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## Trilateral Economic Cooperation: Proposal for Enhancing Economic Cooperation Dialogue Channels among China, Japan, and Korea

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In Phnom Penh on November 20, 2012, two important events took place in terms of regional economic integration in East Asia. The leaders of 16 East Asian countries agreed to start the negotiations for the Regional Comprehensive Economic Partnership (RCEP), and the trade ministers of China, Japan, and Korea declared the official launch of the China–Japan–Korea FTA (CJK FTA) negotiations.

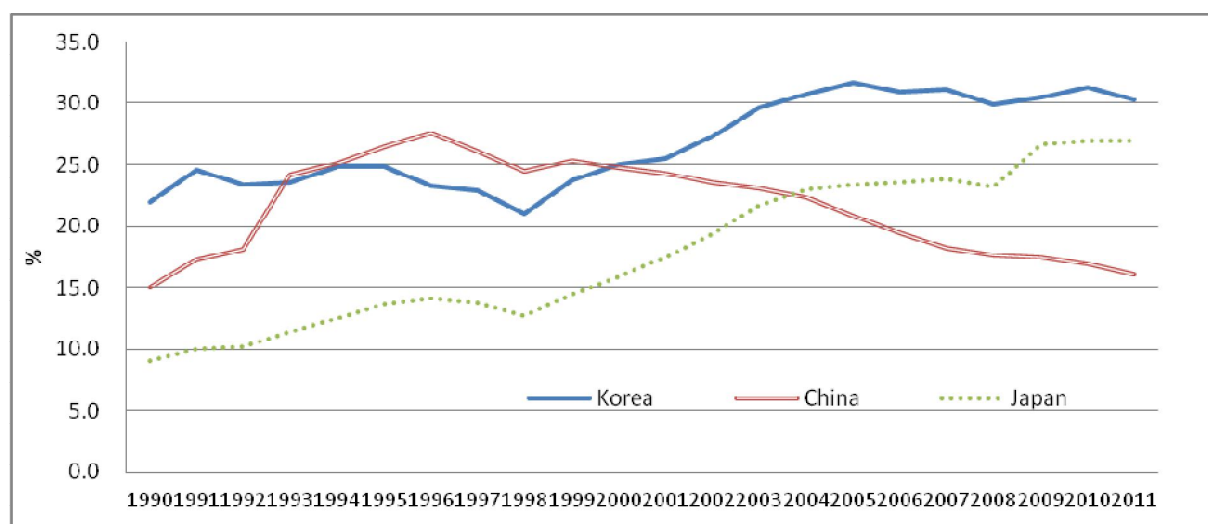
Under these circumstances, this paper proposes to establish the Trilateral Economic Cooperation (TEC) with a view to strengthening the economic cooperation dialogue channels among China, Japan, and Korea. This TEC is expected to serve as a mid-term goal for achieving the Northeast Asian Economic Community and the East Asian Economic Community.

## The Status of China, Japan, and Korea in the World Economy and Mutual Economic Dependency among them

Over the last 20 years, despite Japan's declining economic status, the overall economic status of China, Japan, and Korea has risen due to the rise of the Chinese economy. As a result,

the three countries represented 20.5% of the world economy in 2011. Their economic status was especially high in the manufacturing sector. In 2010, their share of the world's manufacturing exports amounted to 21.9%, while their share in world's exports reached 18.6%. In particular, they represented 38.4%, 33.0%, and 29.5%, respectively, of world exports of textile, clothing, electric machinery, and nonelectric machinery.

Figure 1. Shares of Intra-regional Trade of China, Japan, and Korea



Source: IMF. 2012. Direction of Trade Statistics.

For 1990–2011, the mutual trade dependency intensified among the three countries, i.e., the share of intra-regional trade increased from 12.3% to 21.3%. During the same period, the intra-regional trade dependency was the highest in Korea, where it rose from 21.9% to 30.2% in 1990–2011; the intra-regional trade dependency grew most rapidly in Japan, where it soared from 9.1% to 26.9%. In contrast, China's share of intra-regional trade jumped from 15.0% in 1990 to 27.6% in 1996 before decreasing gradually to 16.1% in 2011 (see Figure 1).

## Government Level Economic Dialogue Channels among China, Japan, and Korea

The government-level dialogue channels related to economic cooperation among the three countries have made progress in terms of depth and scope. The first summit gathering among the leaders of the three countries took place in Manila, in November 1999, on the occasion of the ASEAN+3 Summit Meeting after which the Summit Meeting has become

an annual event.<sup>1</sup> Furthermore, since December 2008, the three countries began to hold independent Trilateral Summit Meeting on a rotational basis in each of the three countries. The basic framework for enhancing economic cooperation among the three countries was finally set.

