

GENERAL INTRODUCTION

TO TRILATERAL ECONOMIC

RELATIONS

Preface

The Trilateral Cooperation Secretariat (TCS) is tasked to conduct research on and promote understanding of the trilateral cooperation. As a token of such efforts, the TCS compiled an easy-to-read booklet on the economic relations among the three countries. This booklet provides a quick reference to the basic economic features of the three countries in areas such as trade and investment, finance and people-to-people exchange. The PDF format of the booklet is also available at the TCS website (<http://www.tcs-asia.org>).

It is our hope that this booklet will give insight into the strong economic ties among the three countries and the great potential for trilateral economic cooperation.

Amb. Shin Bongkil

Secretary-General,

Trilateral Cooperation Secretariat

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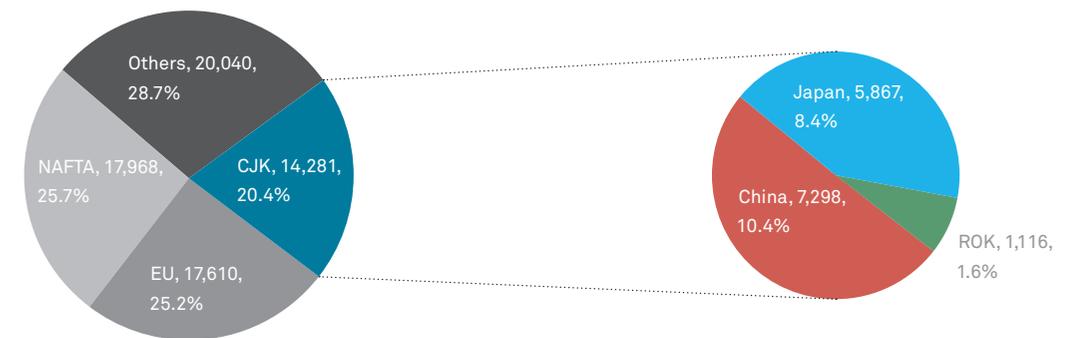
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1. OVERVIEW OF THE ECONOMY OF THE THREE COUNTRIES

General Features of the Three Economies

- China, Japan and ROK are the 2nd 3rd and 14th largest economies of the world in 2011 in terms of GDP.
- China, Japan and ROK are the 2nd, 4th and 8th largest trading countries of the world in 2011 in terms of net trade volume.
- The three countries have maintained rather stable growth though a little stumbling after the global financial crisis.
- The three countries are the 3rd largest economic bloc after NAFTA and EU in terms of GDP.

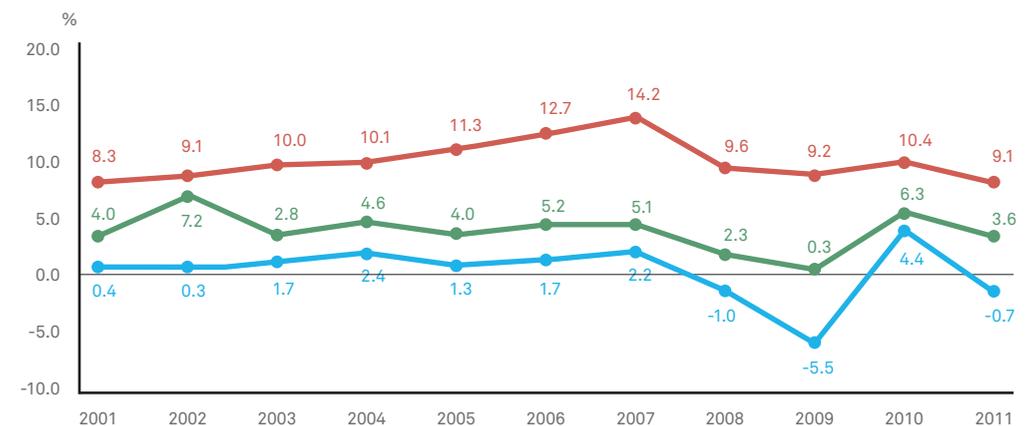
Nominal GDP (2011)



Source: IMF

Unit: Billion US \$ (% of World's Total GDP)

