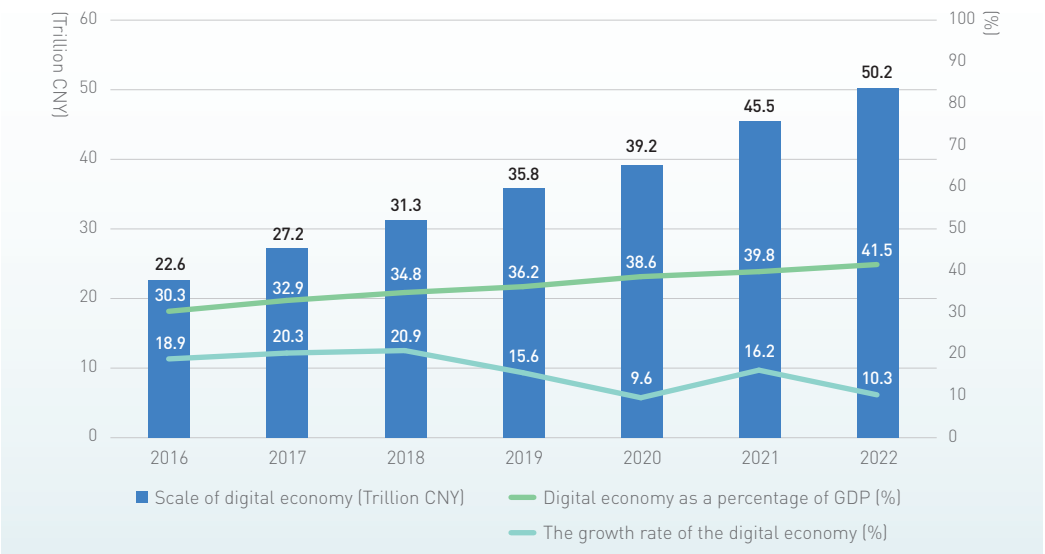
Digital Economy Becomes New Blue Ocean for China-ASEAN Economic and Trade Cooperation

The ASEAN bloc is a hotbed of digital economy development. Since 2015, ASEAN countries have been actively planning and developing the digital economy, and according to the ASEAN Secretariat, it is projected that the ASEAN digital economy will increase its share of GDP from 1.3% in 2015 to 8.5% by 2025, placing it among the top five digital economies in the world.

The digital economy is becoming a new blue ocean for cooperation and development between China and ASEAN countries, and 2020 has been identified as the Year of China–ASEAN Digital Economy Cooperation. In 2020, China and ASEAN issued the "China-ASEAN Initiative on the Establishment of a Partnership for the Digital Economy," which has become a foundational cornerstone for improved cooperation between China and ASEAN members in the area of digital infrastructure development.

ASEAN is in an explosive period of rapid development of the digital economy, and China, as the second-largest country in the world in terms of the digital economy, has vast space for cooperation with ASEAN. China is at the forefront of the world in developing digital infrastructure and other aspects of the digital economy, and is a valuable partner for ASEAN in promoting the development of the digital economy. According to data from the China ICT Academy, China's digital economy will reach CNY 50.2 trillion in 2022, placing it firmly in the second position in the world, with a nominal YoY growth of 10.3%, raising its share of GDP to 41.5%. China's digital economy is developing rapidly, gradually moving toward global leadership in 5G construction, smart city construction, digital government construction and manufacturing digitization, and aligns well with ASEAN countries' digital economy development plans and priority industry needs.

Figure 4. Development of the digital economy in China, 2016–2022



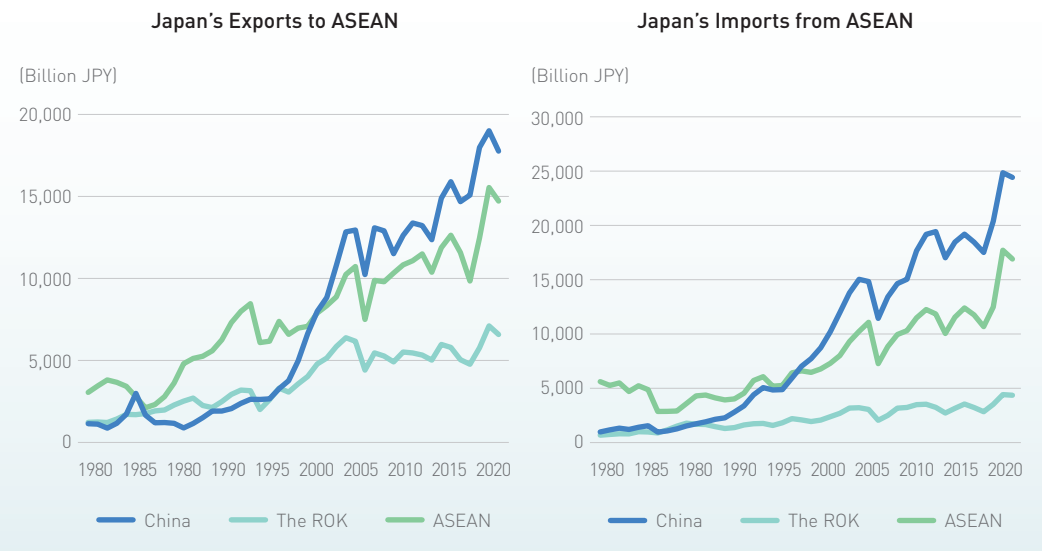
Source China Digital Economy Development Research Report (2023)

In 2023, ASEAN's digital economy accelerated, with good growth in e-commerce, food distribution, and online media, and an increasing proportion of online transactions in sectors such as healthcare tech, education tech, and automotive. The total transaction value of Southeast Asia's digital economy is expected to reach USD 218 billion in 2023, an increase of 11% YoY. Thailand's online tourism revenue is expected to grow 85% YoY and digital payments account for more than 50% of total regional transactions.

5.1.2 Japan–ASEAN Economic Relation

Despite several economic upheavals, including the 1997 Asian currency crisis, the 2008 global financial crisis, and the outbreak of the COVID-19 pandemic in 2020, the Japan–ASEAN trade relationship has remained robust in the long run and continues to show a growth trend (Figure 5). After Japan's trade with ASEAN members reached a record high in 2022 for both imports and exports, it slightly declined in 2023, with exports totaling JPY 14.7 trillion and imports totaling JPY 16.9 trillion. In the same year, ASEAN countries accounted for 14.6% of Japan's total exports, ranking third after the US and China. For imports, ASEAN countries held a 15.3% share, second only to China. Among ASEAN nations, Japan's top export partners were Thailand (28.0%), Singapore (17.9%), and Vietnam (16.4%). Meanwhile, Vietnam (21.4%), Thailand (21.3%), and Indonesia (20.2%) were Japan's main import partners (Table 1).

Figure 5. Trends in Japan's Trade with ASEAN Nations



Source Ministry of Finance (MOF).

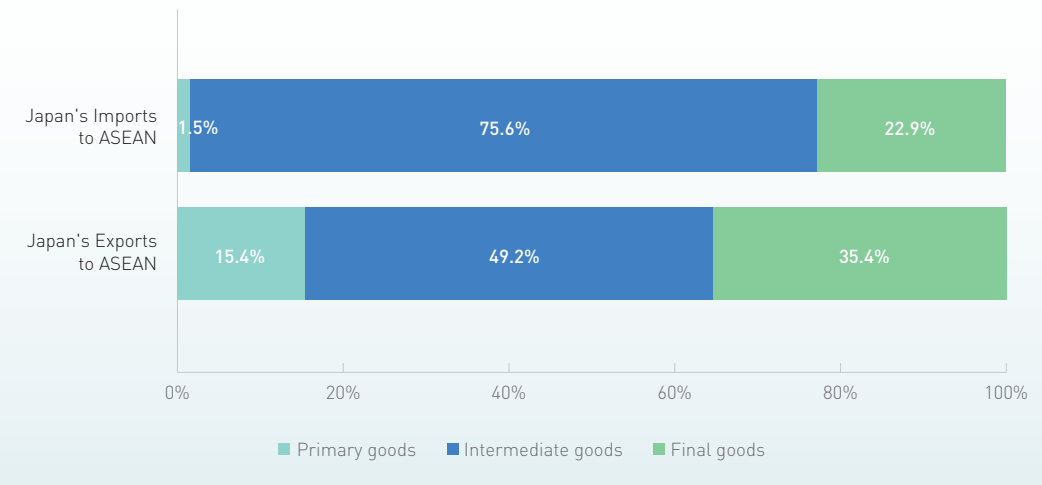
Table 1. Japan's Trade with ASEAN by Country (2023)

	Japan's Exports			
	Billion JPY	Share (%)	Billion JPY	Share (%)
Brunei	7.9	0.1%	263.3	1.6%
Cambodia	70.5	0.5%	269.2	1.6%
Indonesia	2,025.1	13.8%	3,411.6	20.2%
Laos	16.2	0.1%	23.0	0.1%
Malaysia	1,957.9	13.3%	2,822.6	16.7%
Myanmar	53.4	0.4%	216.8	1.3%
Philippines	1,423.5	9.7%	1,455.6	8.6%
Singapore	2,631.2	17.9%	1,208.1	7.1%
Thailand	4,114.7	28.0%	3,608.9	21.3%
Vietnam	2,417.1	16.4%	3,625.5	21.4%
Total	**14,717.5**	**100.0%**	**16,904.8**	**100.0%**

Source Ministry of Finance (MOF).

In 2023, Japan's major export items to ASEAN members included semiconductors and other electronic parts (9.4%), iron and steel products (9.2%), and auto parts (5.2%), while its major imports from ASEAN member states were liquefied natural gas (LNG) (9.0%), clothing (7.0%), and coal (5.0%). Intermediate goods dominated both imports and exports between Japan and ASEAN members, signifying an active crossborder division of labor. Specifically, intermediate goods constituted 75.6% of Japan's exports to ASEAN countries, underscoring ASEAN's importance as a production hub for Japanese companies (see Figure 6).

Figure 6. Japan's Trade with ASEAN Nations by Production Stage (2022)



Source RIETI Trade Industry Database (RIETI-TID) 2022.

Note Data for Laos and Myanmar are not included.

FDI statistics also suggest an active international division of labor between Japan and ASEAN nations. According to the MOF's FDI statistics, Japan's direct investment position (stock basis) in ASEAN countries reached JPY 38.1 trillion at the end of 2022, exceeding positions in China (JPY 18.8 trillion) and the ROK (JPY 5.5 trillion), although not as large as in the US (JPY 92 trillion) or the EU (JPY 44.9 trillion). Moreover, the number of overseas affiliates of Japanese companies located in ASEAN nations reached 7,435 in March 2022, surpassing that of China (7,281) and North America (3,201). Additionally, ASEAN members' share of the global total has grown from 23.2% to 29.4% over the past decade. Japanese companies generated 2.06 million jobs and JPY 63 trillion in sales in ASEAN countries, exceeding the levels in China and North America (METI, 2023). From the ASEAN perspective, Japan's presence in inward FDI in this region is also significant. In 2022, ASEAN's inward FDI (balance of payments basis) totaled USD 225.8 billion, with Japanese FDI was second only to that of the US (USD 36.9 billion), amounting to USD 27.2 billion (12.1%) (ASEAN Secretariat, 2023). With the recent intensification of strategic competition between the US and China and the exposure of public health risks, Japanese companies have begun to recognize the necessity to diversify their sources of supply and markets from an economic security perspective, and ASEAN countries are receiving renewed attention as promising investment destinations.

Since the 2000s, the deepening of economic relations between Japan and ASEAN countries has been institutionally supported by the conclusion of FTAs. Japan has entered into bilateral free trade agreements with the ASEAN-7 countries, excluding Cambodia, Laos, and Myanmar (CLM), and in December 2008, the Japan–ASEAN CEPA (AJCEP), Japan's first plurilateral FTA, came into effect, aiming to enhance strategic relations with ASEAN (Table 2).

Table 2. Free Trade Agreements Enacted between Japan and ASEAN Countries

	Enactment		Enactment
Singapore	November, 2022	ASEAN	December, 2008
Malaysia	July, 2006	Philippines	December, 2008
Thailand	November, 2022	Vietnam	October, 2009
Indonesia	July, 2008	CPTPP	*December, 2018*
Brunei	July, 2008	RCEP	*January, 2022*

Source Ministry of Foreign Affairs (MOFA).