As of December 2012, 18 Trilateral Ministerial meetings have been held under the independent Trilateral Summit, including 13 meetings on economic issues. Among the 13 economic issues-related Trilateral Ministers' meetings, eight meetings take place every year, in principle; which include the Trilateral Foreign Ministers' Meeting, Trilateral Economic and Trade Ministers Meeting, Environment Ministers Meeting, Trilateral Finance Ministers Meeting, Trilateral Culture Ministers Meeting, Trilateral Agriculture Ministers Meeting, Tripartite Health Ministers Meeting, and the Trilateral Policy Dialogue Meetings.

Four other economic issues-related Trilateral Ministers' Meetings are held every two years in rotation, which include the Trilateral Ministerial Meeting on Science and Technology, Ministerial Conference on Transport and Logistics, Trilateral Tourism Ministers Meeting, and the Tripartite Customs Heads Meeting.

In case of the Trilateral ICT Ministerial Meeting, despite the fact that the three countries have agreed to launch the meeting on an annual basis, only one meeting took place after the fourth Trilateral ICT Ministers' Meeting in 2006.

Most Trilateral Ministers Meetings, except for the Trilateral Economic and Trade Ministers Meeting, have supporting mechanisms,

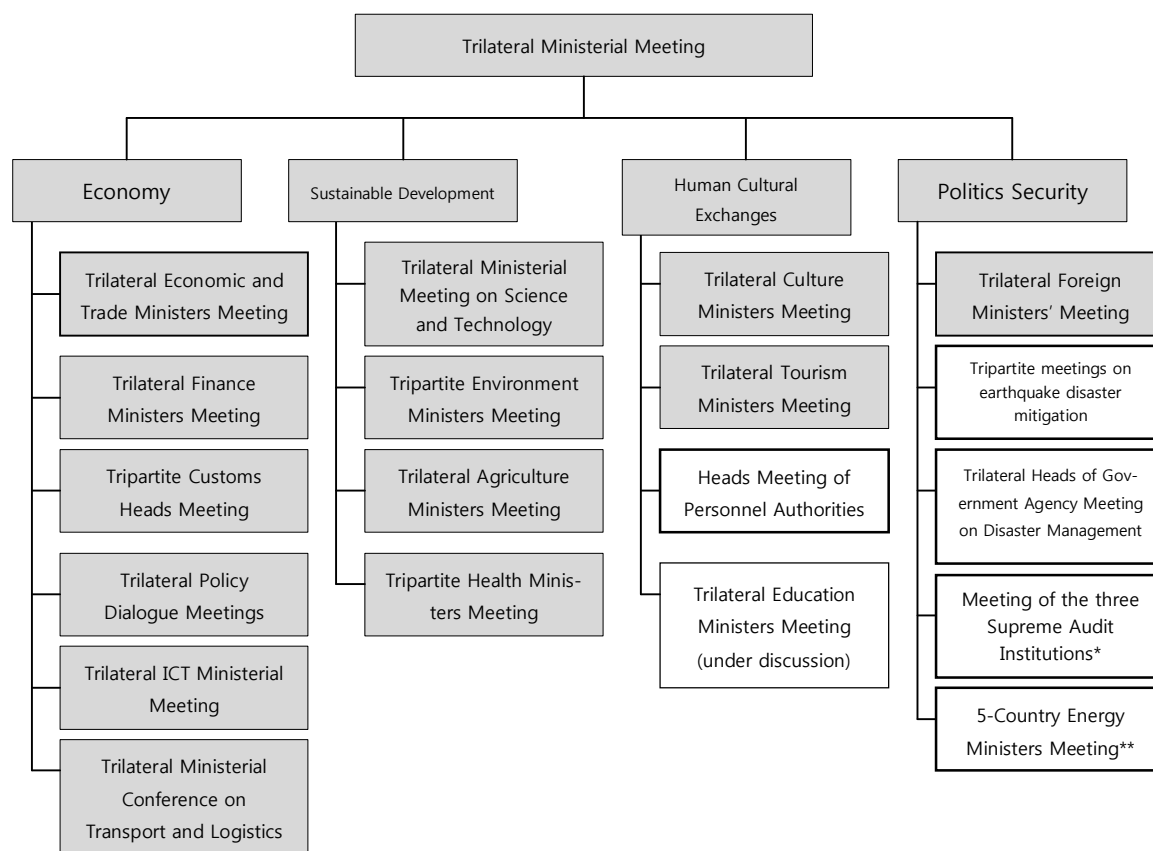
such as the Director-General Meetings and the working-level meetings, to implement and evaluate joint cooperation projects among the three countries.

