



## An Effective Way for Northeast Asia to Defuse the Adverse Impact of US–China Trade War : Focus on South Korean–China–Japan FTA

미·중 무역전쟁의 역효과를 제거하는 효과적인 방법에 관한 연구: 한·중·일 FTA 중심으로

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## **An Effective Way for Northeast Asia to Defuse the Adverse Impact of US-China Trade War : Focus on South Korean-China-Japan FTA\***

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As the world's two largest economies, there is no doubt that the trade war between China and the United States will cause a negative impact on the world economy. Concerning the economic gross amount, Northeast Asia Region (Hereinafter referred to as "NEAR") is one of the top three economic circles in the world, how can NEAR defuse the adverse impact of this trade war on the regional economy? The successful experience of the Europe Union (EU) and the North American Free Trade Agreement (NAFTA) shows that Free Trade Area (FTA) might be a good choice to promote regional economic integration and defuse the adverse impact of this trade war. If the FTA among South Korean, China and Japan could be established, it might be of great practical significance to maintaining the prosperity and stability of the regional and even the world economy. In fact, as the largest economies in this region, South Korea, China and Japan have already had frequent commercial intercourse and strong economic complementarity. And Asia, especially NEAR countries was expected to be the most dynamic developments area all over the

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world in the 21st century. Which reflects as the new economic development direction in South Korea ,the rapid economic growth of China and the economic recovery in Japan. The regional economic integration in NEAR will push all countries in this region to get more stable economic growth, which also contribute a lot to raise the regional status in the international economy. This paper focus on the establishment of South Korea-China-Japan FTA (Hereinafter referred to as “KCJ’s FTA”) among , take the exploratory development method, try to proof that FTA among this three countries is an effect way to promote regional economic integration and defuse the adverse impact of this trade war.

**Keywords : trade war, adverse impact, driving of regional economic integration,**

## I . Introduction

Since the 1990s, the economic globalization and regional economic integration have become two major features of global economic development, and have more and more profoundly affected the global economy. NEAR includes the major players of China, Japan, and South Korea. With productive linkages to resource-rich Russia and high-tech based United States, NEAR is one of the most dynamic economic regions in the world (Chae etc.2010).<sup>1)</sup> And in this region, the economic and trade relations among China, Japan and South Korea have become extremely close, the production chain and a trade chain formed among this three countries impacted Asia, even the whole world.<sup>2)</sup> However, the trade war between China and the United States started from last year, and the trade friction among the United states, Japan and South Korea has posed a

- 1) Chae, Wook and Cho, Lee-Jay and Ogawa, Eiji and Lee, Chang-Jae and Lee, Chung and Lim, Jung Duk and Kim, Joon-Kyung and Minakir, Pavel and Tong, Jiadong and Tichotsky, John and Tussing, Arlon and Watanabe, Hiroshi and Wang, Shuzu and Yasuhiro, Chiba and Takashi, Yamamoto and Zhang, Xiaoyan and Junlu, Ma and Katz, Stanley, Financing for Regional Economic Integration for Northeast Asia (June 10, 2010). KIEP Research Paper. Conference Proceeding 10-01, Available at SSRN: <https://ssrn.com/abstract=2957973> or <http://dx.doi.org/10.2139/ssrn.2957973>
- 2) Ankit Srivastava, China-Japan-South Korea Free Trade Agreement : No India in Asia for Asians,Ankit Srivastava, China-Japan-South Korea Free Trade Agreement : No India in Asia for Asians, April8,2019, <https://www.newdelhitimes.com/china-japan-south-korea-free-trade-agreement-no-india-in-asia-for-asians/>

serious challenge to this situation. What's the effect way to maintain the economic globalization and defuse the adverse impact of US-China trade war? How to promote regional economic integration to prevent unilateralism and trade protectionism? Trade integration in Asia will be speed up by starting KCJ's FTA (XU Chun-xiang, 2014.)<sup>3)</sup> Just as Hastiadi, Fithra Faisal (2010)<sup>4)</sup> argued that the forming of East Asian regionalism will be the responsibility of the China, Japan and South Korea (CJK) countries and CJK countries, even Association of Southeast Asian Nations(ASEAN)are merging. Actually, South Korea, China and Japan are keeping discussions on the trilatera FTA<sup>5)</sup> Fithra Faisal Hastiadi (2016)<sup>6)</sup> believed that KCJ's FTA Strategy toward ASEAN Countries. Bernhard (2002)<sup>7)</sup> pointed out that the special Northeast Asian perspective on regional cooperation became clear. According to the scenario of civilization history, it was expected that Asia, especially Northeast Asia countries would be the region which achieves most dynamic developments all over the world in the 21<sup>st</sup> century. Moreover, as apart of possible ways to implement this scenario, it will be possibly necessary that Northeast Asian countries should also try to enter into an agreement on regional integration equivalent to European Union (EU) in the future.