Excluding RCEP, the FTAs under which the most COs have been issued when exporting from Japan in 2023 were bilateral FTAs between with Thailand (87,202), Indonesia (51,173), and Vietnam (23,280) (METI, 2024). Focusing on imports into Japan, 56.2% were from ASEAN-7 countries that utilized preferential tariffs under bilateral FTAs, followed by the AJCEP (29.9%), the RCEP (8.2%), and the CPTPP (5.7%) (Table 3). Regarding the relationship between Japan and ASEAN members, it is evident that the RCEP has not yet replaced existing bilateral agreements or Japan–ASEAN agreements. However, imports from CLM, recognized by the United Nations as LDCs, primarily utilize the generalized system of preferences, which provides duty-free and quota-free access, except in the case of some sensitive items, accounting for approximately 90% of the total import value.

Table 3. Imports from ASEAN to Japan Utilizing Preferential Tariff Systems (Share by FTA, 2023)

	FTAs				GSP
	Bilateral	AJCEP	RCEP	CPTPP	
ASEAN7	56.2%	29.9%	8.2%	5.7%	0.0%
CLM	0.0%	11.5%	0.6%	0.0%	87.9%
China and The ROK	*0.0%*	*0.0%*	*100.0%*	*0.0%*	*0.0%*
Australia and NZ	*32.4%*	*0.0%*	*0.3%*	*67.3%*	*0.0%*

Source Ministry of Finance (MOF).

In December 2023, which marked the 50th anniversary of ASEAN–Japan Friendship and Cooperation, a commemorative summit meeting was held in Japan, where a Joint Vision Statement on ASEAN–Japan Friendship and Cooperation was adopted. The vision aims to enhance the mutual and comprehensive strategic partnership between Japan and ASEAN nations while respecting ASEAN's unity and centrality. Particularly in the economic sphere, the vision emphasizes improving connectivity through quality infrastructure investment, alongside trade and investment facilitation, and the strengthening and securing of the resilience and reliability of supply chains. It also underscores efforts to enhance industrial competitiveness, such as in the next-generation auto industry, promote sustainable energy security, and foster cooperation in digitalization, ICT solutions, and artificial intelligence (AI) (MOFA, 2023).

5.1.3 The ROK–ASEAN Economic Relations

ASEAN has been the ROK's strategic partner for economic connectivity and diplomatic linkages. According to 2022 ASEAN statistics, the ROK was ASEAN's fifth-largest trading partner and ASEAN's sixth-largest source of FDI among ASEAN external partners.[22] Since the ROK's adoption of an outward-looking development strategy in the early 1960s, ASEAN, with its resource abundance and geographical proximity, has been the ROK's indispensable economic partner. At the outset of labor-intensive exports, the ROK has imported raw materials, such as tropical timber, tin, and rubber, from ASEAN countries to process them for exports. As ASEAN has

22) See "Overview of ASEAN-ROK Dialogue Relations as of December 2023" p. 3, ASEAN Main Portal, https://ASEAN.ORG>WP-Connect.

rapidly developed into an economic community in the past decades, the ROK has, accordingly, developed a strategic partnership to enhance economic and security cooperation.

As the Asian financial crisis unfolded sequentially in 1997 in Thailand, Indonesia, Malaysia, Hong Kong, and finally the ROK, the East Asian economies have developed an "East Asian Identity."[23] Since then, the ROK was involved in cooperation mechanisms such as the Chiangmai initiative and the ASEAN–ROK FTA, embracing the ASEAN community largely propelled by ASEAN centrality.

Since the mid-2000s, the two economies have progressed rapidly to a robust economic partnership by signing the ROK–ASEAN FTA as shown in Table 4.1. To deepen trade linkages with individual ASEAN member states, the ROK developed an FTA with Singapore and more recently with Vietnam and Indonesia. The ROK also concluded negotiations with the Philippines, signed an FTA with Cambodia, and commenced FTA negotiations with Malaysia. Furthermore, the ROK–Singapore Digital Partnership Agreement (KSDPA) is likely to set a precedent for promoting regional digital economy.

Table 4.1. The ROK's Preferential Trade Agreements (PTA) with ASEAN and Its Individual Members

Partnering Countries	PTA	Effective or signed
Singapore	FTA	2006
ASEAN	PTA on goods	2007
	PTA on Service	2009
	PTA on Investment	2009
Vietnam	FTA	2022
Indonesia	CEPA	2023
Cambodia	FTA	2021, signed
Philippines	FTA	2021, negotiation concluded
Malaysia	FTA	2019, negotiation commenced
Singapore	Digital partnership agreement	2021, concluded

Source Korea Customs Service

23) For details East Asian economic integration process, see Ahn Choong Yong, "Toward an East Asian Economic community: Opportunities and Challenges" in (Coed) Peter Hays and Chung-In Moon, The future of East Asia, Asia Today, Palgrave Macmillan 2018, pp. 131-164

As a result of preferential trade agreements between the ROK and ASEAN, the bilateral trade volume between the two economies has increased significantly over the 2010–2022 (Table 4.2). In the sample period, ROK exports to ASEAN have grown from USD 53,195 million to USD 124,889 million, a 2.35-fold increase, and the ROK's imports from ASEAN members have also jumped from USD 44,099 million to USD 67,701 million, increasing 1.54-fold. In terms of trade balance, the ROK has sustained a significant trade surplus with ASEAN members during the entire period. In 2022, ASEAN nations' share in ROK global exports was 18.3%, jumping from 13% in 2011, while ASEAN member states' share in ROK global imports registered 11.3%, increasing from 10.1% in 2011.

Table 4.2: The ROK's Trade Ratio with ASEAN

(Unit: USD Million, %)

Year	Exports	Imports	The ROK's Gobal Exports	The ROK's Global Imports
2011	71,801 (13.0)	53,121 (10.1)	555,214	524,413
2012	79,137 (14.4)	51,977 (10.0)	547,870	519,584
2013	81,989 (14.7)	53,339 (10.3)	559,632	515,586
2014	84,787 (14.8)	53,429 (10.4)	572,664	515,515
2015	74,824 (14.2)	45,031 (10.3)	526,757	436,499
2016	74,518 (15.0)	44,319 (10.9)	495,426	406,193
2017	95,243 (16.6)	53,852 (11.3)	573,694	478.478
2018	100,085 (16.5)	59,628 (11.1)	604,860	535,202
2019	95,057 (18.1)	56,185 (11.1)	542,233	503,343
2020	89,051 (17.3)	54,836 (10.7)	512,498	467,633
2021	108,850 (16.9)	67,701 (11.0)	644,400	615,093
2022	124,889 (18.3)	82,529 (11.3)	683,585	731,370

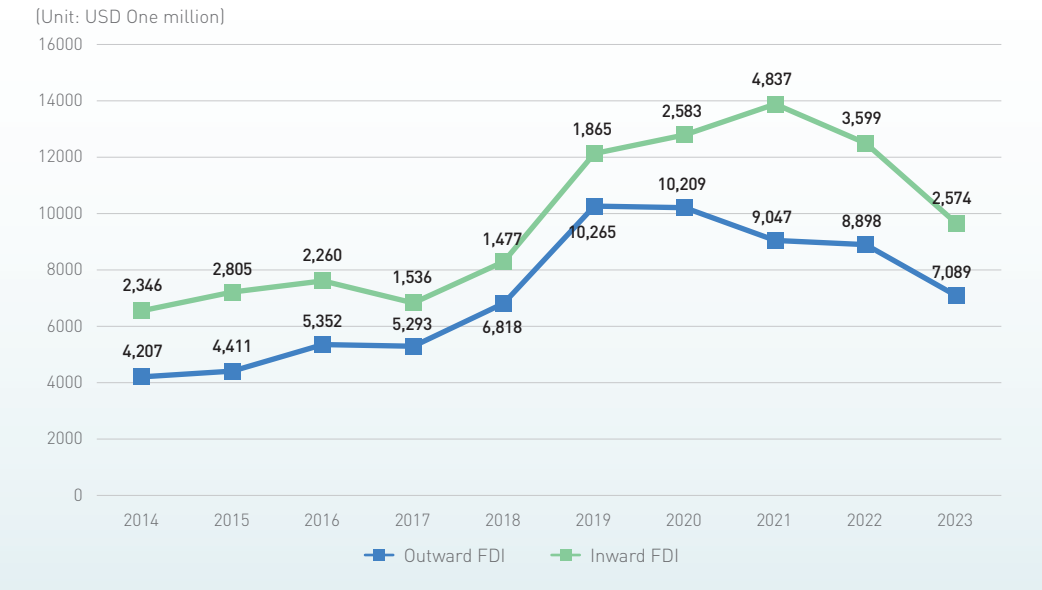
Source The ROK's trade with ASEAN member states are derived from the World Bank's UNcomtrade.

Note The numbers in the parentheses indicate percentage of ROK's trade with ASEAN over ROK's global trade.

However, bilateral FDI flows between the ROK and ASEAN economies exhibit almost the opposite picture of trade flows (Figure 7). Over the 2014–2023 period, the ROK's outward FDI to ASEAN members totaled USD 71,590 million, whereas the reverse flow was only USD 25,881 million.

The ROK's accumulated outward FDI to ASEAN nations is 2.77 times the value of inward FDI. The ROK's significant increase of its exports to ASEAN nations is also due to exports of intermediate goods to support the ROK's outbound FDI in ASEAN economies.

Figure 7. The ROK's Outward and Inward FDI to and from ASEAN Nations



Source Ministry of Trade, Industry, and Energy, ROK Export-Import Bank

Both trade and FDI connectivity suggest that the ROK and ASEAN are important collaborators in global value chains. Companies in the ROK recognize ASEAN members as important post-China FDI destinations for supply chain diversification. The ROK's FDI to ASEAN countries has exceeded its FDI in China since 2010. Many Korean companies have invested in ASEAN countries in assembly factories of smartphones, household electric appliances and semiconductors, and most recently of automobiles. Consequently, ROK exports of electronic components, such as integrated circuits, electronic parts and components, have also expanded rapidly.

ASEAN has played a key role in making the RCEP effective. The RCEP contains unified cumulative and self-certification of ROOs, which is likely to deepen intraregional supply chain connectivity, especially for SMEs operating across the region.

Given the geoeconomic security–trade linkage, ASEAN is expected to play a more important role, especially following establishment of the ASEAN Economic Community (AEC) in 2015 with the aim of a "Single Market and Production Base" to bolster intra-ASEAN trade by reducing or eliminating regulatory barriers. In terms of export composition, about 80% of ROK exports to ASEAN economies comprises intermediate goods, while consumer goods make up only 5%.

After the pandemic, ASEAN is determined to strengthen intra-ASEAN cooperation and supply chain connectivity by harmonizing nontariff measures. Therefore, the ROK should harmonize the technical barriers to trade and sanitary and phytosanitary measures (SPS) accordingly. Many ASEAN members welcome a transfer of the ROK's development experience and official development assistance (ODA) increase from USD 16 billion in 2022 to USD 32 billion in 2027.[24)]

Unlocking ASEAN's role in geopolitical and geoeconomic areas, the ROK has actively participated in diverse security and economic initiatives for their constructive evolution.[25)] In particular, the Asian Regional Forum and East Asia Summit are important venues for the ROK to pursue its geopolitical and economic trajectory. At the ASEAN–ROK summit in 2022, the ROK announced the Korea–ASEAN Solidarity Initiative (KASI) to deepen the ROK's security alignment with ASEAN beyond its traditional four major partners: the US, Japan, China, and Russia.

The ROK should diversify its ongoing trade and FDI linkages with Vietnam, a predominant partner among ASEAN members to embrace other dynamic ASEAN countries.[26)] With ASEAN centrality, the ROK should accelerate collaborations with ASEAN to promote Asia–Pacific economic integration under a rules-based intraregional trading system.

The anniversary of the ASEAN–ROK commemorative summit in 2024 would provide a new momentum to showcase the KASI and establish an ASEAN–ROK Comprehensive Strategic Partnership by 2024. KASI's renewed commitments to double its ODA by 2030 should be well

24) Kwak Sungil, (2024) "Building bridges: The Republic of Korea's Approach to Regulatory convergence with ASEAN" KIEP Opinions, March 6, 2024

25) For details, see "Overview of ASEAN-ROK Dialogue Relations as of December 2023" ASEAN Main Portal, https://ASEAN.ORG>WP-Connect.