Meanwhile, after the signing and ratification of "the Agreement of the Establishment of the Trilateral Cooperation Secretariat" by each of the three governments at the independent Trilateral Summit in 2010, the Trilateral Cooperation Secretariat (TCS) was officially inaugurated in September 2011. The main functions of the TCS include evaluating the cooperative projects, submitting annual progress reports to the Trilateral Foreign Ministers' Meeting for approval, and providing administrative and technical support for the operation of the trilateral consultative mechanisms to solidify the cooperative ties among the three countries.

To better systematize the economic issues-related dialogue channels at the government level, China, Japan, and Korea need to synchronize the chair and host country for the independent Trilateral Summit and the economic issues-related Ministerial Meetings. In addition, the three countries could adjust the schedule of the Trilateral Ministerial Meetings taking into account the independent Trilateral Summit. By strengthening the framework of government level economic dialogue channels, the existing Trilateral Ministerial Meetings could better support the Trilateral Summit, and the three countries could further push existing and potential cooperative projects. In addition, the Trilateral Cooperation Secretariat (TCS) needs to strengthen its function for conducting and compiling the annual progress report. The annual progress report should provide a thorough and comprehensive evaluation on the cooperation initiatives that were endorsed by the leaders of the three countries during the independent Trilateral Summit.

<sup>1</sup> The Trilateral Summit during the ASEAN+3 Summit Meeting did not take place in 2005 and 2012.

**Figure 2. Ministerial Meetings among China, Japan, and Korea**



Notes: 1) The number in parentheses indicates the year of the first Ministerial Meeting.

2) Shading indicates the economic issues-related Ministerial Meetings.

\* Meeting of the three Supreme Audit Institutions takes place on the occasion of the Asian Organization of Supreme Audit Institution (ASOSAI).

\*\* 5-Country Energy Ministers Meeting consists of China, Japan, Korea, USA, and India. Only two meetings have been held to date in 2006 and 2008.

Source: Modified from MOFAT (2012).

## Trilateral Dialogue Channels at Local government and Business Levels

Recently, the trilateral and bilateral dialogue channels among local governments of the three countries have been operating actively. The Association of Northeast Asia Regional Governments, the Organization for the East Asia Economic Development, and the Interchange Conference of China–Japan–Korea Local Authorities can be good examples of the trilateral local government channels. The numbers of bilateral local government dialogues between Korea–Japan and Korea–

China have also increased significantly to 658 in 2012. In general, dialogues at the local government level are more focused on communicating and building partnerships with other local governments rather than implementing economic cooperative projects. To conduct diversified project initiatives, most local government trilateral dialogues have established subcommittees in the field of economy, environment, culture and tourism. Also, little connection is found between the dialogue channels at the local government level and the central government level.

The most widely known trilateral dialogue channel at the business level is the China–Japan–Korea Business Summit, which was established to serve as a representative of the China–Japan–Korea business community. Business-level trilateral dialogue channels in the fields of ICT, culture, and tourism are also in operation. However, bilateral channels tend to be more active among the three countries. Because each trilateral dialogue channel is being operated on a project basis, little connection was found with respect to the China–Japan–Korea Business Summit.

In addition, there are mixed types of dialogues

where central governments, local governments, industry representatives, and academic specialists jointly participate in. Most of these dialogues are initiated by governments of the three countries. The most significant mixed type of trilateral dialogue channels are the China–Japan–Korea FTA Joint Research Program, Northeast Asia Standard Cooperation Forum, Pan-Yellow Sea Rim Economic and Technical Exchanges, and the Korea–Japan Economic Association. However, as it is the case for local government dialogue channels, bilateral channels, especially between Korea and Japan, are more active than trilateral ones.

**Table 1. Operation Status of the Business Dialogue Channels by Industry**

		Bilateral		Trilateral	Relation with Government	Details of Cooperation
		Korea–China	Korea–Japan			
Manufacturing	ICT	O	O	O	△	Standard, S/W Forum
	Textile	O	O	O	X	China–Japan–Korea FTA, Environment
	Steel	△	△	X	△	Environment, Steel Statistics
	Automobiles	△	O	X	X	Environment/Safety, Technical Standard
Agriculture and Fisheries		△	△	△	△	Safety work, Joint research management
Energy and Environment		X	X	△	△	Cooperation in Bio-industry
Finance		△	△	△	X	Partnership at individual company level
Transportation and Logistics		X	X	△	X	Advancement of Logistic System
Culture and Tourism		O	O	O	△	Support for culture organization, Academic Seminar

Notes: “△” is based on the following.