GDP Growth Rate



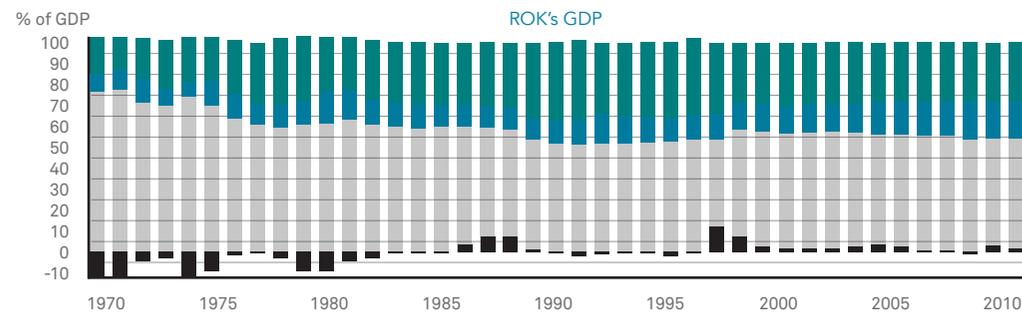
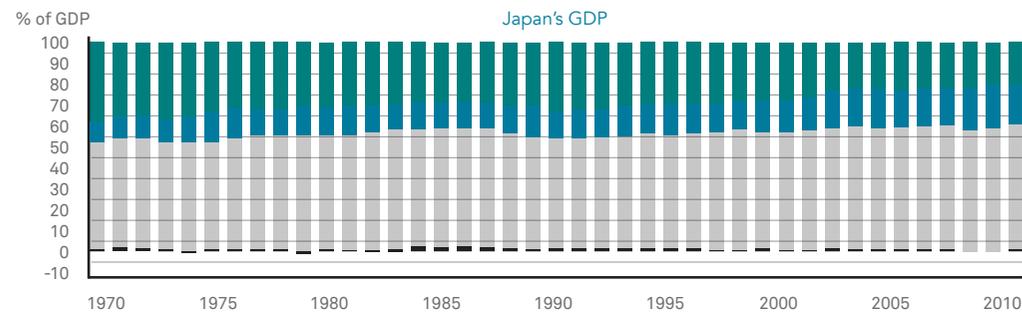
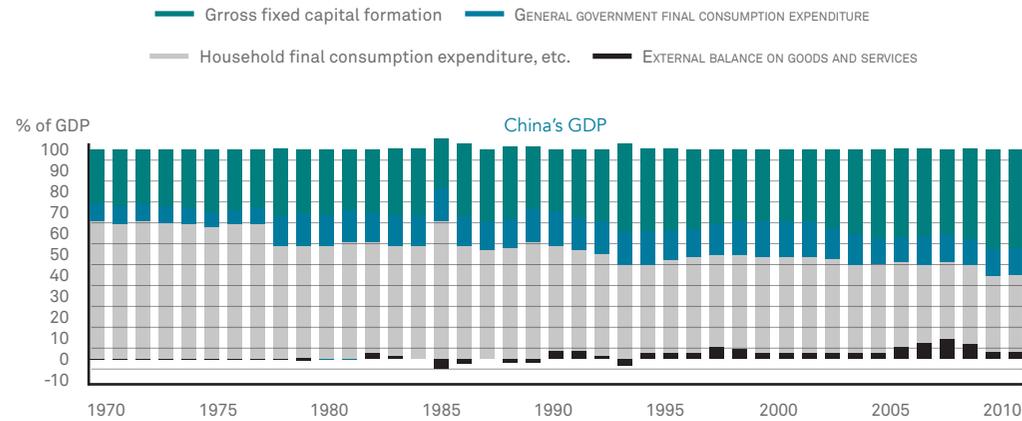
Source: World Bank

China Japan ROK

Composition of GDP

- As developed countries, Japan and ROK maintain stable shares of both household final consumption expenditure and gross fixed capital formation.
- In contrast, in China as a fast developing country, the share of household consumption expenditure has been decreasing and the gross fixed capital formation is increasing, especially after the global financial crisis in 2008.