26) Martinus, Melinda (2023) "The Korea-ASEAN Solidarity Initiative: Recalibrating Socio-Economic Connectivity, FULCRUM, Analysis of Southeast Asia: ASEAN Focus, 15, September 2023

implemented for ASEAN,[27] especially for ASEAN's LDC members while staying on ASEAN's centrality trajectory. During the 28th ASEAN–ROK dialogue in April 2024, the ROK emphasized expansion of trade and investment, especially in the areas of digital transformation, electric vehicles, and smart cities, and stronger cooperation to achieve supply chain stability and resilience.[28]

27) Ibid, p. 4

28) ROK, Ministry of Foreign Affairs (2024) Press Release, 28th ASEAN–ROK Dialogue. (April 4, 2024)

5.2 Prospects for Regional Economic Integration

5.2.1 Intra-ASEAN Trade and Intra-East Asia Trade

Overall, intraregional trade among ASEAN + 3 economies remained stable. Their export share to the region was around 40% from 2019 to 2023 (Table 5). Nonetheless, the relative importance of intraregional export destinations changed. The share of exports to Southeast Asian economies increased from 16.1% in 2019 to 17.2% in 2023, whereas that to CJK declined from 23.9% to 22.9% over the period considered.

The relative importance of interregional export destinations also changed. EU and India gained importance in ASEAN + 3 economies' exports, from 12.5% and 2.9% in 2019 to 14.3% and 3.5% in 2023, respectively. The US share slightly declined from 16.4% to 16.2%.

Individual country performance also varied greatly. Brunei and Laos exported less to ASEAN + 3 economies, whereas Myanmar exported more. Notably, the magnitude of the changes was small, less than 5 percentage points. The common pattern among these three economies is the increasing importance of China as their export destination. This is especially true for Brunei and Myanmar, where the share of China in total exports increased substantially. Their major export items to China are dominated by raw materials and mineral products (HS 26 and 27).

Cambodia's intraregional trade pattern was largely similar to that of Brunei and Laos, where China has gained relative importance as an export destination. Nonetheless, the extraregional market gained relative importance in Cambodian exports. This was especially true for the US market, whose share of Cambodia's total exports increased from 21.9% in 2019 to 35.5% in 2023. Interestingly, the increasing importance of China as an export destination is attributed to Cambodia's export product diversification. Major export items to China included garments (HS 61 and 62), leather materials (HS 42-43), foods (HS 8 and 10), and footwear (HS 64), all of which accounted for nearly 70% of total exports.

In contrast, Indonesia's exports were geared toward ASEAN + 3 economies. The ASEAN + 3 share increased from 56.8% in 2019 to 62.1% in 2023, largely driven by the exports to China. As a result, the share of exports to China accounted for 27.1% of Indonesian total exports in 2023, up from 16% in 2019. The main export products from Indonesia to China were mineral products

(HS 26-27), foods (HS 15), wood pulp (HS47), chemical products (HS 38), and nickel (HS 75).

From 2019 to 2023, the ASEAN + 3 economies also gained importance in Malaysian total exports. The ASEAN + 3 share of Malaysia's total exports increased from 54.3% in 2019 to 58.1% in 2023. The increasing importance of ASEAN + 3 economies in Malaysia's total exports was due to the surge of the Chinese share, accounting for 26.2% in 2023, up from 22.2% in 2019. The exporting products from Malaysia to China were agricultural exports (HS 1-24).

In contrast, ASEAN + 3 economies became less important for Malaysian manufacturing exports. Their share dropped slightly from 49.4% in 2019 to 48.9% in 2023. Extraregional markets like the US and EU gained in importance, with shares slightly increasing, from 15.8% to 16.9% and 9.7% to 10.6%, respectively from 2019 to 2023.

Singapore's and the Philippines' regional trade patterns are similar to Malaysia's manufacturing exports, where ASEAN + 3 economies became less important in their exports. These three Southeast Asian economies share the importance of GVC-intensive duos (HS 84 and 85) in their export baskets. Singapore's export share of ASEAN + 3 economies dropped from 50.6% in 2019 to 47.6% in 2023 and from 54.9% to 52.5% over the same period for the Philippines. The export share to the US increased in both countries.

Thailand's export destination relied less on ASEAN + 3 economies, largely driven by the decline of the export share to China. The importance of Japan and the ROK as Thailand's export destinations remained essentially unchanged. Conversely, exports from Thailand to the US increased substantially. The export share to the US increased from 13.2% in 2019 to 18.5% in 2023. A similar pattern is also found in the case of Vietnam.

ASEAN + 3 economies gained importance for China's exports. The export share of ASEAN + 3 economies to China's total exports increased from 28.1% in 2019 to 29.3% in 2023, largely driven by the increasing importance of Southeast Asian economies. In contrast, the export share to Japan and the ROK remained virtually unchanged from 2019 to 2023. The export share to the EU also soared from 16% to 19.5% over the same period. By contrast, the US share dropped from 17.7% to 14.9% between 2019 and 2023, respectively.

Both Japan and the ROK exported relatively less to ASEAN + 3 economies. In the case of Japan,

the share of ASEAN + 3 economies in total exports dropped slightly from 45% in 2019 to 44.1% in 2023. The decline was much larger in the case of the ROK, from 52.1% to 45.9% over the same period. The declining export share of ASEAN + 3 economies was largely due to the decline of the export share to China.

Table 5. Intra-regional Trade of ASEAN+3 Economies in 2019 and 2023 (Unit: %)

1.1 All products

	2019						
	ASEAN	CJK	ASEAN+3	China	India	US	EU
ASEAN+3	16.1	23.9	39.9	14.2	2.9	16.4	12.5
Brunei	26.1	48.4	74.5	6.7	8.6	0.6	0.0
Cambodia	23.7	14.4	38.1	5.9	0.2	21.9	21.3
Indonesia	24.4	32.3	56.8	18.0	8.2	10.6	8.5
Laos	50.2	38.3	88.5	35.1	0.0	2.4	5.2
Malaysia	23.7	30.6	54.3	22.2	3.2	12.5	8.2
Myanmar	23.2	45.2	68.4	34.4	2.7	4.4	16.9
Philippines	16.7	38.2	54.9	22.4	0.6	14.0	9.3
Singapore	28.0	22.6	50.6	16.0	6.8	12.0	9.0
Thailand	23.1	30.3	53.4	18.2	2.8	13.2	8.6
Vietnam	17.4	32.1	49.5	19.1	2.2	19.8	11.5
China	12.1	10.9	23.0	*	2.7	17.7	16.0
Japan	15.7	29.3	45.0	22.9	1.7	19.2	9.4
The ROK	17.2	34.8	52.1	29.8	2.8	13.3	9.1
	2023						
	ASEAN	CJK	ASEAN+3	China	India	US	EU
ASEAN+3	17.2	22.9	40.1	13.3	3.5	16.2	14.3
Brunei	34.0	38.0	72.0	17.2	1.1	2.0	0.0
Cambodia	21.6	13.7	35.3	6.4	0.7	35.5	15.9
Indonesia	21.6	40.4	62.1	27.1	8.2	9.8	7.2
Laos	43.8	40.7	84.5	38.1	0.9	3.1	4.4
Malaysia	22.9	35.2	58.1	26.2	3.2	11.8	8.0

	2023						
	ASEAN	CJK	ASEAN+3	China	India	US	EU
Myanmar	17.4	51.7	69.1	42.5	4.5	3.8	16.3
Philippines	15.4	37.1	52.5	20.9	1.4	14.2	10.2
Singapore	28.0	19.5	47.6	12.0	8.2	15.4	8.4
Thailand	22.2	27.6	49.8	16.7	3.9	18.5	8.9
Vietnam	17.4	30.2	47.6	19.4	1.9	23.9	10.7
China	14.5	11.1	25.6	*	3.5	14.9	19.5
Japan	16.1	28.0	44.1	21.6	2.4	19.8	10.2
The ROK	17.8	28.1	45.9	23.6	3.1	16.9	11.4

1.2 Manufacturing (HS 28-96)

	2019						
	ASEAN	CJK	ASEAN+3	China	India	US	EU
ASEAN+3	14.7	23.2	37.9	14.0	2.7	17.3	13.2
Brunei	34.1	34.2	68.4	29.6	0.7	9.2	0.7
Cambodia	20.8	14.1	34.9	5.1	0.2	23.4	22.1
Indonesia	26.1	27.6	53.6	13.2	4.6	14.2	10.4
Laos	36.1	46.4	82.5	41.5	0.1	3.9	7.3
Malaysia	20.9	28.5	49.4	21.8	2.3	15.8	9.7
Myanmar	7.3	46.3	53.6	29.1	1.2	7.1	27.5
Philippines	17.3	35.7	53.0	21.3	0.6	14.5	9.3
Singapore	22.1	25.7	47.8	18.4	7.5	13.1	10.6
Thailand	21.4	28.9	50.3	17.6	3.0	13.7	9.2
Vietnam	17.1	32.0	49.1	19.1	2.3	20.5	11.4
China	11.4	10.6	22.0	*	2.8	18.1	16.3
Japan	15.7	29.4	45.1	23.2	1.7	19.4	9.6
The ROK	16.5	34.5	51.1	30.5	2.9	13.6	9.6
	2023						
	ASEAN	CJK	ASEAN+3	China	India	US	EU
ASEAN+3	15.8	21.6	37.4	12.5	3.3	17.4	15.2
Brunei	17.4	63.1	80.5	61.5	0.5	9.4	0.1
Cambodia	14.7	13.2	27.9	5.1	0.8	40.3	17.1

	2023						
	ASEAN	CJK	ASEAN+3	China	India	US	EU
Indonesia	21.0	36.7	57.7	25.9	4.6	13.5	8.0
Laos	20.5	52.4	72.8	47.8	1.8	5.4	7.0
Malaysia	21.9	27.0	48.9	20.1	2.6	16.9	10.6
Myanmar	3.3	56.4	59.7	42.2	0.8	6.0	24.2
Philippines	16.1	34.0	50.0	18.8	1.3	14.7	10.2
Singapore	21.1	22.5	43.6	14.4	8.5	17.7	10.2
Thailand	19.8	24.6	44.5	14.6	4.1	20.3	9.7
Vietnam	16.9	29.9	46.8	19.3	1.9	24.8	10.6
China	13.8	10.9	24.7	*	3.6	15.3	19.7
Japan	15.9	28.1	44.0	21.9	2.4	20.0	10.4
The ROK	16.8	28.5	45.3	25.1	2.8	17.7	12.2

5.2.2 Prospects for Boosting CJK + ASEAN Trade

China's Perspective

Trade relations between CJK and ASEAN are experiencing significant growth, offering numerous opportunities for further enhancement. These trade partnerships are expanding in scope and depth due to strategic agreements, robust economic policies, and increasing investments. As of 2023, trade volume between China and ASEAN member states has shown remarkable growth, with bilateral trade reaching USD 991.5 billion. This continues the trend of China as ASEAN's largest trading partner for 14 consecutive years and ASEAN members being China's largest trading partners for three years.

Japan and the ROK are also key players in enhancing trade with ASEAN. In 2022, Japan's trade with ASEAN countries amounted to approximately USD 240 billion, driven by strong economic cooperation in the automotive, electronics, and infrastructure development sectors. The ROK has similarly strengthened its trade relations, focusing on technological and industrial cooperation, with trade volume reaching USD 162 billion with ASEAN countries in 2022.

The RCEP, the world's largest trade agreement by GDP coverage, includes all CJK countries and ASEAN members, facilitating market access and reducing tariffs on a wide range of goods and services. This agreement provides a structured framework that promotes increased economic integration and trade liberalization across the region.

Looking ahead, several factors are poised to further boost CJK + ASEAN trade. The ongoing shift of manufacturing bases from China to Southeast Asia, driven by rising labor costs and trade tensions, has integrated ASEAN countries more deeply into global supply chains. Countries such as Vietnam, Thailand, and Indonesia are becoming pivotal hubs for electronics, textiles, and automotive industries.

Moreover, the growing middle class in ASEAN member states, coupled with increasing urbanization, presents a vast market for consumer goods from CJK countries. Continued investment in digital infrastructure and technological advancements also promises to enhance trade efficiency and economic cooperation.

In conclusion, the prospects for boosting trade between CJK and ASEAN nations are bright, supported by strong economic policies, strategic partnerships, and mutual investments. Continued focus on enhancing supply chain resilience, technological cooperation, and free trade agreements will be crucial for unlocking the full potential of this dynamic economic partnership.

Japan's Perspective

The ASEAN community has been and will continue to be a vital trading partner for China, Japan, and the ROK for several reasons. First, ASEAN members' indispensability in the East Asian supply chain is undeniable. The economic growth experienced by CJK has largely relied on the international division of labor, leveraging supply chains established throughout Asia, including ASEAN. To maintain and enhance East Asia's competitiveness as a production base, it is imperative to promote regional economic integration that encompasses not only CJK but also ASEAN. In fact, the RCEP, established as a region-wide mega-FTA involving both CJK and ASEAN economies amid the rise of protectionism, is supported by the private sector in the three countries, and its utilization is expanding. ASEAN will continue to play a pivotal role in the supply chain in Asia.