The economic integration of EU region has been further extended and intensified since 1980's. On the other hand, NAFTA<sup>8)</sup> was led and formed by United States has been expanded into FTA of the Americas till 2005. As European and North American countries try to extend their influence into wider arena of world politics and economy by way of regional economic integration, which proofed that the FTA is the effective way to achieve the regional economic integration. Therefore, it is more demanded that

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- 3) XU Chun-xiang. Pushing Forward China-Japan-Korea FTA Is the Sole Regional Strategic Choice of China[J]. Northeast Asia Forum, 2014.
  - 4) Hastiadi, Fithra Faisal. Trade Strategy in East Asia || China-Japan-Korea (CJK)'s FTA Strategy toward ASEAN Countries[J]. 10.1007/978-1-137-56967-7(Chapter 5):87-101.
  - 5) Ken Moak, A China-Japan-ROK FTA is long overdue, 14-Apr-2019, <https://news.cgtn.com/news/3d3d514f7845444d34457a6333566d54/index.html>
  - 6) Fithra Faisal Hastiadi. China-Japan-Korea (CJK)'s FTA Strategy toward ASEAN Countries[M]// Trade Strategy in East Asia. Palgrave Macmillan UK, 2016.
  - 7) Seliger, Bernhard. Economic integration in northeast Asia: Preconditions and possible trajectories[J]. Global Economic Review, 31(4):17-38.
  - 8) NAFTA:1988,Canada - United States Free Trade Agreement(NAFTA) between the United States and Canada. The NAFTA trade blocs one of the largest trade blocs in the world by gross domestic product.

NEAR countries make efforts to take part in economic cooperation through regional economic integration. Three countries of NEAR (South Korea, China and Japan) were committed to resolving their national economic issues till the late period of 1990's: China focused on promotion of economic reforms and open-door policies; Japan was dedicated to getting over long-term economic slump in 1990's; and South Korea concentrated on all kinds of breakthrough to escape from Asian financial crisis in the late period of 1990's. That is why these 3 countries of NEAR<sup>9)</sup> didn't dare to enter into agreements on any kind of regional economic cooperation. However, with this context of the trade war's negative impacts, the consolidation of regional economic block, disappointing inactivity of multilateral free trade movements based on WTO framework, and higher needs for promoting national economic reforms based on FTA, the 3 countries of NEAR have decided to actively promote regional economic cooperation with one another. This paper focus on the establishment of South Korea-China-Japan FTA (Hereinafter referred to as "KCJ's FTA") among , take the exploratory development method, try to proof that FTA among this three countries is an effect way to promote regional economic integration and defuse the adverse impact of this trade war.

## II . Literature Review

With the KCJ's FTA negotiations stagnation and trade frictions among the countries getting increasingly worse, more researchers focus on the trade friction. There is a few research in this field. The representative studies are as follows. Bong Ho, Choi (2016) have done the analysis on dynamic change and stability of cooperative advantage of Korean industries under KCJ's FTA, and found out that China got more comparative advantage on KCJ's FTA.<sup>10)</sup> Choi Y. (2013) examines three questions with the regarding of KCJ's FTA , which three questions are : Under what conditions are CJK most likely

9) There are different geographical definitions of Northeast Asia. The broadest definition would include China, Japan, North and South Korea, Mongolia, Hong Kong, Taiwan and the Russian Far East and Siberia. In this paper, we will concentrate on the three major Northeast Asian economies i.e. China, Japan and South Korea.

10) 최봉호(2016) 한중일FTA를위한한국산업비교우위패턴의동태적변화와안정성분석, 무역통상학회지, 16:1, 321-341.

to establish an FTA? Which factors most significantly influenced U.S. Congressional voting on the Korean-U.S. Free Trade Agreement (KORUS FTA)? Is the establishment of a multilateral FTA among China, Japan, and South Korea (CJK FTA) possible and, if so, what is the optimal path towards achieving it? The consequence showed that an FTA is the result of sectoral and national security politics rather than a calculation based on economic optimality.<sup>11)</sup> Srinivasa Madhur (2013) argues that a KCJ's FTA will have large benefits to the three Northeast Asian countries and significant implications for global multilateral trade.<sup>12)</sup> Park Hyung Rae etc. researched Korea's strategic alternatives for the KCJ's FTA, they hold the idea that three nations need to pursue a KCJ's FTA and RCEP almost around the same time.<sup>13)</sup> Cai Tongjuan (2016) argues that China should give top priority to KCJ's FTA. Adhere to the "economy first", then politics, and gradually promote the construction of KCJ's FTA.<sup>14)</sup> Bi Yin (2018) started from the mechanism of KCJ's FTA and explored the docking path between this FTA and "One Belt, One Road".<sup>15)</sup> Ma Jin and Jin Xuandui (2019) analyzed the favorable conditions for China and South Korea to take the lead in establishing a free trade area, investigates the strategic intentions of China and South Korea to accelerate the FTA, summarizes the reactions of all parties to the establishment of the FTA, and further discusses the impact of the FTA on the two countries' economy and the economic cooperation in northeast Asia after it takes effect.<sup>16)</sup> Yu Yang and Yu Guozheng (2018) believes that China's "One Belt, One Road" initiative and the economic development of northeast Asia will promote the negotiation of KCJ's FTA.<sup>17)</sup>

All above literature made great contribution to help public understand KCJ's FTA in

- 11) Choi Y. Political economy of free trade agreements in China, Japan and South Korea: Sectoral and national security politics of the fta wave[J]. 2013.
- 12) Srinivasa Madhur. China-Japan-Korea FTA: A Dual Track Approach to a Trilateral Agreement[J]. Journal of Economic Integration, 28(3):375-392.
- 13) Park Hyung Rae, Kim Koo Tae, Chu Xuliang (2013) Korea's Alternatives for the Korea-China-Japan FTA and Regional Comprehensive Economic Partnership Negotiations, 무역통상학회지, 13:1, 113-130
- 14) 蔡彤娟. 新功能主義視野下的中日韓FTA:戰略重塑、機制設計與推進策略[J]. 世界經濟與政治論壇, 2016(2):124-140.
- 15) 畢瑩. “一帶一路”倡議下亞洲區域貿易整合路徑探析——以與中日韓自貿區的對接為例[J]. 浙江學刊, 2018, No.230(03):125-137.
- 16) 馬晶, 金炫(2017) 中建立FTA的略意及北合作的影, 동북아문화연구, 52, 285-296.
- 17) 雨洋, 于國政 (2018) 中日韓自貿區建設探析[J]. 東北亞經濟研究, 2018 (2):46-56.