Composition of GDP

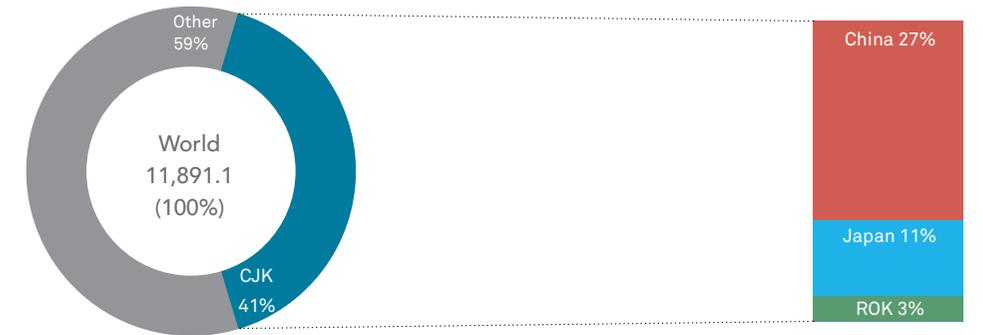


Source: World Bank

Foreign Exchange Reserves

- The three countries' foreign exchange reserves combined accounts for 41% of the world in 2011.
- Causes of huge foreign exchange reserves include:
 - Trade surplus with the rest of the world
 - Lessons learned after the Asian financial crisis in 1997
 - China's increasing gross fixed capital formation

Foreign Exchange Reserves (2011)