Second, due to increasing labor costs in China and intensifying strategic competition between China and the US, more companies from CJK, as well as third countries, may consider relocating some of their production bases from China to ASEAN countries. If ASEAN can maintain neutrality between the US and China while preserving its commitment to free and open trade policies, its position as an export hub in Asia will be further strengthened. Consequently, trade in intermediate and final goods between ASEAN members and CJK would also expand further. In fact, as emphasized in Section 5.1.2, the relative significance of ASEAN countries as an investment destination for Japan is increasing, with the number of overseas affiliates of Japanese companies and sales in ASEAN nations already exceeding those in China and the ROK.

Third, the importance of the ASEAN community as a consumer market cannot be overstated. China, Japan, and the ROK are all facing the problem of declining populations and the must develop alternative overseas markets to fill shrinking domestic demand. In 2022, the total population of the ten ASEAN countries reached 670 million, with a combined GDP of USD 3.6 trillion (ASEAN, 2023). The average age of the ASEAN population is younger than that in CJK. With consumption expected to grow, the ASEAN market will become increasingly important for Chinese, Japanese, and Korean companies.

Meanwhile, several challenges must be overcome to further boost trade between the CJK and ASEAN. The first is the issue of protectionist measures recently observed in this region. Export restrictions and domestic processing requirements for unprocessed mineral resources, implemented by some ASEAN member countries, could promote inward FDI, technology transfer, and the production of higher value-added goods. However, their compatibility with existing WTO rules, which, in principle, prohibit restrictions on export and import quantities, has been questioned. If such protectionist measures become widespread in ASEAN members, it could diminish the attractiveness of the region's open supply chains. ASEAN + 3 should start exploring strategies to curb the spread of protectionism and bolster the credibility of regional supply chains, while acknowledging ASEAN members' rights to develop their industries.

The second challenge arises from the proliferation of FTAs in East Asia, leading to what is often referred to as the "spaghetti-bowl problem." With the RCEP, three ASEAN + 1 FTAs, and over 10 bilateral FTAs between ASEAN and CJK, the region faces a complex web of trade and investment regulations. This complexity, marked by varying tariff rates and ROOs across different agreements, has raised the costs associated with understanding and utilizing FTAs,

hindering their full utilization. While the RCEP was initially expected to harmonize and streamline existing FTA rules, its level of liberalization is not as high as other agreements and its pace of liberalization is slow. Consequently, the RCEP is not yet the most widely utilized FTA, at least between Japan and ASEAN countries. To facilitate and bolster trade among ASEAN + 3 and to enhance the competitiveness of the Asian supply chain, it is imperative to further enhance the attractiveness of the RCEP to users.

The ROK Perspective

Boosting rules-based trade and FDI connectivity between CJK and ASEAN members is crucial to promoting regional prosperity and mitigating fallouts from geoeconomic confrontations. Until the pandemic, in the absence of the RCEP, CJK experienced a deepening connectivity in trade and crossborder FDI as China successfully integrated into East Asia after joining the WTO in 2001. This suggests evidence of the gravity model, emphasizing that the trade linkages between countries are proportional to the size of trading partners' GDP and inversely related to the geographical distance between them.

The CJK economies have been great beneficiaries of the liberal trading system, becoming a global manufacturing hub by taking advantage of emerging regional value chains arising from geographical proximity and competitiveness. However, during 2010–2023, the intraregional trade ratios of ASEAN, CJK, and ASEAN + CJK tended to decline slightly, as shown in Table 6. However, during the past four years, from 2018 to 2023, when we have observed negative developments including the COVID-19 pandemic outbreak, the war in Ukraine, and trade disputes between the US and China, yet RCEP effectuation in the past two years on a positive note, ASEAN maintained a stable intraregional trade share; however, the intraregional ratios of CJK and ASEAN + CJK have fallen significantly.

This might reflect a global trade diversification trend to avoid risks related to excessive dependence on particular countries. For example, the sudden halt of intermediate goods because of pandemic-caused lockdowns, some unilateral actions to sanction strategic intermediate goods and materials between major powers, and the ban of strategic materials for political reasons have interrupted regional supply chain systems, reducing intraregional trade flows.

The three countries' natural market value chains—now institutionalized in the RCEP framework—are likely to increase mutual gains as long as the trilateral flow of strategic materials and security-sensitive high-tech products between CJK is not "weaponized" for political motivations, as long as FDI is well protected under a ROK-type aftercare system for MNEs operating in the ROK, and as long as intraregional tourism remains unconstrained (Ahn 2023). With the RCEP mechanism, CJK leaders must enable mutual gains to live up to the spirit of trilateral common prosperity as emphasized by the joint statement at the Trilateral Summit in 2020 (Ahn 2020) and recently verified again at the 2024 Trilateral Summit in Seoul.

As shown in Table 6, the intraregional shares of CJK and ASEAN decreased but the intra-RCEP trade ratio remained unchanged. This suggests that trade between CJK and ASEAN has been positively affected by two other RCEP members, namely resource-rich Australia and New Zealand. Now with the RCEP, supply chain interactions between two groups, namely CJK and ASEAN members within the RCEP domain, are likely to increase with Australia and New Zealand in the future due to RCEP benefits.

Table 6. Intra-Regional Trade Ratios of ASEAN, CJK, and ASEAN+CJK (Unit: %)

Year	ASEAN	CJK	ASEAN+CJK	RCEP
2010	25	32	47	28.0
2012	24	31	46	27.9
2014	24	30	45	27.6
2016	23	31	47	28.4
2018	23	29	46	28.9
2020	21.1	28.4	46.7	28.9
2021	21.3	27.6	45.8	28.6
2022	21.9	24.7	44.2	N/A
2023	21.3	23.9	43.3	N/A

Source ADB-ARIC

Note ASEAN +CJK trade data with Australia, and New Zealand are not yet readily available. UNcomtrade data will be available at later this year

In the past two decades, CJK have pursued competitive bilateral, subregional, and regional mega deals with many non-RCEP countries. The RCEP effectuation with its CJK membership can now provide a new momentum to resume the suspended CJK FTA negotiation. If CJK agrees on its trilateral FTA with a more liberalized framework than the present RCEP, it would contribute to promoting a stricter rules-based trade/investment regime in the Asia–Pacific region.

In this regard, the ROK has been proactively pushing for connectivity-related cooperation with the ASEAN community beyond FTA or RCEP in digital, physical, social, and economic areas. The ROK has set a starting point by establishing digital collaboration with Singapore. The ROK's successful digital public infrastructure is looking ripe for a greater convergence with ASEAN and other likeminded countries.

The ASEAN Perspective

Intraregional trade patterns in ASEAN + 3 economies reaffirm interdependence among ASEAN + 3 economies and the mutual benefits they have shared for the past two decades. Intraregional trade is primarily induced by the production networking of MNEs, whose production process is fragmented and located across regional economies. Some economies are assigned to manufacture parts and components that are further used in later production stages elsewhere in the region, and the final products are then sold globally. This makes the intraregional trade go hand in hand with the extraregional trade. Both intra- and extraregional trade are similarly important for the region's export dynamism.

Another form of interdependence is observed in the region where ASEAN + 3 economies also source raw materials and intermediates from the other economies. These raw materials and intermediates produce goods and services for domestic and regional markets. Demand for these export products is derived from the economic performance of ASEAN + 3 economies. Such demand has gained importance in the postpandemic era, and the supply chain resilience is growing. It is crucial for necessities like food and medicines, whose product security is often at the top of policy priorities.

Intraregional trade patterns in ASEAN + 3 economies observed from 2019 to 2023 are expected to continue in 2024. Some Southeast Asian economies continue to supply raw materials and intermediates to China for further production, including some finished products like garments

and footwear. Trade prospects of these exports are largely related to China's economic performance (e.g., GDP growth, export growth), which drives overall demand. As the growth outlook of the Chinese economy remains bleak in 2024 compared to the past few years, this inevitably will affect the export performance of these economies. Market diversification is needed to maintain their export dynamism and growth momentum.

For the other Southeast Asian economies, the role of intraregional trade is mixed, depending on their position in production networks. For Thailand and Vietnam, which have manufactured finished manufacturing products for the rest of the world as well as the regional market, an extraregional market would be increasingly important. This is especially true for those recently relying more on the US market, whose growth outlook is brighter in 2024 after the inflationary threat faded out (IMF, 2024). Nonetheless, the downside risk is uncertainty that overshadows the US economy (e.g., Ma, 2024). Hence, diversifying export market destinations could guard against the risk and enhance their export resilience.

Export prospects of parts and components manufacturers like Malaysia, the Philippines, and Singapore to the regional market remain robust. Supply resilience motivation ignited during the pandemic could induce trade diversion toward their exports. Demand might not be limited to the regional market, such as Japan and the ROK, but may also expand to extraregional markets, such as the US and the EU. Their export performance is largely conditioned by global economic prospects. Ongoing uncertainty surrounding the global economy could downgrade the outlook and affect their exports.

The export-led growth strategy is expected to continue in China, given the existing challenges in the domestic economy (e.g., declining property investment, debt risk, weak consumption growth, and an aging population). Hence, exports from China to Southeast Asian economies as well as extraregional markets, such as the EU and India, are expected to continue. The greater the export success, the stronger the Chinese economy. This matters from a global economic perspective, as China is expected to continue to be another key contributor to global economic growth.

Reference

- Ahn, Choong Yong (2018), "Toward an East Asian Community: Opportunities and Challenges", in Peter Hayes and Chung-in-Moon (eds.), The Future of East Asia Today, Palgrave Macmillan, pp. 131-164
- Ahn, Choong Yong (2020), "Chengdu trilateral Summit still to deliver," East Asia Forum, February 11, 2020
- Ahn, Choong Yong (2023), South Korea and Foreign Direct Investment: Policy Dynamics and the Aftercare Ombudsman, Routledge
- ASEAN Main Portal (2023), "Overview of ASEAN-ROK Dialogue Relations as of December 2023", https://ASEAN.ORG>WP-Connect.ASEAN Secretariat (2023). ASEAN Statistical Yearbook 2023. Vol. 19, December 2023. ASEAN Secretariat: Jakarta. https://asean.org/wp-content/uploads/2023/12/ASEAN-Statistical-Yearbook-2023.pdf
- ASEAN Secretariat (2023). ASEAN Statistical Yearbook 2023. Vol. 19, December 2023. ASEAN Secretariat: Jakarta. https://asean.org/wp-content/uploads/2023/12/ASEAN-Statistical-Yearbook-2023.pdf
- Kwak Sungil, (2024) "Building bridges: The Republic of Korea's Approach to Regulatory Convergence with ASEAN", KIEP Opinions, March 6, 2024
- Martinus, Melinda (2023) "The Koreas-ASEAN Solidarity Initiative: Recalibrating Socio-Economic Connectivity, FULCRUM, Analysis of Southeast Asia: ASEAN Focus, 15, September 2023
- Ministry of Economy, Trade and Industry (METI) (2023). Basic Survey on Overseas Business Activities (in Japanese). METI. https://www.meti.go.jp/statistics/tyo/kaigaizi/index.html
- Ministry of Economy, Trade and Industry (METI) (2024). Certificate of Origin issued by the Japan Chamber of Commerce and Industry (JCCI) (in Japanese). METI. https://www.meti.go.jp/policy/external_economy/trade_control/boekikanri/gensanchi/coo.html
- Ministry of Foreign Affairs (MOFA) (2023). Joint Vision Statement on ASEAN-Japan Friendship and Cooperation. 17 December 2023. MOFA https://www.mofa.go.jp/mofaj/files/100597190.pdf
- ROK, Ministry of Foreign Affairs (2024) Press Release, 28th ASEAN–ROK Dialogue. (April 4, 2024)

CHAPTER VI

Policy Recommendations

VI Policy Recommendations

6.1 China

6.1.1 LIU Qing

CJK Should Fully Utilize RCEP and Other Trade and Investment Frameworks to Promote Economic Cooperation

The conclusion of agreements such as the RCEP marks a new chapter in deepening economic cooperation within CJK. Behind these agreements lie diverse benefits and opportunities, as well as shared strategies, to address global economic challenges. To fully realize the potential of these frameworks, the three countries could adopt the following strategies and measures:

First, the governments of the three countries should enhance their attention to and implementation of cooperation agreements such as the RCEP. In addition to signing and ratifying these agreements, there is a greater must promote the revision and implementation of relevant laws and regulations domestically to ensure that the terms of the agreements are effectively implemented. The countries should also strengthen communication and cooperation with local governments and industry associations and encourage enterprises and citizens to actively participate in these cooperation frameworks, so as to achieve consensus and actions by the whole society.