a certain aspect. But so far there is no research focus on the function of KCJ's FTA to defuse the adverse impact of US-China trade war and to promote the regional economic integration, This study takes KCJ's FTA as a study case, based on feasibility, driving force and the implementation of such factors, to proof that FTA plays an important role in defence the adverse impact of US-China trade war and promoting regional economic integration. With the background of trade friction, unilateralism and protectionism, the result of this research would help public to build up confidence and pushing KCJ's FTA negotiations going forward.

### III. The feasibility research on the establishment of south KCJ's FTA

#### 3.1. The complementarity among South Koran, China and Japan trade

Yuan Xiaoli (2011) studied the complementary among China, Japan and South Korea trade.<sup>18)</sup> He chooses economist Peter Drysdale's (1967) Trade Complementarity Index (Formula:  $C_{ij}^k = RCA_{xi}^k \times RCA_{mj}^k$ ).<sup>19)</sup> His calculations show that the combined trade of China, Japan and South Korea is highly complementary. He also used the same method to calculate the trade complementarity of these three countries in the steel, chemical, transportation, machinery and other major industries. The results show that the trade among the major industries of South Korea, China and Japan is also highly complementary. Chan, Sarah, Kuo, Chun-Chien (2005) pointed out that China's emergence as a global and regional manufacturing center has significant implications for the Northeast Asian economies of Japan and South Korea.<sup>20)</sup> In addition, the close geographical position, as well as the capitals and technologies of Japan and South Korea, the labor

18) 袁曉莉. 中日韓貿易互補性与競爭性分析[J]. 中國商論, 2010(19):193-194.

19) " $RCA_{xi}^k$ " represents the relative advantage of country k's products exported by country "i"; " $RCA_{mj}^k$ " represents the relative disadvantage of country k's products imports by country "j".

20) Chan, Sarah, Kuo, Chun-Chien. Trilateral trade relations among China, Japan and South Korea: Challenges and prospects of regional economic integration[J]. East Asia: An International Quarterly, 22(1):33-50.

forces and markets of China, the resources and energy sources of Russia and Mongolia bring mutual complementarity and support for regional economic cooperation of NEAR, and bring possibilities for regional economic cooperation and promoting regional economic integration in NEAR. (2004, Song Qun)<sup>21)</sup> This complementary is the good foundation to establish KCJ's FTA.

### 3.2. Features of regional economic relations in NEAR

The NEAR plays a considerable role in the economy of the world. Among the top 15 economies in the world, 4 economies are in NEAR, where China, Japan, Russia and South Korea ranks top 2, 3, 8 and 15 respectively<sup>22)</sup>. The total population in Northeast Asia is almost 1/4 of the one of the world and there the square is 1/5 of the world. In NEAR, the gross GDP is almost 1/5 of the world, the total value of imports and exports is 1/5 and 1/6 of the world respectively.<sup>23)</sup> Since the economy grows rapidly and trading sphere is opened highly, the potential new economy grows rapidly too. Trend Economy's Statistical results.<sup>24)</sup> show that the world's top 5 largest exporters of commodities in 2017 were, China 14% of the world exports (\$2.26 trillion), USA 9.62% (\$1.54 trillion), Germany 9% (\$1.44 trillion), Japan 4.34% (\$698 billion), Korea 3.57% (\$573 billion), Korea, China and Japan are all in the top 5 of world's largest exporters, and three country's total export volume covers the 22.57% of the whole world's export volume. The Statistical results from Trend Economy also show that the world's top 5 largest importers of commodities in 2017 were, USA 14.5% of the world imports (\$2.4 trillion), China 11.1% (\$1.84 trillion), Germany 7.03% (\$1.16 trillion), Japan 4.04% (\$671 billion), and United Kingdom 3.86% (\$641 billion), both China and Japan are in this top 5 and

21) 宋群, 陳長纓. 中日韓建立自由貿易區將帶來什麼[J]. 商業文化, 2004(2):52-55.

22) IMF, Direction of Trade Statistics Yearbooks and authors' calculations(2012).

23) In contrast to developments in other world regions, efforts to institutionalize regional economic cooperation in East Asia have been weak. Though Southeast Asian economies have taken action toward trade liberalization (ASEAN Free Trade Area), the major economies of the region such as China, Japan and Korea have not been part of any formal trade groupings until recently. Ongoing economic cooperation in Northeast Asia is exclusively informal, driven by market forces. However, given the slow pace of progress within AFTA and the importance of the Northeast Asian countries in terms of weight in the Asian economy, a de facto Northeast Asian economic cooperation is a necessary condition for an East Asian integration.