Source: World Bank

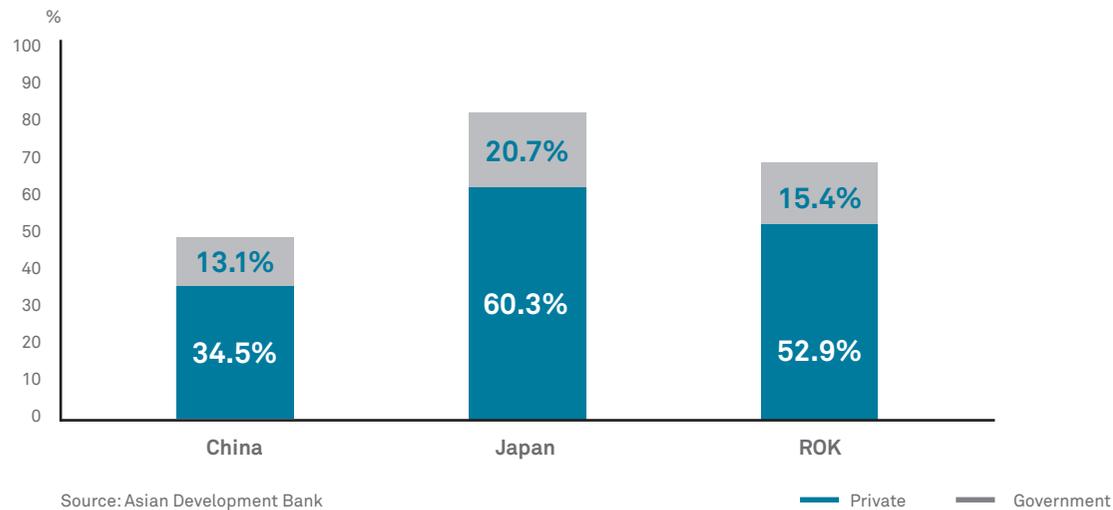
Unit: Billion US \$

China 3,254.7 Japan 1,295.8 ROK 306.9

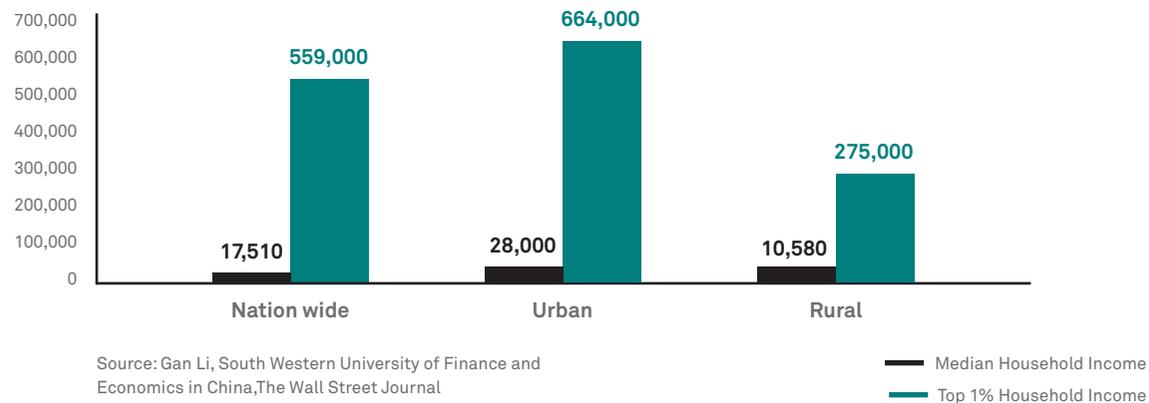
The Economy of China

- Fast and stable growth after launching the economic reform
- Making the best use of FDI: 2nd largest recipient especially in manufacturing sector
- Low household consumption
- High income disparity and development imbalance
- Pressing restraint on resources and environment

GDP Expenditure Structure (Consumption)



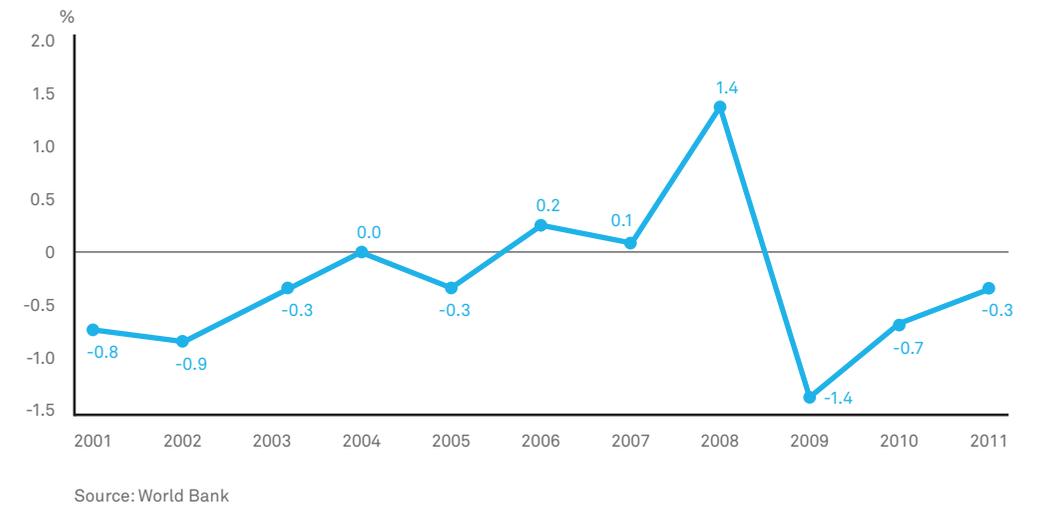
Income disparity of China



The Economy of Japan

- Keeping advanced technology, accumulated overseas capitals
- Big damage from the global financial crisis in 2008 and the Great East Japan Earthquake in 2011
- Prevailing concerns about deflation
- Huge budget deficits
- High aging index (elder-youth ratio)

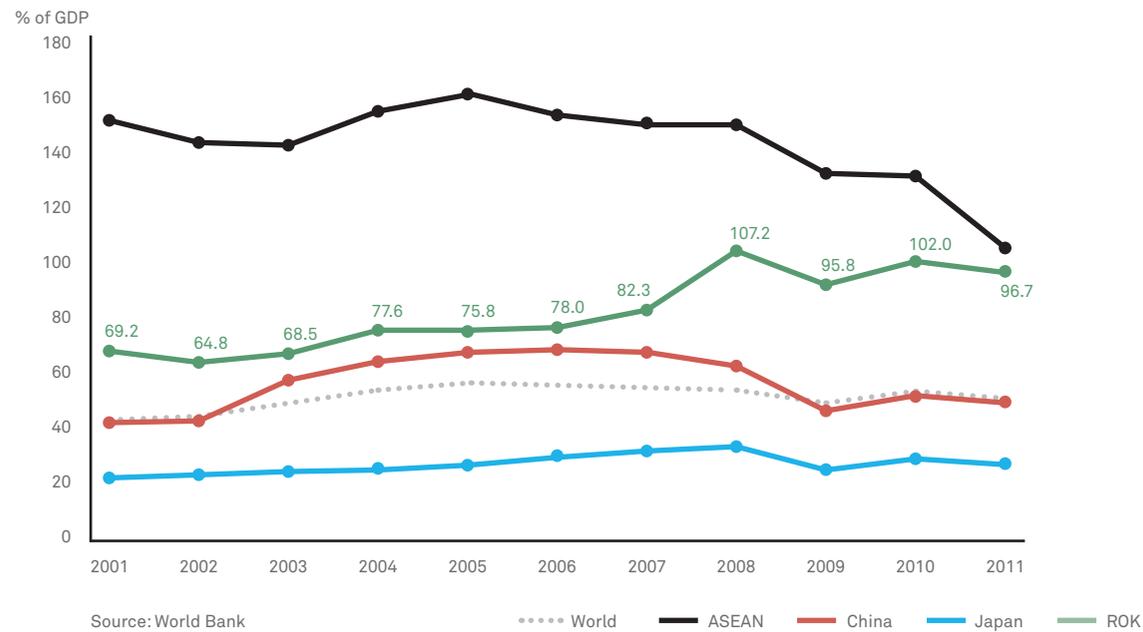
Inflation Rate of Japan (CPI)