- 1) ICT: Government staffs participate in the Information Standard Cooperation as Advisors.
- 2) Steel: No independent dialogue. But select personnel from industry participate in the government-level steel dialogue.
- 3) Automobiles: MOU was signed between Korea and China Automobile Associations in 2012.
- 4) Agriculture and Fisheries: No dialogue in Agriculture. The fishery dialogue is connected with the Fishery senior committee of governments.
- 5) Energy and Environment: Business cooperation in the bio-industry is expected to be launched. Industry representatives participate in the Environment Roundtable, hosted by the government.
- 6) Finance: Partnerships among individual corporations. No dialogue among the associations.
- 7) Transportation and Logistics: One trilateral dialogue, hosted by Chinese counterpart.
- 8) Culture and Tourism: China–Japan–Korea Tourism Forum is connected to the Trilateral Tourism Ministerial Meeting and government staffs also participate in this forum.

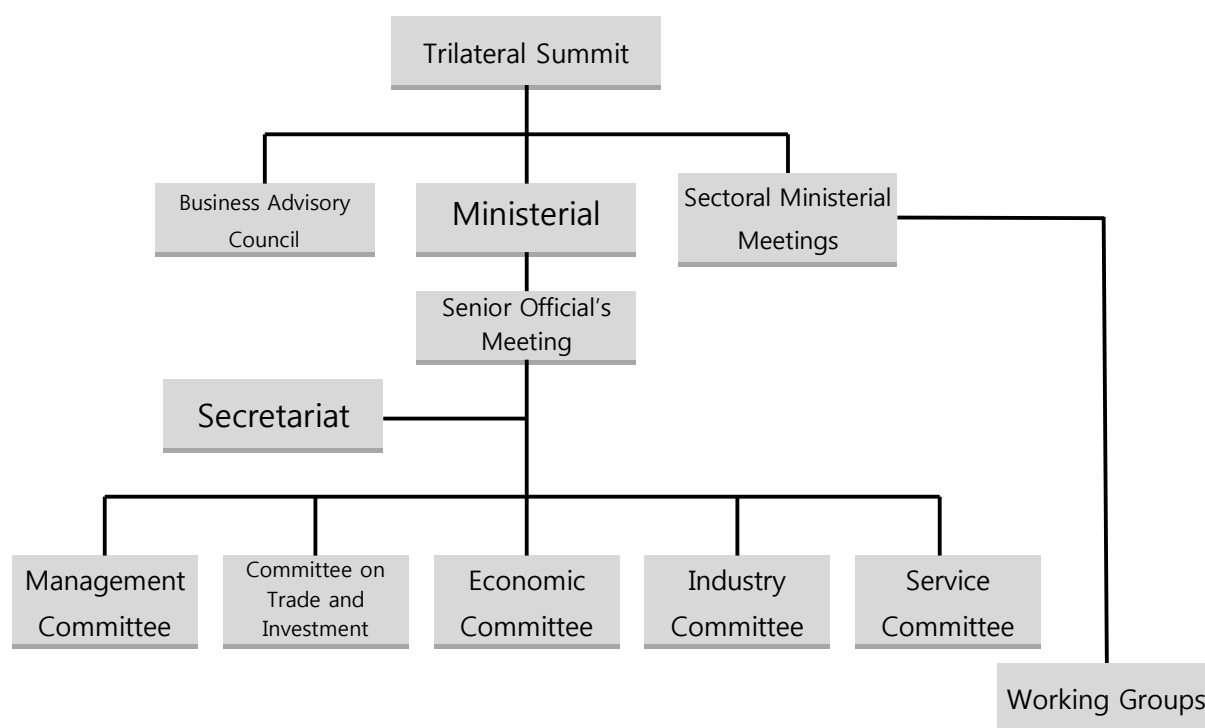
## Rationales and Characteristics of the Trilateral Economic Cooperation

China, Japan, and Korea belong to the Asia-Pacific Economic Cooperation (APEC) and ASEAN Plus Three. These regional economic cooperation entities are composed of a large number of countries. Meanwhile, the Trilateral Economic Cooperation (TEC), which could serve as the regional economic cooperation body for the three Northeast Asian countries, would have merits of easier, more effective agenda setting and implementation. Moreover, the advantage of the TEC comes from the fact that the three countries share many commonalities beyond their geographic proximity, including a high level of economic interdependency; strong manufacturing sectors; weak agriculture, fisheries, and service sectors; high dependency on foreign energy; and cultural similarities and usage of Chinese characters.