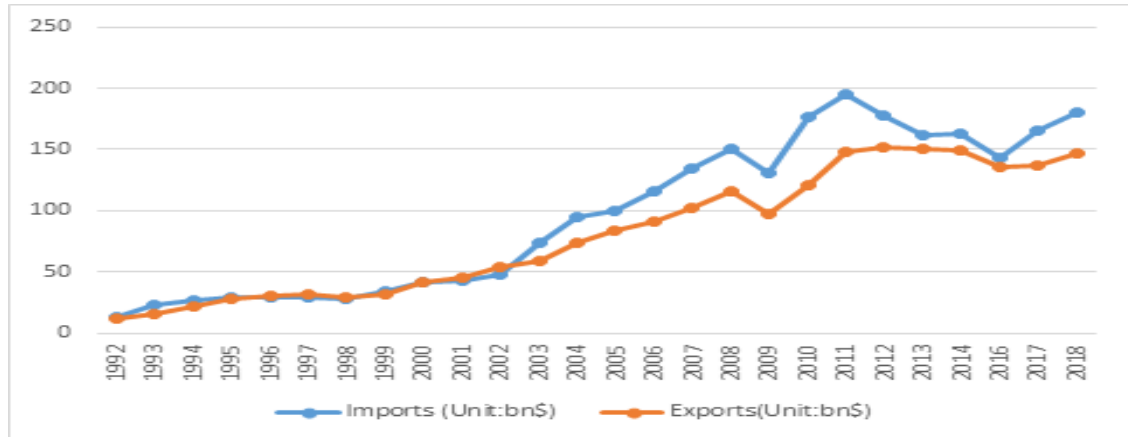
24) <https://trendeconomy.com>



covers 15.14% of the whole world's import volume.

<Figure1> Comparison of internal trade among South Korea, China and Japan

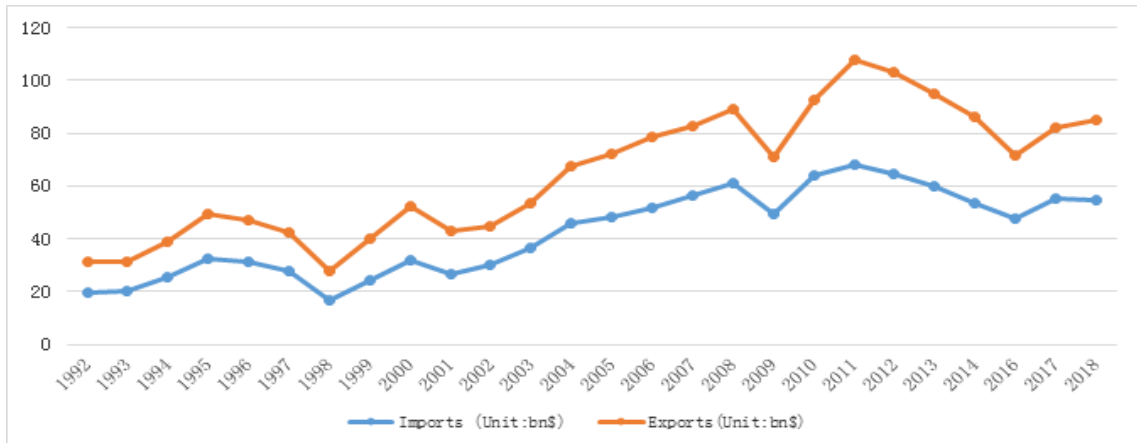
China trade in goods with Japan since 1992



Source: Author made based on UN Comtrade data

<https://comtrade.un.org/labs/dit-trade-vis/?reporter=156&partner=392&type=C&year=2018&flow=2>

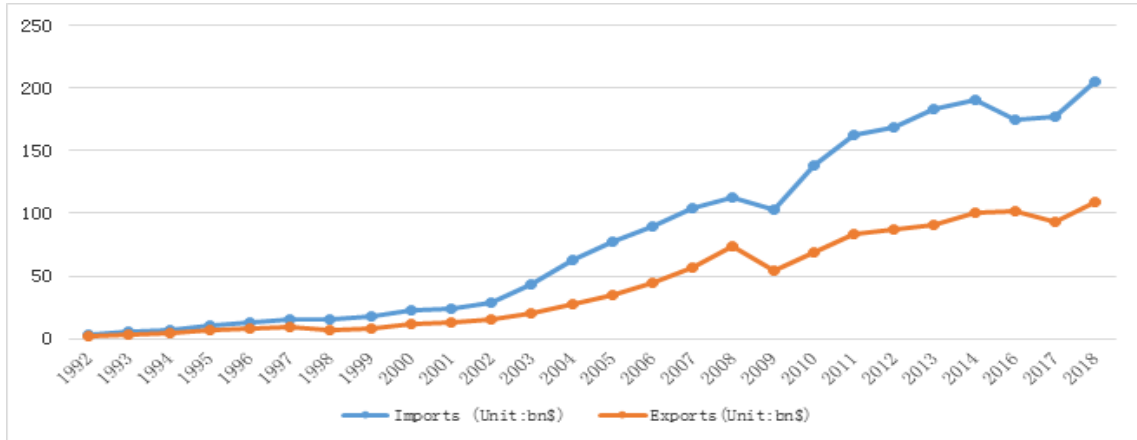
Rep. of Korea trade in services with Japan since 1992



Source: Author made based on UN Comtrade data

<https://comtrade.un.org/labs/dit-trade-vis/?reporter=410&partner=392&type=C&year=2014&flow=2&commodity>

### China trade in goods with Rep. of Korea since 1992



Source: Author made based on UN Comtrade data

<https://comtrade.un.org/labs/dlt-trade-vis/?reporter=156&partner=410&type=C&year=2017&flow=2>

Just as <Figure1> shown, Compare internal trade of China, Japan and South Korea are highly interdependent in their import and export trade. It means that the cooperation between countries in the region has developed continuously as the economy in develops rapidly, Among which, the trading scale has been expanded hugely, especially the economic interdependence among China, Japan, and South Korea has been deepened, the percentage of total value of imports and exports among the three countries to the one of their respective country has been raised year after year. The trade and the foreign-oriented regional economy grow rapidly. In view of the trade and investment relation between China and other countries in NEAR, the total grade between China and Japan, China and South Korea, and China and Russia in 1995 was US\$57.667 billion, US\$16.98 billion and US\$5.463 billion respectively, but in 2017, rose by 8.7 times, 13.9 times and 15.1 times respectively (UN comtrade, 2018).