Second, as Asian economic powers, CJK should play a leading role in implementing the RCEP. This is not only reflected in economic scale and trade volume, but also in the must show leadership in trade liberalization, investment facilitation and standardization of rules. By actively promoting trade and investment within the RCEP, the three countries can not only strengthen their own economic cooperation, but also be a model and example for other Asian countries, promoting economic integration of the entire region.

Third, CJK should strengthen digital economy cooperation within the framework of the RCEP. With the acceleration of digitization and networking, the digital economy has become a new driving force for global economic growth. The three countries can cooperate in building crossborder e-commerce platforms, promoting the interconnection of digital currencies and payment systems, and jointly addressing the challenges of data flow and privacy protection and exploring formulating common economic rules in the digital economy era for the whole world. By deepening cooperation in the digital economy, the three countries can enhance economic efficiency and innovation and provide digital solutions and experiences to other countries in the region and the world.

China Should Deepen Its High-Level Opening Up Policy

China's opening up policy has made remarkable achievements, but there is still further potential to be tapped. To promote high-quality economic development and realize a higher level of opening up, China could adopt the following strategies and measures:

First, China should further increase its efforts to attract high-level foreign investment. In addition to optimizing the business environment and providing tax incentives, it should strengthen intellectual property protections and support for technological cooperation to attract more foreign investment into key areas such as high-tech, modern manufacturing, and green industries. At the same time, foreign investment should be encouraged to participate in the technological R&D and innovation of domestic industries to promote optimizing and upgrading the industrial chain.

Second, China should further liberalize the modern service industry. The service industry is an important pillar of economic development and a key area for high-quality development. By lowering the access threshold of the service industry, optimizing management services, and facilitating crossborder trade in services, more foreign investment and high-quality service resources will be attracted, enhancing international competitiveness and the service industry's market share.

Third, China should actively promote accession to international cooperation agreements such as the CPTPP and the Digital Economy Partnership Agreement. This will enhance China's position and influence in international economic cooperation as well as draw on advanced international trade

and investment rules to promote domestic reform and innovation. By forming a higher level of open institutional environment and institutional advantages, it can provide clear breakthroughs and key measures for China's reform drive, further promoting the establishment of a modernized industrial system with international competitiveness and a mature governance system.

China's Economic Recovery and Structural Transformation Complement CJK Economic Cooperation

If China's economic recovery progresses well and its economic structural transformation succeeds, it will result in sustainable economic growth, which will benefit the economies of Japan and the ROK through spillover effects, potentially leading to closer CJK economic cooperation. At the same time, better CJK cooperation will also provide a favorable external environment for CJK economic recovery and transformation. First, China should stabilize its housing market, which plays an important role in the China economy. There are still many strict restrictions imposed on households and real estate companies. These were intended to control the bubble, yet now there is no obvious bubble. This implies there is much space for policy development. Second, China should deepen reforms and implement structural adjustment policies including urbanization or the hukou system, income distribution, pension, medical care, childbirth, and the social security system, which are essential for consumption and a more balanced growth path. Third, China should stabilize manufacturing investment of private and foreign firms, further mobilizing market dynamics and guiding the market mechanism to achieve automatic recovery.

Strengthening Academic Exchanges, Mutual Technical Assistance and Green Cooperation between CJK is Conducive to Higher-Level Economic Cooperation

Deepening cooperation among CJK in a variety of noneconomic fields can also establish a solid foundation for higher-level economic cooperation. First, CJK should strengthen humanistic exchanges and educational cooperation. Through academic research, cultural exchanges, and talent training, mutual understanding and friendship among the three countries can be deepened, providing a more solid social and cultural foundation for economic cooperation. One of the typical examples is this report was completed by scholars from the three countries and fully explores the economic basis and economic consequences of economic cooperation among CJK and provides theoretical support for the expansion of economic cooperation.

Second, CJK should also promote joint R&D, technology transfer, and cooperation in cutting-edge fields such as digital economy, biotechnology, and artificial intelligence. By building a close industrial alliance and value chain network, the three countries can promote industrial upgrading and technological innovation, improving economic efficiency and international competitiveness.

Third, CJK should strengthen cooperation on the green economy and sustainable development in the face of global climate change and environmental challenges. The three countries can cooperate in green technology R&D, promote the use of renewable energy, and jointly tackle environmental pollution and ecological damage. By jointly building a green economy cooperation mechanism, the three countries can realize a win–win situation in terms of economic growth and environmental protection, while at the same time providing a model for and contributing to global green development.

6.1.2 ZHANG Jianping

Innovating FTA Negotiation Mechanisms for Rapid Progress

Currently, the FTA negotiation process is stalled due to multiple factors; however, by establishing specialized working groups focused on key high-tech fields, such as 5G, artificial intelligence, and biotechnology, pilot policy packages can be developed as early achievements in the talks. This approach will enhance cooperation confidence and produce substantial economic benefits for the three countries. The promotion of 5G technology is expected to contribute up to USD 12.3 trillion to the global economy, and collaboration in this area among the three countries would greatly facilitate regional technological exchanges and capital flows. Additionally, leveraging the successful experiences under the RCEP framework, further opening up in the fields of service trade and investment, reducing tariff barriers, and increasing market access opportunities, will create favorable conditions for FTA negotiations. According to predictions by the ADB, Asia's infrastructure investment needs will reach USD 26 trillion by 2030, providing ample space for cooperation among the three countries. Policy coordination, joint research projects, and talent exchange programs in high-tech fields will further promote economic growth and regional integration. Moreover, the three countries could explore establishing a third-party evaluation mechanism for FTA negotiations, increasing the transparency and credibility of the negotiations.

Utilizing RCEP as a Platform to Propel FTA Discussions

As the world's largest free trade area, the RCEP offers an important platform for strengthening cooperation among CJK. The implementation of the RCEP not only has tremendous market potential for the three countries but also provides a broad framework for economic integration. Reducing trade barriers under the RCEP framework and promoting technology exchange and capital flows will create favorable conditions for FTA negotiations among the three countries. The implementation of RCEP is expected to lead to tariff reductions of over 90% among member countries, significantly boosting regional trade. The three countries should strengthen cooperation in tariff reduction, nontariff measures, service trade and investment, e-commerce, and macroeconomic policy coordination. Specifically, they can jointly develop uniform technical and sanitary standards to reduce compliance costs for businesses, further open up service trade markets and enhance investment liberalization, jointly establish a negative list specifying prohibited or restricted industries, and resolve cooperation issues through regular high-level and working group meetings. Furthermore, according to data from the United Nations Conference on Trade and Development (UNCTAD), FDI inflows into the three countries accounted for more than 20% of the global total in 2019, highlighting their significant role in global investment flows. Through the RCEP framework, the three countries can explore establishing a trination economic cooperation zone, concentrating resources and advantages to promote the development of specific industries, such as high-tech industrial parks and green economy demonstration zones, jointly responding to external shocks, and maintaining regional economic stability.

Promoting Coordination of Technical Standards Among the Three Countries

Differences in technical standards are a significant trade constraint trade among the three countries. China, Japan, and the ROK have discrepancies in setting technical standards, which increase compliance costs for businesses and limits the promotion and application of new technologies. To address this issue, the three countries should strengthen cooperation in setting technical standards and promote the establishment of a unified technical standards system. In fields such as 5G communications and new energy vehicles, the three countries can jointly develop technical standards to foster industry development. According to data from the International Energy Agency, global sales of new energy vehicles are expected to reach 15 million units by 2030, and unified technical standards will help promote the healthy

development of this market. Additionally, the three countries can strengthen coordination in standardization organizations to jointly promote international standards. According to a report from the International Organization for Standardization (ISO), unified technical standards can reduce company compliance costs by 20%–30%, promoting the application of new technologies. By establishing a mechanism for standardization cooperation among the three countries, such as regular technical standards coordination meetings, and jointly conducting research in key areas, such as 5G communications and new energy vehicles, the three countries will be able to more effectively promote technology exchange and market integration. Simultaneously, they can also explore establishing a technical standards innovation fund to support businesses in participating in the formulation of international standards, enhancing the three countries' influence in global technical standards setting.

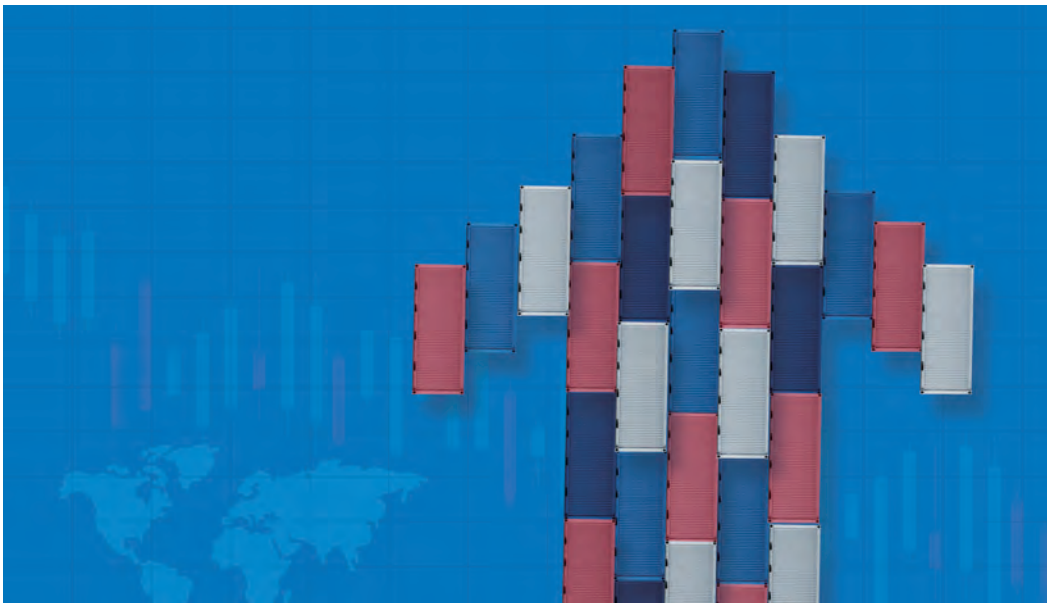
Strengthening Cooperation in the Digital Economy

As a key driver of future economic growth, CJK should strengthen cooperation and jointly promote the digital economy. For example, the three countries can jointly develop rules for crossborder e-commerce to facilitate the free flow of digital products. According to a report from the McKinsey Global Institute, Asia's digital economy is expected to grow to USD 2 trillion by 2025. To achieve this goal, the three countries can establish mechanisms for digital economy cooperation, such as digital economy forums and working groups, and jointly fund digital technology projects and talent training programs. Additionally, the three countries can strengthen cooperation in building digital infrastructure, such as constructing crossborder fiber networks, to improve regional digital connectivity. Predictions indicate that by 2030, the global digital economy will reach USD 20 trillion. Thus, the three countries can enhance their own digital economic competitiveness and contribute to developing the global digital economy. Thus, the three countries can also explore establishing a digital economy innovation fund to support innovative projects and startups in the digital economy sector.

Promoting Green Economy Cooperation Among the Three Countries

The green economy is an essential pathway for achieving sustainable development. CJK should strengthen cooperation in the green economy to jointly promote the region's green transformation. For example, the three countries can jointly establish a green technology research center to promote the innovation and application of green technologies. According to a

report from the United Nations Environment Programme, global investment needs for the green economy will reach USD 2.9 trillion annually by 2030. To meet this demand, the three countries can establish green economy cooperation mechanisms, such as green technology cooperation platforms and green finance working groups, to jointly fund green technology projects and talent training programs. Additionally, the three countries can strengthen cooperation in green finance to provide financial support for green economy projects. According to data from the World Bank, the issuance of green bonds by the three countries accounted for more than 30% of the global total, demonstrating their leadership in the green finance field. Through these cooperative efforts, the three countries will not only improve their own environmental quality but also contribute to global sustainable development while simultaneously promoting economic growth and creating job opportunities. Furthermore, the three countries can explore establishing green economy demonstration zones to showcase their innovative achievements, attracting more international investment and cooperation and promoting the globalization of the green economy.