Therefore, it would be more convenient for the three countries to discuss economic cooperation on larger spheres within the TEC than on other regional economic cooperation bodies. Furthermore, given their common interests and concerns, further discussion on more concrete issues among the three countries is expected.

The structure of the TEC would be quite similar to that of APEC. As mentioned above, the Trilateral Summit takes place on a regular basis, as do many economy-related Trilateral Ministers' Meetings. Thus, we could further systemize the Trilateral Summit and the Trilateral Ministers' Meetings by consolidating the existing Trilateral Ministers' Meetings and linking them to the Trilateral Summit Meeting. In addition, considering the growing importance of macroeconomic policy coordination and energy issues, Economic Ministers' Meeting and the Energy Minister's Meeting could be established anew.

Figure 3. Structure of the Trilateral Economic Cooperation





The East Asia Vision Group proposed the establishment of the East Asian Economic Community as a vision for East Asian economic integration, and the East Asia Vision Group II set a goal of establishing the East Asian Economic Community by 2020. Considering that ASEAN members are working together to create the ASEAN Community by 2015, the TEC could serve as the foundation for China, Japan, and Korea in establishing the East Asian Economic Community. On the other hand, although the Northeast Asian Economic Community has been regarded as the ultimate goal for Northeast Asian economic integration, unlike the East Asian Economic Community, it is unlikely to be realized in the near future. There is still no FTA among the Northeast Asian countries. As an alternative, a regional economic cooperation body could be feasible in the foreseeable future. In summary, the TEC could also serve as a realistic stepping stone with respect to establishing an economic cooperation body in Northeast Asia on the way to ultimately creating the Northeast Asian Economic Community.

Apart from its contribution to regional economic integration, the TEC could bring economic benefits to the three countries by enhancing economic cooperation and providing them with new growth opportunities. In addition, it is expected that the TEC would bolster mutual understanding, reinforce trust building, and comprehensively improve relations within the region. In the global community, the TEC is expected to be an efficient medium for the three countries in raising their voice in the international arena and strengthen political leadership in the East Asia region.

## Gradual Plan to Establish the Trilateral Economic Cooperation (TEC)

Despite the aforementioned reasons for the Trilateral Economic Cooperation and its expected benefits, it seems quite difficult for the TEC to be realized in the shorter term, considering recent tension among the three countries regarding territorial disputes and past history. Accordingly, we propose that the TEC be pursued gradually.

In the first phase, the Trilateral Summit system, which would constitute a basis for the TEC, should be further consolidated. When the Trilateral Summit and the existing Ministers' Meetings are consolidated in terms of venue, chair (host) country and date, the Ministers' Meetings would be able to support the Trilateral Summit more effectively and implement the initiatives agreed at the Trilateral Summit more systematically. As a result, the Trilateral Summit would become more effective and the improved status of the Trilateral Summit is expected to strengthen the political leadership of the three countries, which is vital for the process toward regional economic integration.

Should the Ministers' Meetings actually be consolidated around the Trilateral Summit Meeting, in our view, the only thing necessary on the part of the three countries in order to upgrade the Trilateral Summit Meeting to a regional economic cooperation entity named TEC, would be the political will from the leaders of the three countries.

Because the rationales for establishing the TEC are currently overshadowed by negative factors related to historical legacy and territorial disputes, it is important to pursue the goal of establishing the TEC step by step. The three

countries should start building a consensus on the necessity and the feasibility of forming the TEC. In addition, it is important to inform the public that potential members of the Northeast Asian economic cooperation includes not only China, Japan, and Korea, but also the Russian Far East, North Korea, Mongolia, Taiwan, and Hong Kong. In order to build a consensus on the need for the TEC and actualize the potential of the Northeast Asian economic cooperation, a specialized institute as well as a specialized foundation for Northeast Asia seems to be in order.

Lastly, there is good possibility that the TEC could be realized rather quickly, when people acknowledge the fact that all we need is, in a nutshell, the consolidation of the existing Trilateral Summit and Ministers' meetings; and the firm political will of the leaders of the three countries. **KIEP**