The above analysis on the complementarity and basic characteristics of the three economies shows that they are not only highly complementary in economic factors, but also highly interdependent in their own economic characteristics and import and export trade. This also shows the feasibility of establishing a KCJ's FTA.

## IV. Driving Forces of regional economic integration in NEAR

### 4.1. The overall downward trend of the world economy objectively drives the regional economic integration

Since the global financial crisis, especially the trade conflict between China and USA, the economy in all countries in the world dips into recession, where the consumption demand keeps decreasing and trade protection measures prevail. In view of the increasing uncertain factors of global economy, it will only enhance the overall immunizing power by the internal cooperation by establishing an economic integration to weaken risk and crisis and create opportunities for all regional countries. Countries in NEAR pay more attention to technical innovation and industrial structure readjustment, which provides internal driving forces for expediting regional economic integration in this region. ASEAN+3 faces to the financial readjustment issue, which brings opportunity for the regional economic integration of Northeast Asia.

However, the difficulties to establish regional economic integration in NEAR are not the insufficient driving force of economic integration, but the obstructions from the complicated international political environment in NEAR, as well as the pending issues of disputes on sovereignty over the islands on the territorial seas, attitudes toward the invasion history, Korea nuclear issue, strategic conflict and other international politic issues. Furthermore, the economic integration among the developed countries and the developing countries could not realize equal distribution of benefits.

In NEAR, the regional characteristics of “The economic development gap is rather large, the region recognition is not formed and the politic mutual trust degree is low” cause a higher trading cost for regional economic integration, which even surpasses the integration benefit anticipated by some members, which further weakens the passion and driving force for integration. Comparatively, the resisting forces to establish regional economic integration in Northeast Asia is far larger than the driving forces, where it is preferred to seek the methods to break through the regional economic integration cost restriction,(Method to break through the regional economic integration cost restriction.)

Define the starting scope of integration appropriately, establish KCJ's FTA, and expand gradually to finally realize the economic integration of NEAR.

## **4.2. The establishment of KCJ's FTA needs all three countries's effective cooperation.**

Mutual trade and investment for complementarity among China, Japan and South Korea, the common market-oriented principle and the existing international system frame, makes the possibilities to establish a FTA among China, Japan and South Korea, where all countries are preferred to adopt strategies to make up differences and enhance cooperation by stages, fields and the system-oriented framework so as to realize win-win among them. There are competition and complementarity in the FTA, but the complementarity is the major driving force and base to form regional economic cooperation organization.

### **4.2.1. The large cooperation potentials on economic factors among three countries.**

There are high complementarity among China, Japan and South Korea, Japan and South Korea has comparative advantages on the capitals, advanced technologies, equipments and industrial products, but comparative disadvantage on energy sources, resources, grains and labor forces, which is rightly contrary to China. From which, it can be easily seen that there is huge potential on factor endowment among China, Japan and South Korea, which accumulates huge cooperation potentials for establishing the KCJ's FTA.

### **4.2.2. Outstanding trade complementarity among three countries.**

In view of the imported and exported commodities structure of China, Japan and Korea, the three biggest trading countries in NEAR, The high trade complementarity can be easily seen. Japan's export is focused on the high-grade technology-intensive products and electronic products. In 2003, the medium-grade technology-intensive

products, including the products of rubber, plastics, motors and the automobiles, was 45% of the total export volume of Japan, such percentage was kept rising year after year; where the electronic products was 22.6%, but the export volume of the primary products and labor-and resource-intensive products was only 2.9% and 3.3% respectively. For Korea, its exported products were transferred from the labor-and resource-intensive industry to the technology-intensive industry, where the export volume of medium-grade technology-intensive products and the electronic products was 22.8% and 35.8%(谷口誠, 2010)<sup>25)</sup>. For China, the exported products were gradually transferred from the primary products to the technology-intensive products, where the export volume of electronic products was 30.3%, and the labor-and-resource-intensive products was maintained around 27.7%. In total, the primary product export of all such three countries has a low percentage, especially in Japan, where China has outstanding export advantages for the labor-and-resource-intensive products; for the technology-intensive products, Japan has more and outstanding advantage than South Korea and China, especially the medium-top grade technology-intensive products, but Korea is better than Japan and China for the low-grade technology-intensive products and the electronic products<sup>26)</sup>

Since the implementation of reform and opening to the outside world, the bilateral trade between China and Japan has been always developed rapidly. Before the year of 2003, Japan was always the first biggest trade partner of China. According to the data of China Customs, the bilateral trade volume between China and Japan in 2006 was US\$207.36 billion, see Table1, which rose by 12.5% comparing with the same period last year and accounted for 11.8% of total foreign trade of China, where Japan was the third biggest trade partner, the fourth export market and the first import source of China. As the trade relation between China and Japan develops, the status of China among the Japan foreign trades will rise continuously. In the period before 2002, China had surpassed USA and become the first biggest import source and the second biggest export market of Japan.

25) 谷口誠, 邵鳴. 世界經濟危机与東亞共同体[J]. 南洋資料譯叢, 2010(1):1-9.