6.2 Japan

6.2.1 KAWAI Masahiro

Policy recommendations for Japan

The Japanese economy has weathered the impacts of the pandemic and the Russia–Ukraine war relatively well, thanks to pent-up demand, border reopening, the global economic recovery, and policy support. However, the economic recovery has stalled over the last three quarters due to weak private demand. Policymakers should focus on revitalizing private consumption and investment through structural reforms. The labor market remains relatively tight and nominal wages have been rising, although real wages remain stagnant, meaning that raising real wages is a key challenge to be tackled by enhanced labor productivity. CPI inflation is high according to Japan's standard, and the BOJ started to normalize its monetary policy by abolishing YCC and raising policy interest rates to a positive level. Further structural reforms are needed to respond to demographic pressures, increase potential GDP growth, secure public debt sustainability, and improve the investment climate, thereby boosting labor productivity, real wages, and private consumption and investment. Specific recommendations for monetary, fiscal, structural, and trade policies are as follows:

- Achieve a sustainable 2% target inflation rate while avoiding possible negative consequences for the financial sector resulting from rising interest rates, and strengthen communications with the market to ensure that the intent of monetary policy is clearly understood.

- Secure public debt sustainability to reduce the debt-to-GDP ratio through adopting a more credible fiscal policy framework, implementing measures to improve the primary balance (cutting expenditures and raising revenues via an increase in the consumption tax rate), and carrying out measures to increase potential GDP (raising the fertility rate, increasing the female, elderly, and foreign labor force, and enhancing labor productivity).

- Boost labor productivity through raising total factor productivity (via innovation, technological development, digital technology adoption, and more efficient corporate organization) with a focus on improving SMEs' R&D capabilities, accelerating labor market reforms (via reskilling, expanding the job-based pay system, and improving labor mobility), and stimulating corporate investment for digital transformation (DX), green transformation (GX), and R&D.

- Continue to take leadership in pursuing a rules-based, open economic system by pushing for WTO reforms (dispute settlement, policy transparency and reporting, stricter protection of IPR, "developing country status," and nonmarket policy measures and practices), promoting WTO Joint Statement Initiatives (plurilateral agreements), expanding CPTPP membership, upgrading the scope and content of the RCEP, and achieving a high-level CJK FTA.

- Utilize the opportunities provided by the restart of negotiations for a high-level CJK FTA to improve market access in trade in goods and services beyond the level provided by the RCEP, introduce more open trade and investment rules for revamping China and the ROK's business climate, and resolve pending issues, such as China's import ban on Japanese marine products, its approach to national treatment of Japanese firms, and implementation of the expanded Counter-Espionage Law.

Policy recommendations for the CJK governments

China, Japan, and the ROK have deepened their mutual economic interdependence over the last several decades. However, the degree of economic interdependence has exhibited some challenging trends. Since recovering from the COVID-19 pandemic, the number of crossborder travelers among the three countries has started to bounce back, although it has not yet exceeded the prepandemic peak levels. Additionally, the trade and FDI volumes among the three countries, as shares of total volume, have declined over the past few years. These trends suggest a need for revitalizing crossborder tourism, trade, and FDI. At the trilateral summit held in late May 2024, leaders agreed to expand their economic ties, focusing on trade and investment and human exchanges, as well as to speed up negotiations toward the signing of a CJK FTA. Building on this agreement, the three countries are advised to adopt the following recommendations:

- As stated in the leaders' declaration of the ninth Trilateral Summit, hold the trilateral summit regularly, at least once a year, and engage in policy dialogues to deepen mutual understanding, build trust, and further expand economic ties.

- Take more concrete action to promote trade, investment, and crossborder human exchanges through further reducing barriers to trade and investment, improving the

investment climate, and facilitating crossborder visits by making the application of laws more transparent and eliminating visa requirements.

- Pursue cooperation in areas of common interests, including increasing potential economic growth, addressing demographic challenges (such as declining fertility rates, population aging and shrinkage), climate change and green economy, global health, the digital economy, real estate bubbles, local government finance, high-quality infrastructure, external debt problems of developing countries, and ASEAN+3 regional financial stability.

- Advocate free trade and investment through aggressively seeking WTO reforms, upgrading the RCEP, restarting CJK FTA negotiations, and further implementing domestic reforms for CPTPP participation (for China and the ROK).

- Immediately restart negotiations for an RCEP-plus CJK FTA that includes high levels of trade and investment liberalization and high-standard rules, such as advanced provisions on digital commerce and trade, industrial subsidies, investment, government procurement, intellectual property protection, SOEs, and labor rights.

- Pursue a two-track approach of achieving a high-level CJK FTA and upgrading the provisions of the RCEP agreement, which could help China start consultation discussions and negotiations for CPTPP accession.

6.2.2 KUNO Arata

China, Japan, and the ROK have each pursued trade and investment liberalization and domestic reforms at their own timing and pace, reaping significant economic benefits from these initiatives over the decades. It is worth noting that, in the process, the three countries have not experienced any large-scale antiglobalization movement as seen in some western countries. This suggests that the trade and investment policies implemented by the three governments have been broadly understood and accepted by most of their societies.

Meanwhile, in the global rush to establish FTAs since the 2000s, the three countries have persisted in delaying their commitment to achieving legally binding economic integration in

Northeast Asia, due to the various diplomatic challenges among them. The series of joint studies on a possible CJK FTA, which began in 2003, took approximately 10 years to complete, and the negotiations for the CJK FTA initiated in 2012 still show no signs of reaching a conclusion more than a decade later.

Unfortunately, the geopolitical landscape has also undergone significant transformation over the last two decades. Especially since the late 2010s, antiglobalization movements have gained momentum in some western countries, while tensions between the US and China have escalated to an unprecedented level. The supply chain disruptions of critical goods experienced during the COVID-19 pandemic further compounded these dynamics, leading to a growing recognition of the risks associated with overreliance on specific countries through open trade and investment policies.

As a result, there has been a gradual emergence of countries seeking to justify import and export restrictions on essential goods for national security reasons, as well as allocation of substantial subsidies to protect and promote domestic industries. Consequently, the credibility of the multilateral trade system, from which CJK have greatly benefited, is declining. The traditional argument that economic interdependence promotes peace has lost its power, with the prevailing belief that economic interdependence was only possible because it was a time of peace.

Domestic political barriers to the resumption and conclusion of CJK FTA negotiations may have risen rather than fallen compared with the past, as all three countries have become parties, directly or indirectly, to the strategic competition between the US and China. Given this harsh reality, it is not an exaggeration that the immediate priority of CJK leaders has shifted from the issue of how to advance *de jure* economic integration in East Asia through the conclusion of a CJK FTA to how to protect the current *de facto* economic integration in the region. Nevertheless, as neighboring countries, the three countries should identify shared interests in preserving the competitiveness and credibility of the production networks established across East Asia while effectively addressing and managing tensions in economic and national security domains.

First, the countries should collaborate to restore the credibility of the struggling multilateral trading system. Long before the escalation of geopolitical risks, the consensus-based legislative function of the WTO had been losing its effectiveness. Moreover, as a consequence of the US exercising veto power over the appointment of Appellate Body judges, the judicial function of

the WTO has also become dysfunctional, rendering it unable to effectively counter the growing wave of global protectionism.

To safeguard the highly competitive East Asian production network from current and future geopolitical disruptions, CJK should take a robust leadership position in reforming the WTO's dispute-settlement mechanism. This initiative should be conducted in partnership with ASEAN, which likewise benefits from the rules-based multilateral trading system and has earned trust from both the US and China. In the meantime, it is essential that the ASEAN + 3 countries maintain their longstanding adherence to WTO rules.

Simultaneously, to eliminate WTO skepticism, it is imperative to initiate discussions on revising the rules drafted nearly 80 years ago to redefine the optimal balance between free trade and national security. Specifically, while recognizing countries' right to temporarily or partially withdraw from WTO rules for reasons of national security, East Asian countries should take the initiative in accelerating discussions on preventing abuse of these rights and the retaliatory chain stemming from weaponizing economic power.

Second, the three countries should collaborate to enhance the attractiveness and usability of the RCEP. Among the recent actions taken by the CJK governments, the most commendable was their decision to sign the RCEP agreement in November 2020. While the level of liberalization in the RCEP may not be particularly high compared to other FTAs, this mega-FTA has become not only a device for the three East Asian countries to achieve *de jure* economic integration but also a valuable asset for all economic entities in East Asia.

However, there is still potential to enhance the attractiveness and utilization of the RCEP, considering its intended role as a region-wide FTA. The level of tariff elimination among CJK governments is notably low; the MFN treatment regarding preferential tariff rates has not been secured in this agreement. Regarding trade between ASEAN members and Japan, existing bilateral FTAs and the ASEAN + 1 FTA are often preferred over the RCEP, as emphasized in Section 5.1.2. This implies that the costs associated with utilizing the RCEP agreement remains high.

In collaboration with ASEAN, the three countries should increase the level and pace of tariff reduction under the RCEP and adopt the MFN principle among member countries to eliminate tariff discrimination throughout the region. At the same time, RCEP members should also

accelerate discussions on rules to balance the benefits of free trade and security interests to minimize future uncertainties regarding trade and investment in East Asia. The initiation of such a discussion is a vital prerequisite for politically realizing high-quality economic integration in the East Asian region.

Finally, the three countries should firmly commit to convening regular trilateral summits and ministerial meetings, maintaining continuous dialogue to advance shared regional interests and minimize setbacks in regional economic integration. Moreover, CJK leaders should demonstrate respect for each other's values and institutional differences, continuing to send a clear message of commitment to constructive economic cooperation as well as collaboration in other areas such as public health, disaster management, human resource development, tourism, and cultural exchange. Facilitating personnel exchanges between the Trilateral Cooperation Secretariat (TCS) and the ASEAN Secretariat would further bolster cooperative ties between CJK and ASEAN.

6.3 The ROK

6.3.1 JEONG Hyung-gon

While a CJK FTA would be beneficial for mutual cooperation, current diplomatic and security challenges make its immediate realization unlikely. Thus, in the short term, efforts should focus on bolstering existing economic interactions and enhancing collaboration through existing agreements and the RCEP. Amid global economic protectionism and gradual postpandemic recovery, the CJK can spearhead economic liberalization and cooperation within the RCEP, contributing significantly to the regional and global economy. Strategies for advancing the RCEP include enhancing trade facilitation, expanding digital trade, improving intellectual property protections, investing in infrastructure, and promoting sustainable trade practices, positioning East Asia as a pivotal economic bloc while maintaining global cooperation.

By enhancing cooperation among the CJK within the RCEP framework, these countries are poised to drive the economic integration of East Asia. While diplomatic and security challenges currently hinder the institutionalization of this tripartite cooperation, by including the CJK FTA, immediate efforts can focus on fortifying existing economic ties through current agreements, summit-agreed-upon projects, and leveraging the RCEP. Amid rising global protectionism and a sluggish postpandemic economic recovery, the CJK can significantly boost regional and global economies through committed leadership in economic liberalization and cooperation within the RCEP. The RCEP development strategy should include promoting trade facilitation, expanding digital trade, enhancing intellectual property protection, investing in infrastructure, and fostering sustainable trade practices. These efforts aim to solidify East Asia's central role in the global economy while ensuring continued international cooperation. Increased openness and rapid progression in the CJK FTA are critical, given the interconnected production networks and growing trade among RCEP member countries. These countries are expected to maintain a pivotal role in the global economic arena, with the conclusion of the CJK FTA negotiations considered a crucial step forward. However, RCEP's level of openness has been disappointing due to economic disparities and differing development levels among member countries, hindering trade liberalization.

Despite the potential for GDP growth and increased welfare across the CJK, 16 rounds of negotiations have yet to yield progress on the CJK FTA, stalled by factors such as similar industrial

structures, regional proximity, and concerns over sensitive sectors. The electronics and automotive sectors, along with mobile and equipment industries, dominate the export markets of these countries, while the chemical and general machinery industries face stiff global competition. Moreover, the ROK and China face higher tariffs compared to Japan, which maintains lower tariffs except in certain sectors like agriculture. This discrepancy has led to greater sensitivity in the ROK and China about industry openness, with Japan also exhibiting protective stances in agriculture and fisheries, complicating the conclusion of the FTA. However, there is a strategic need to identify and prioritize accessible sectors for early agreement in CJK FTA negotiations. The ROK, with its high-level FTAs with the US and EU, is well-positioned to influence the openness of both the tripartite FTA and RCEP. Achieving this will require navigating challenges in economic and foreign policy relationships, but the CJK FTA could also establish a foundation for addressing security issues in East Asia and expanding its influence within the RCEP.