26) The imported commodity structure is rightly contrary to the exported commodity. In Japan and Korea, the imported products are focused on the primary products, which accounts for 42.1% and 35.8% respectively. However for China, the imported products are focused on the medium-top grade technology-intensive products, accounting for 39.0%. All three countries have high percentage for the exports on electronic products.

After China and South Korea established formal diplomatic relations in 1992, both countries have always kept a rapid development for bilateral trade relation. According to the data of China Customs, the bilateral trade volume in 1992 was only US\$5.03 billion, but which rose to US\$134.31 billion by 2006, rose by 20.0% and accounted for 7.6% of the foreign trade volume of China. At present South Korea is the third biggest trade partner, the third export market and the first import countries of China. The development speed of bilateral trade between China and South Korea is far quicker than the general foreign trade development speed of China and South Korea itself. In accordance with the statistics of South Korea, China is the first biggest trade partner, the first biggest export market and the second biggest importer of South Korea. In 1990s, though both countries of South Korea and Japan experienced serious economic difficulty, which caused huge fluctuation to bilateral trade scale and mutual investment, however, any of which was not fundamentally weakened their status to be as the important trade partner each other.

The mutual trade scales among China, Japan and South Korea are expanded continuously. The expansion increasingly makes the potential complementary advantages among China, Japan and South Korea convert into the realistic advantages, as <table1> shown, during 18 years from 2000 to 2018, the volume of imports and exports has been growing and maintaining a high growth rate. In fact, in recent 5 years, China, Japan and South Korea have been each other's top three trading partners, each holding a very important position in the other's international trade which lays important base for establishing KCJ's FTA, and also is the driving force to the Establishment of KCJ's FTA.

**<Table1> Trade between China and Japan and China and South Korea 2000~2018**

Year	Trade between China and Japan				Trade between China and Korea			
	Export	Import	Total volume	Balance	Export	Import	Total volume	Balance
2000	416.5	415.1	831.6	1.4	112.9	232.1	345.0	-119.2
2003	449.6	428.0	877.6	21.6	125.2	233.9	359.1	-108.7
2006	484.4	534.7	1019.1	-50.0	155.2	258.7	440.7	-130.7
2009	594.2	741.5	1335.7	-143.3	201.0	431.3	632.3	-230.3

2012	735.1	943.7	1678.9	-208.6	278.2	622.5	900.7	-344.3
2015	839.9	1004.5	1844.4	-164.5	351.1	768.2	1119.3	-417.1
2016	916.4	1157.2	2073.6	-240.8	455.3	897.8	1343.1	-452.5
2017	1644.2	1328.6	2972.8	315.7	1421.2	978.5	2399.7	442.2
2018	1470.5	1806.6	3277.1	-336.1	2046.5	1087.6	3134.1	958.9

Source: National Bureau of Statistics of China. (Unit: \$100 million)

#### 4.2.3. The among three countries increases.

Japan started to invest in China directly in 1979, but the investment amount at that time was only US\$14.00 million. By Feb. 2007, the direct investment amount of Japan in China, collectively, was US\$58.7 billion, accounting for 8% approximately of the total foreign capitals that China introduced. Till the March of 2019, the actual direct investment capital of Japan in China was US\$13494.6 billion, ranking top first among all other countries.

As the bilateral trade volume between China and Japan increases, South Korea increases its investment in China. In 2007, there were already over 30,000 South Korea-funded enterprises in China, with the total investment amount reached US\$35 billion.0, till March of 2019, this number even reached US\$1032 billion. China has become the preferred country for South Korean enterprises for foreign investment. In recent years, the investment fields of Korea in China has been expanded from the manufacturing industry at the early time to the service fields of finance, catering, logistics and communication, and the geographical positions for South Korean investment have spread from the coastal areas of China to her mainland. Meanwhile, China started her investment in Korea too. In 2004, Shanghai Automotive Industry Corporation acquired Ssang Yong Motor Company, opening the way for Chinese Automotive Enterprises to merger overseas companies. By the end of 2018, the investment amount of China in South Korea was US\$2740 billion collectively.

#### 4.2.4. The internal impetus generated by the market economy system

Although there is significant difference for basic social system and ideology among China, Japan and South Korea, there is still the common character for the basic system, IE: the market economy system. Whichever it is China, Japan or South Korea, the market restriction and value law could not be surpassed, this is the maximum common character among three countries. Furthermore the common character will surpass the difference in social system and ideology and form the system base to establish the KCJ's FTA.

#### **4.2.5. The existing international system frame provides a cooperation platform for KCJ's FTA.**

For the three biggest economy countries in Northeast Asia, China, Japan and Korea are the members of WTO, APEC and "ASEAN+3",<sup>27)</sup> the triple frame provides economic cooperation platform for all countries, but also the negotiation mechanism for top management of the three countries. Especially the "10+3" mechanism is preferred for a special concern. Since the year of 2002, the annual meeting between heads of China, Japan and South Korea under the "10+3" frame has become a fixed mechanism, which has profound effect on eliminating differences and frictions, enhancing politics and security trust, as well as the strategic goal to establish free trade zone among China, Japan and South Korea.