To effectively manage and enhance the execution of various social, cultural, and economic cooperation projects, including those agreed upon at the China–Japan–ROK Summit, the role and function of the TCS must be strengthened. Currently, TCS primarily performs secretarial duties to support trilateral cooperation, which involves gradually enhancing the TCS role and functions, initially elevating it to the level of the ASEAN Secretariat in the short term, with the long-term goal of developing capacity similar to that of the European Commission. Such enhancement would significantly contribute to the economic integration of East Asia and, by extension, Southeast Asia under the RCEP framework.

Enhancing the TCS will help address various existing economic and noneconomic challenges, thus upgrading the economic cooperation between the CJK. However, a sudden enhancement of functions might be challenging due to numerous existing obstacles. Therefore, a phased approach to upgrading the functions and roles of the TCS is advisable.

The TCS should redefine its foundational objectives in a more specific and future-oriented manner and secure an agreement or treaty through the China–Japan–ROK Summit to reinforce its mandate. This would empower the TCS to establish clearer goals and effectively manage and execute various cooperation projects, fostering a more advanced form of trilateral cooperation akin to the powers held by the European Commission.

Moreover, the TCS should take a proactive role as a facilitator in promoting and managing ongoing and future cooperation projects, developing policy proposals and cooperation programs to surmount current economic and noneconomic barriers that limit trilateral cooperation.

For the China–Japan–ROK Summit to occur smoothly annually and for various cooperative projects to proceed effectively, efforts must be made to minimize conflicts and depoliticize the TCS. Expanding cooperative dialogue through social, cultural, and sports exchanges in a 1.5 track format can foster integration, mutual understanding, and common goals, with these areas currently those that present the least resistance.

Further expansion of youth exchange initiatives, including the Campus Asia project, and revitalization of cultural and sports exchanges are vital. Programs promoting shared values and identities across the CJK should be developed and implemented, along with efforts to recognize and promote East Asian Common Heritage through the TCS.

To solidify China–Japan–ROK cooperation projects, identifying projects with shared transnational interests in the short term is crucial. This approach will enhance the quality of cooperation and the execution of cooperative projects, potentially leading to a new phase of long-term economic cooperation among the three countries.

Finally, active management by CJK leaders is necessary to ensure the effective implementation of all agreed-upon issues. The China–Japan–ROK Summit should extend beyond merely agreeing on cooperation programs; ongoing cooperative projects require continuous interest and oversight at the summit level.

6.3.2 AHN Choong Yong

In recent years, we have observed unprecedented protectionism and highly uncertain geopolitical fragmentation of the world economy. Against this backdrop, the ROK, together with RCEP peers, should play an important role in curbing growing protectionism and mitigating potential fallouts from fragmented trade landscapes.

In this context, the RCEP, CPTPP, and Indo-Pacific Economic Framework (IPEF) should be well coordinated for strategic convergence toward the FTAAP envisioned by APEC in 2016. Thus, regional cooperation and integration in the Asia–Pacific region remain crucial in addressing shared challenges and to foster regional growth. The ROK aims to pursue the following policy prescriptions:

1) Supply Chain Resilience Must be Pursued Collectively under Regional FTAs

It is now well accepted that excessive dependence on a single market makes importing economies vulnerable to external shocks. To improve supply chain resilience, many economies follow "just-in-case" policies that diversify trading partners and strengthen domestic manufacturing, particularly in strategic sectors, while maintaining technological advantage (Yusuf and Leipziger 2022). The ROK is no exception in recalibrating its exports and imports based on a rules-based level playing field. Therefore, Asian economies must avoid restrictive trade interventions, including import and export controls, licensing requirements, and nontariff measures, particularly on essential raw materials and goods.

Amid the emerging protectionism and *tit-for-tat* tariffs and NTBs and related trade disputes between major powers, the effectuations of the CPTPP and RCEP in sequence have provided a silver lining in the fragmented world.[29] The proposed IPEF by the US is also promoting supply chain resilience, sustainability, and competitiveness. The CPTPP, RCEP, and IPEF should be inclusive and open to any country that shares their values on the fair trade on a level playing field. The seven economies -namely Australia, Brunei, Japan, Malaysia, New Zealand, Singapore, Vietnam- belonging to these institutions and other likeminded countries, such as the ROK, can play a critical role in achieving strategic convergence of the three mechanisms.

2) RCEP Must be Strictly Implemented and Upgrade/Broaden Its Contents

Member countries must implement the RCEP commitments to maximize its objectives and share one another's implementation experiences. It is particularly important for RCEP economies to ensure that intra-RCEP connectivity not be hampered by any political motivations of the big economies.

29) For example, Park, Petri, and Plummer (2021) argued that the RCEP could generate sizable global income gains. Together with the CPTPP, it is also expected to strengthen the region's manufacturing supply chains, raising productivity and increasing wages and employment

The RCEP has been effective for only two years now. The ROK's limited evidence suggests that intratrade has not changed significantly by the RCEP except for some trade with Japan. Despite its low level of liberalization, the RCEP is important given the intensifying rivalry in high-tech areas between the US and China. As Lee Hsien Loon (2020), Prime Minister of Singapore, pointed out that "Asian countries do not want to be forced to choose between the US and China."

RCEP parties agreed to fully liberalize only 63.4% of total tariff lines, compared to the CPTPP parties' full liberalization of 86.1% at the date of entry into force. Therefore, RCEP member states should deliberate on how to upgrade RCEP.

Another caveat of the RCEP includes the lack of clauses on labor and environmental standards, enforced mechanisms of investor–state disputes, and IPR protection. As a result, the RCEP does not provide strong discipline in new areas and, thus, can be considered a "shallow" agreement. It is a challenge for the RCEP to accommodate such standards and pursue expansion. For the future expansion of the RCEP, India would be a candidate to join; indeed, the door for India is open whenever ready according to the RCEP agreement at the final round.

3) The ROK Should Join the CPTPP to Work for Strategic Convergence of Two Mega Deals

The ROK should join the CPTPP, since the RCEP is insufficient for the ROK's goal of supply chain resilience (Schott 2021). The CPTPP aims to expand its membership to countries with advanced disciplines to return to a global liberal order. For this purpose, the ROK appears to be an adequate candidate given its FTA connectivity and recognized openness. Thus, the ROK should have consultations with CPTPP members to submit its application.

4) CJK FTA Negotiation should be resumed

It is significant that CJK are now formally but indirectly interconnected for the first time under the RCEP deal. One of the reasons for the suspension of CJK FTA negotiations is that the three countries adopted different FTA strategies. China is known for its gradual approach in formulating FTAs and prefers a moderate level FTA, primarily focusing on trade in goods. In contrast, the ROK and Japan prefer a comprehensive FTA in terms of both scope and content,

including services, investment, government procurement, IPR, and technical standards (Li 2022).[30)]

Despite the different positions of CJK, the RCEP provides new momentum for CJK to resume negotiations. Once CJK FTA is concluded, it will become a catalyst for East Asian regionalism by transforming the RCEP into a more comprehensive, higher-standard arrangement.

5) The RCEP Should Establish a Secretariat to Monitor Members' Commitments and Facilitate Knowledge Sharing

The RCEP has yet to set up its secretariat despite having provisions for its establishment, which would play a critical role in implementing the RCEP. Given the low level of liberalization of the RCEP, the Secretariat must develop a roadmap for quality upgrading; in particular, the service sector, environmental and labor standards, investor–state disputes, and IPR should be considered for the eventual amalgamation of the RCEP and CPTPP, leading to the FTAAP (Ahn 2018).

6) A Pathfinder Approach Should be Encouraged for Upgrading the RCEP

For the RCEP to develop into a more formidable free trade pact, likeminded members must engage in "minilateralism." For example, ROK–Singapore digital trade from 2021 is a good example of encouraging digital trade and investment between RCEP members. Likewise, the ROK's aftercare system for multinational firms operating in the ROK has proven to be very effective in facilitating cross-border FDI flows (Ahn 2023). The nature and functions of the system need to be shared by the FDI seeking RCEP economies.

7) Conclusion

The ROK's Yoon Suk-yeol government declared in 2022 its "Strategy for a Free, Peaceful, and Prosperous Indo-Pacific Region," in which the ROK would play a global pivotal state role, with outreach to the Global South. The document is basically the ROK's de facto flagship geoeconomic and diplomatic manifesto, adding a "prosperity" component to the US drive for

30) Li Xirui, (2022), What's Next for the Long-Awaited China-Japan- South Korea FTA? The Diplomat, January 28, 2022

a “Free and Open Indo-Pacific” (Ahn 2022, Panda and Ahn 2023).[31] One of the main targets in the ROK’s Indo-Pacific strategy is the less developed members of the RCEP. Through sharing the ROK’s development experiences and increased ODA commitments, the ROK has recommended strengthening the RCEP quality and its diplomatic trajectory to achieve the convergence of the RCEP, CPTPP, and IPEF.

31) Ahn, Choong Yong (2022), “Yoon vows to build a value-based alliance with Washington,” East Asia Forum, 5 July 2022

6.4 ASEAN

6.4.1 Dionisius Narjoko

ASEAN member states face a few major global challenges at this moment, primarily centered on maintaining regional integration and economic stability amid external and internal pressures. Globally, protectionist trends threaten the principles of free trade that are crucial for ASEAN's growth. Economic uncertainties stemming from geofragmentation and global conflicts contribute to disruptions in trade and investment dynamics. Internally, ASEAN occasionally struggles with maintaining cohesion among its member states, each with distinct economic profiles and political systems.

Therefore, it is imperative for ASEAN member states to adopt a proactive and strategic approach to enhance regional integration and address the contemporary challenges facing East Asia. The insights from the report this year underscore the need for a coordinated approach that bolsters ASEAN's centrality in regional cooperation and ensures sustainable economic and political security. The report also suggests that ASEAN advocate for inclusive economic policies to ensure that the benefits of economic integration are broadly shared.

Furthermore, ASEAN's unique position as a mediator in regional affairs should be leveraged to deepen diplomatic ties with major global powers and to utilize ASEAN-led forums to address regional security issues. Maintaining a stable geopolitical environment through active diplomacy and strategic engagements is vital for fostering cooperation and economic growth.

The RCEP presents a transformative opportunity for ASEAN + 3, promising to catalyze economic integration and foster post-COVID recovery. A strategic and nuanced approach to policymaking is essential to unlock this extensive trade agreement's full potential. Systematic structural reforms are foundational to the success of the RCEP. ASEAN member states must embark on comprehensive overhauls across various policy domains influenced by the agreement. A detailed gap analysis to pinpoint discrepancies between domestic laws and RCEP commitments will illuminate both the challenges and opportunities inherent in aligning with the agreement's directives.

Enhanced national coordination is equally crucial. Establishing a dedicated RCEP national secretariat or enhancing existing FTA units could facilitate this, ensuring that the agreement's

benefits are maximized and compliance issues are efficiently addressed. Such structures are vital to avoid the common delays in fulfilling commitments, which often arise from inadequate coordination among government bodies.

ASEAN's focus on digital transformation and effective data management is essential for the growth of the digital economy in the region. To achieve this, developing a unified digital policy that promotes the harmonization of regulations related to data security, privacy, and the free flow of information is crucial. This policy should aim to enhance digital infrastructure and capabilities across all member states, ensuring that the benefits of the digital economy are distributed equitably. This coherent policy framework for digital transformation should also provide a foundation for the progressive liberalization of digital trade, while the current commitments in the RCEP's e-commerce chapter are still relatively modest. As digital transformation gains momentum, this framework will be essential in enabling the region to remain competitive in the rapidly evolving digital marketplace.

The transition to a negative-list approach to services liberalization marks a significant shift for ASEAN member states. Initiating a regulatory audit as a foundational step, followed by necessary legal reforms to align with the negative-list requirements, is essential. Strengthening the regulatory framework will not only ensure compliance but also dismantle trade barriers, thereby boosting the services sector's domestic capacity.

Additionally, implementing trade-enhancing ROOs is crucial. Implementing a self-certification scheme for COs, which authenticates the origin of traded goods, will bolster this process, drawing on existing initiatives at the ASEAN level.

Economic and Technical Cooperation in RCEP

To effectively implement and capitalize on RCEP's potential, there is an urgent need to establish a structured economic cooperation framework that would allow for comprehensive capacity building, particularly for ASEAN's LDCs. This framework should focus on technical cooperation and experience sharing in critical areas, such as digital transformation, e-commerce, and IPR, aligning with ASEAN's strategic goals.

Special and differential treatment strategies are also proposed to allow less developed economies more time and flexibility to adopt RCEP provisions. This tailored approach would include specific economic and technical assistance aimed at boosting these economies' capabilities to participate more effectively in the RCEP framework.

SMEs, which constitute more than 90% of businesses in these countries, are at the heart of the proposed strategic initiatives. These enterprises require targeted assistance to effectively navigate the complexities of global value chains and the digital economy. By enhancing their access to these crucial economic sectors, SMEs can tap into broader markets and integrate more seamlessly into the global trading system.

Finally, strengthening the institutional frameworks that support ETC implementation within the RCEP is critical. This may involve either enhancing existing mechanisms or establishing new subcommittees dedicated to facilitating effective cooperation and coordination among member states.

ASEAN Member States and the CPTPP

In harmony with the view of broader ASEAN economic integration in the global context, it is important to consider the idea of ASEAN countries joining the CPTPP.

Joining the CPTPP would offer ASEAN member states substantial benefits, both strategic and economic. Membership would expand market access across the Asia–Pacific region and beyond, attracting more foreign investment due to the high standards set by the agreement. This would facilitate economic growth and help integrate regional supply chains, boosting efficiency and competitiveness in global markets. Strategically, joining the CPTPP would allow ASEAN to enhance its global standing and effectively navigate complex international relations.

Therefore, it is vital for ASEAN member states to adopt strategic policy adaptations to leverage the benefits from the CPTPP's high-standard trade agreement. ASEAN should utilize the CPTPP to gain preferential market access to North and South American economies, global regions where ASEAN currently lacks FTAs. This strategy could help diversify ASEAN's trade partnerships and reduce its dependency on traditional markets.

Given the CPTPP's emphasis on digital trade, investing in digital infrastructure is crucial, which could significantly enhance ASEAN's participation in the digital and e-commerce sectors. Furthermore, ASEAN could benefit from aligning with the CPTPP's stringent environmental standards, promoting sustainable trade practices that would not only comply with international norms but also enhance regional environmental stewardship.

Improving labor standards within ASEAN in accordance with CPTPP requirements could ensure that trade benefits are matched by fair labor practices, enhancing ASEAN's global trade reputation. Additionally, engaging in capacity-building initiatives provided by the CPTPP could help member states meet the agreement's standards and understand necessary regulatory changes.

Lastly, a unified approach to negotiations within the CPTPP could ensure that ASEAN's collective interests are well-represented and effectively promoted, enhancing their negotiating power. By implementing these strategies, ASEAN can strengthen its economic profile, diversify its economic relationships, and ensure sustainable participation in the CPTPP, thereby bolstering the region's resilience and competitiveness in the global economy.

6.4.2 Archaun Kohpaiboon

While expected to continue in the foreseeable future, intraregional trade in ASEAN + 3 economies could be threatened by growing global protectionist sentiment. Policymakers in major economies have decided to halt further international integration; in several instances, they have embraced protectionist or national policies (Goldberg and Reed, 2023). Inevitably, this threat could dampen the prospect of global trade. The threat is even worse for ASEAN + 3 economies where intra- and extra-regional trade are equally important for the region's export dynamism. Although each ASEAN + 3 economy currently relies on extraregional trade differently, their vulnerability to the threat is similar.

The following five policy recommendations are offered:
First, collective action of ASEAN + 3 economies is needed to preserve the rules-based trade system. Any trade dispute between ASEAN + 3 economies should be constructively discussed to find pro-trade solutions, with unilateral trade actions from individual economies a last resource. This might not only lead to tit-for-tat policy responses but also fuel protectionist sentiments and worsen the positive trade environment. To do so, consultation platforms are needed.

The RCEP can be East Asia's consultation platform as its members include all ASEAN + 3 economies. The RCEP is set up as a living agreement, allowing its members to bring in any issues to discuss and find constructive solutions (Chapter 18: Institutional Provision). This could create a snowball effect for the other major economic blocs. The rules-based trade system could thus mitigate business uncertainty and create a conducive environment for trade, promoting direct investments in the region.

Second, accelerating trade liberalization commitment in goods among ASEAN + 3 economies could promote intraregional trade. This is especially true of the increasing importance of the region's middle class. Accelerating trade liberalization can induce additional demands for goods, facilitate export market diversification, and help make exports of ASEAN + 3 economies more resilient to external shocks.

So far, trade liberalization commitments among Southeast Asian economies are the most advanced and have been undertaken in the AEC framework. There is room for improvement in trade liberalization among ASEAN + 3 economies. The current commitment to trade liberalization of goods in the RCEP framework associated with long grace periods can also be accelerated.

Third, solid commitment to regulatory reform by economies would be beneficial to promoting intraregional trade and cooperation. Many ASEAN + 3 economies remain important as investment-receiving countries for MNEs to use as production and export platforms and promote intraregional trade. Mounting global uncertainties may have resulted in many direct investors worldwide adopting a wait-and-see approach. Creating a conducive business environment through regulatory policy reforms might mitigate the effect of uncertainty and accelerate MNEs' investment decisions.

The scope of regulatory reform is wide, covering existing activities like financial and nonfinancial services, investment, government procurement, and new activities, especially those induced by digital technologies. In many instances, existing domestic regulations could create discriminatory side effects, which could be in favor of either indigenous or foreign entrepreneurs. They must be reformed to be more transparent, in line with worldwide practices, and without any unintended discriminatory effects. In many instances, capacity build-up on regulatory reforms is needed to ensure common understanding and avoid regulatory inconsistency.

Fourth, facilitating worker mobility is another potential area for ASEAN + 3 economies to harness their demographic differences across the region. Some economies in the region, such as Japan, the ROK, Malaysia, Singapore, and Thailand, are experiencing labor shortages, whereas other countries remain labor-abundant. Allowing workers from the latter to work on a temporary basis in the former countries would be another form of regional cooperation, utilizing the differences in factor endowment and sharing mutual benefits while addressing the fundamental challenge facing many ASEAN + 3 economies: aging societies. Workers would experience better job prospects and earn higher incomes and provide financing for their families left at home. Simultaneously, countries with labor shortages could overcome their capacity-related constraints.

The mutual benefits to be shared go beyond commercial activities. This would be a shortcut for enhancing human capital in the overall region. Such worker mobility could strengthen economic ties in the region and further promote future intraregional trade. The current policy focus is on talent mobility, which is undeniably important; this could be complemented by the mobility of semiskilled and unskilled workers.

Undeniably, worker mobility can be associated with undesirable side effects in home and host countries. As it is driven by economic fundamentals, including income disparities and job opportunities, governing instead of prohibiting such mobility seems to be a cost-effective solution to minimize these undesirable side effects. There is room to develop regional initiatives to establish a framework for labor-importing and labor-exporting countries to share mutual benefits.

Finally, ASEAN + 3 economies can harness the existing supply chain network in the region to fight environmental issues together. Undeniably, environmental issues and how to tackle them have become a "must" in global policy circles. Collective actions worldwide are essential to meet the goals of the International Commitment to Climate Change (e.g., the 27th session of the Conference of the Parties or COP27).

In addition, environmental issues have often been used to justify industrial policies and state interventions. Hence, making the supply chain more environmentally friendly would avoid the restrictive effect of trade-related environmental-friendly measures, generating environmentally friendly international trade and potentially creating new market segments for environmentally conscious niches.

One highly policy-relevant area is the use of renewable energies along the supply chain. Along with energy savings and increased energy efficiency, increased use of energy from renewable sources has been highlighted to reduce greenhouse gas emissions and comply with international standards. Promoting renewable energies in the existing network of production and trade in the region could be another effective channel to accelerate the energy transition and promote the effective use of renewable energies.

No consensus has been reached on promoting the use of renewable energies; rather, the issue has been tailored to fit each country's context. Since ASEAN + 3 economies are different in their economic development levels, their capabilities for smoothly handling energy transition away from carbon-based sources vary greatly. Therefore, promoting renewable energies must be associated with assistance in terms of technical training, capacity building, and financial resources.

Reference

- Ahn, Choong Yong (2018), "Toward an East Asian Community: Opportunities and Challenges", in Peter Hayes and Chung-in-Moon (eds.), The Future of East Asia Today, Palgrave Macmillan, pp. 131-164
- Ahn, Choong Yong (2020), "Chengdu trilateral Summit still to deliver," East Asia Forum, February 11, 2020
- Ahn, Choong Yong (2022), "Yoon vows to build a value-based alliance with Washington", East Asia Forum, 5 July 2022
- Ahn, Choong Yong (2023), South Korea and Foreign Direct Investment: Policy Dynamics and the Aftercare Ombudsman, Routledge
- Asian Development Bank (2022), The regional comprehensive partnership agreement: A new paradigm in Asian regional cooperation, Metro Manila Philippines, May, pp. 1-108
- Asian Development Bank (2023), Asian Economic Integration Report 2023: Trade, Investment, and Climate Change in Asia and the Pacific, Metro Manila, Philippines
- Australian Government (2020), RCEP text, Department of Foreign Affairs and Trade, accessed on May 3, 2023, https://www.dfta.gov.au?trade/agreements/in-force/crep/rcep-text
- Goldberg, P, and T. Reed (2023), 'Growing threats to global trade', Finance & Development, June available

for download at https://www.imf.org/en/Publications/fandd/issues/2023/06/growing-threats-to-global-trade-goldberg-reed

- Korea, Republic of (2023), "Press Release on Korea's trade activities using the RCEP tariff concession", Korea Custom Service, February 1, 2023
- Lee Shien Loong (2020), "Endangered Asian Century: America, chnai, and the Perils of Confrontation" Foreign Affairs, July / August 2020
- Li Xirui, (2022), What's Next for the Long-Awaited China-Japan- South Korea FTA? The Diplomat, January 28, 2022
- Nicita, Alessandro (2021), "An Assessment of the Regional Comprehensive Economic Partnership (RCEP) Tariff concessions", UNCTAD Research paper No.73, UNCTAD?SER.RP/2021/16
- Panda, Jagannath and Choong Yong Ahn (2023), "South Korea's Indo-Pacific Strategy: Quest for Clarity and Global Leadership", The Diplomat, Jaunary 16,2023
- Park, Cyn-Young, Peter A. Petri, and Michael G. Plummer (2021), "Economic Implications of the Regional Comprehensive Economic Partnership for Asia and Pacific," East Asian Economic Review, Vol. 25, No. 3, 2021 pp. 233-272
- Petri Peter A. and Michael Plummer (2021) "Why South Korea should join the CPTPP", Brooking commentary, December 2, 2021
- Schott, Jeffrey (2021), "RCEP is not enough: South Korea also needs to join the CPTPP", Policy Brief 21-17, Peterson Institute for International Economic Policy, July 2021
- World Bank (2020), World Development Report 2020: Trading for Development in the Age of Global value Chains, Washington DC
- Yusuf, Shahid and Danny Leipziger, (2022), "Global supply chain in a post-Covid multipolar world: Korea's Options", Policy Reference 22-03, Korea Institute for International Economic Policy

2024 Trilateral Economic Report

Published in July 2024

The Trilateral Economic Report (TER) is an annual flagship publication of the Trilateral Cooperation Secretariat (TCS). It reviews economic cooperation among the three countries and showcases their joint efforts at national, regional, and global levels. It also provides insights into future cooperation, with a view to spur our region's efforts to achieve common prosperity.

Recommended citation

Trilateral Cooperation Secretariat (2024), 2024 Trilateral Economic Report, Seoul, the Republic of Korea, July 2024

Trilateral Cooperation Secretariat, Economic Affairs Department

S-Tower 20th FL, 82 Saemunan-ro, Jongno-gu, Seoul, Republic of Korea 03185
Tel. (82) 2-733-4700 Fax. (82) 2-733-2525 E-mail. tcs@tcs-asia.org
Website. www.tcs-asia.org

Corrections and Revisions

The data and analysis appearing in the Trilateral Economic Report (TER) are compiled by the TCS staff at the time of publication. Every effort is made to ensure their timeliness, accuracy, and completeness. When errors are discovered, corrections and revisions are incorporated into the digital editions available from the TCS website.

Cover and Design

(주)삼영디엔피

Data Collection

Trilateral Statistics Team, Trilateral Cooperation Secretariat

Project Team

Department of Economic Affairs, Trilateral Cooperation Secretariat
- OCHI Kasumi, KANG Prum, XIE Tianyi

Supervision

LEE Hee-sup, ZUSHI Shuji, YAN Liang, KIM Hyoseon

Print

You can contact TCS for the print copies of this publication

Digital

The digital editions of the TER is available on the TCS e-publication at https://tcs-asia.org/en/data/publications.php?gubun=3