## **V. The efficient ways to establish KCJ's FTA.**

### **5.1.The resistances of regional economic integration in Northeast Asia.**

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27) The new international environment and the Asian currency crisis have created a strong impetus for regional financial cooperation and have provided Asian countries with a common interest, which has led to the Chiang Mai Initiative (CMI) agreement (May 2000) on bilateral swaps and discussions of the possibility of creating a monetary union among the ASEAN+3 as a long-run objective. More recently, at the informal ASEAN+3 Finance and Central Bank Deputies Meeting held in Tokyo on 13 November 2002, Korea made a proposal to discuss regional bond market development under the ASEAN+3. Further to the initiation, Japan presented a comprehensive approach to foster bond markets in Asia, the "Asian Bond Markets Initiative" at an ASEAN+3 informal session held in Chiang Mai on December 2002.



The difficulties to establish regional economic integration in Northeast Asia are not the insufficient driving force of economic integration, but the obstructions from the complicated international political environment in NEAR, as well as the pending issues of disputes on sovereignty over the islands on the territorial seas, attitudes toward the invasion history, North Korea nuclear issue, strategic conflict and other international politic issues. Furthermore, the economic integration among the developed countries and the developing countries could not realize equal distribution of benefits.<sup>28)</sup>

In Northeast Asia, the regional characteristics of “The economic development gap is rather large, the region recognition is not formed and the politic mutual trust degree is low” cause a higher trading cost for regional economic integration, which even surpasses the integration benefit anticipated by some members, which further weakens the passion and driving force for integration.

## 5.2. Path selection when establishing KCJ's FTA

### 5.2.1. Pioneer to search some industrial products and advocate free trade.

Since there is huge difference in economic development level and industrial structure among China, Japan and South Korea, the free trade agreement is impossible to realize one time among whole industries. The idea to conduct free trade for mature industries with given conditions in advance can be considered, alternatively the idea to divide an industry into multiple portions and then select the mature portion to conduct free trade in advance can also be considered. When doing so, the best portion of an industry will be expanded gradually to cover the whole industry, where the industry with high mutual independence, small technical difference and large expansion effect will be selected firstly to conduct the free trade, for instance the industry of steel, energy and household appliances, which can be considered to conduct free trade, including the best portion of some industries, such as the advanced parts and components of automobile industry.

28) Northeast Asia is now at a crossroads. One road leads to the removal of political impediments to economic development and, eventually, the full realization of the region's growth potential. The other road is that of continuing political and economic disunity and growing disparity between the Asia-Pacific on the one hand and Europe and North America on the other, in terms of production, living standards, and global influence.

### **5.2.2. Establish the FTA based on the regional economic circle**

At present, there are no conditions to establish the national FTA in China, Japan and South Korea, but it is very feasible to establish the FTA based on the regional economic circle. By taking the Bohai-Rim Economic Circle as an example, we can make analysis accordingly. The Bohai-Rim Region includes the Northeast, North China, North China, Kyushu of Japan, the west seacoast, southwest and southeast of South Korea, with over 265,000,000 populations and covering a land of 667,700 sq. kilometers. The GDP of the Bohai-Rim Region is over US\$700 billion, and there are the cities with the prosper economy, advanced technologies and developed culture, with the natural economic and geographical conditions and historic human conditions to form secondary regional free trade zone. “The formation of Northeast Asia Economic Circle needs a ‘core’, where the Bohai-Rim Region is rightly the ‘core’” (Kanamori Hisao,1991)<sup>29</sup>). The high radiation and expansion capacity, as well as the high opening-up liaison, just like the locomotive, will bring the China-Japan-South Korea FTA and the whole Northeast Asia Region to get economic cooperation and quick development, which affects the economic development of whole region to a great extent. Therefore the Bohai-Rim Economic Circle is the region where China, Japan and South Korea have highly economic complementarity and large economic cooperation potential, and can form a break-through and experimental area for establishing China-Japan-South Korea FTA.

### **5.2.3. Promote FTA by taking enterprises as the principal and direct investment as the forerunner.**

Since China, Japan and Korea have high complementarity on direct investment demand, the investment-oriented regional economic cooperation will be easier to implement. As the biggest developing country in NEAR, China has the biggest investment fields and absorbing capacity. However, Japan, as the biggest developed country in NEAR, has powerful direct foreign investment bases and capacities; South Korea, in the middle layer of economic development level, bears the function to absorb,

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29) Kanamori Hisao (1996), “Irrigation System Readjustment Project in Romania”, Rural and Environmental Engineering, 1996,0(31).

digest and transfer capitals and technologies from Japan, and promote the developing countries in the region to absorb effectively various capitals and technologies, where the direct investment will push all countries to upgrade industrial structure and the available elements to flow, and then provides reliable base for the foundation of free trade zone.

#### **5.2.4. Expedite to establish FTA by taking advantage of the existing system frame.**

South Korea shows active attitude toward the foundation of China-Japan-South Korea FTA, but the key problem lies between China and Japan. As China and Japan has improved and heated up politic relation recently, China and Japan shall pay more attention to engage in establishing bilateral free trade relation by taking advantage of system frame, which will be good to launch negotiation for foundation of free trade zone among the three countries and expedite the FTZ formation process. In 2002, the annual meeting of heads of China, Japan and South Korea under the “10+3” frame became a fixed mechanism, and the governments of China, Japan and Korea were active to make top meeting and dialogue to make up difference, establish mutual trust and reach consensus. In Oct., 2006, the representatives of China, Japan and South Korea signed a joint statement at “the 5th China-Japan-South Korea Business Forum” to show it is an important choice complying with the common benefit on economy among three countries by establishing KCJ’s FTA as early as possible and launching investment agreement negotiation.

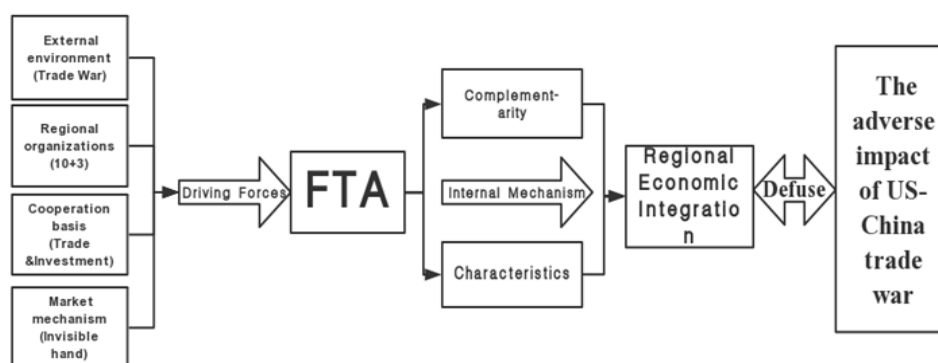
#### **5.2.5. The process of regional economic integration**

Through case studies on factors such as the external environment, feasibility, impetus and implementation methods of KCJ’s FTA, combined with successful cases of regional economic integration such as EU and NAFTA, Actually, the levels of regional economic integration from low to high are: FTA, customs union, common market, economic and (sometimes) Monetary union and political Union.<sup>30)</sup> Therefore, FTA is the lowest and

30) Cavusgil·Knight·Riesenberger(2008), “International Business--Strategy, Management and the New Realities”,2008 by Personal Education,Inc.,Upper-Saddle River,New Jersey,07458.

fundamental step of regional economic integration. The process of FTA effect on regional economic integration can be summarized as <table 2> shown. External environment such as the US-China trade war, regional organizations like “ASEAN+3”, the existing regional cooperation basis and the “invisible hand” in market to promote the establishment of FTA, which is the lowest and fundamental level of regional economic integration. within the framework of FTA, economies own special features and advantages as well as the mutual complementarity will be given a full play, so as to promote the regional economic integration. And the regional economic integration is the effect way to defuse the adverse impact of US-China trade war.

<Table2> The process of regional economic integration



Source: Author made a summary according to the research data

## VI. Conclusion and Suggestions for future research

This study takes KCJ's FTA as a case and found that there are possibility and necessity to enhance economic cooperation among all three countries. The formation of KCJ's FTA will not only promote the economic cooperation of NEAR, but also improve the overall level and strength of regional cooperation of Northeast Asia. Furthermore, the KCJ's FTA will be beneficial to enhance competitiveness with European Community, America-Canada- Mexico Economic Circle and ASEAN economic sphere, improve

regional competitiveness and enhance economic strength of all countries in Northeast Asia. Meanwhile, the foundation of KCJ's FTA will become a new growth point of the global economy and play an important role to promote whole global economy to develop. Which is an effect way to promote the regional economic integration and defuse the adverse impact of US-China trade war.

This study also has some limitations. In terms of the selection of research methods, the case study method is adopted. Concerning the literature research, the literature in this field mainly focuses on China and South Korea, and there is no more research literature related to other countries. The internal mechanism of the South Korea-China-Japan FTA for the regional economic integration in northeast Asia proposed in this paper needs to be further empirically verified.

In the future, more relevant cases should be collected to further verify the research results from an empirical perspective, or data analysis method should be adopted to further quantitatively analyze the promotion effect of FTA on regional economic integration through regression analysis and other means.

The further study will also focus on the strategy and policies of South Korean, China and Japan to KCJ FTA.

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## 미·중 무역전쟁의 역효과를 제거하는 효과적인 방법에 관한 연구: 한·중·일 FTA 중심으로

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### 국문요약

세계 양대 경제대국으로서 중국과 미국의 무역전쟁은 세계경제에 악영향을 미치고 있다. 세계 경제총액과 관련하여 동북아 지역경제통합(NEAR)은 세계 3대 경제 공동체 중 하나이다. 따라서 NEAR는 어떻게 미·중간의 무역 전쟁이 지역경제에 미치는 부정적인 영향을 완화시킬 수 있을까? 유럽통합(EU)과 북미자유무역협정(NAFTA)의 성공적인 경험은 지역경제통합을 촉진하고 이는 무역전쟁의 부작용을 해소하는 좋은 방법이 될 수 있다. 한·중·일등 삼자간의 FTA가 협정 체결이 될 수 있다면, 그것은 지역경제성장뿐만 아니라 세계경제의 번영과 안정을 유지하는데 큰 실질적인 의미가 있을 것이다. 실제로 동북아지역의 최대경제국으로서 한·중·일 3국은 이미 빈번한 무역교역과 상호경제의 의존성과 상호보완성을 갖고 있다. 특히 미래 NEAR 국가들은 21세기에 전 세계에서 가장 발전지역이 될 것으로 기대되었다. 이것은 한국의 새로운 경제발전방향, 중국의 빠른 경제성장과 일본의 경제회복을 반영한다. NEAR의 지역 경제통합은 이 지역의 모든 나라들로 하여금 보다 안정적인 경제 성장을 이루도록 할 것이며, 이것은 또한 국제경제 지역적 위상을 높이는데 많은 기여를 할 것이다. 따라서 본 연구는 탐색적 연구로 한·중·일 상호 FTA 협정체결을 통한 지역경제통합이 미·중 무역전쟁의 부작용을 완화하기 위한 효과적인 방안들을 밝힐 것이다.

**핵심주제어 :** 무역전쟁, 역효과, 지역경제통합

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