The Economy of ROK

- Relatively small but stable economy
- High dependency on trade
- FTA with big economies, the EU and the US
- Exposed to external shocks (vulnerable trade due to exchange rate change)
- Rising competitiveness in ICT sector
- Slow change from manufacturing towards value-added production

Trade Dependency (as % of GDP)



The Three Economies Compared

China	Japan	ROK
Advantage		
<ul style="list-style-type: none"> • Huge market potential • Fast growth in manufacturing sector • Low price of labor and land 	<ul style="list-style-type: none"> • High technology and advanced social infrastructure • Comparative advantage in value-added products 	<ul style="list-style-type: none"> • Advanced FTA relations • Trade-friendly policies
Disadvantage		
<ul style="list-style-type: none"> • Imbalance between production and consumption • Need for preventing energy inefficiency and environmental deterioration 	<ul style="list-style-type: none"> • Shrinking economy • Increasing unemployment rate 	<ul style="list-style-type: none"> • Small market size • Exposed to external shocks
Immediate Tasks		
<ul style="list-style-type: none"> • China: To reform the economic structure and expand domestic demand • Japan: To recover its economy from the recession • ROK: To increase market size, to lower the risk of economic shock 		

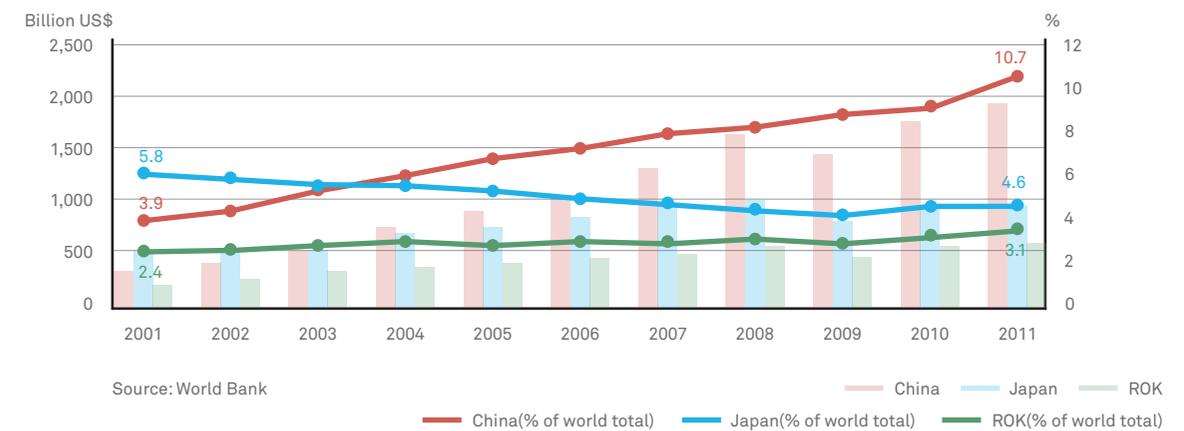
2. INTERNATIONAL TRADE

Three Countries' Trade Relations with the Rest of the World

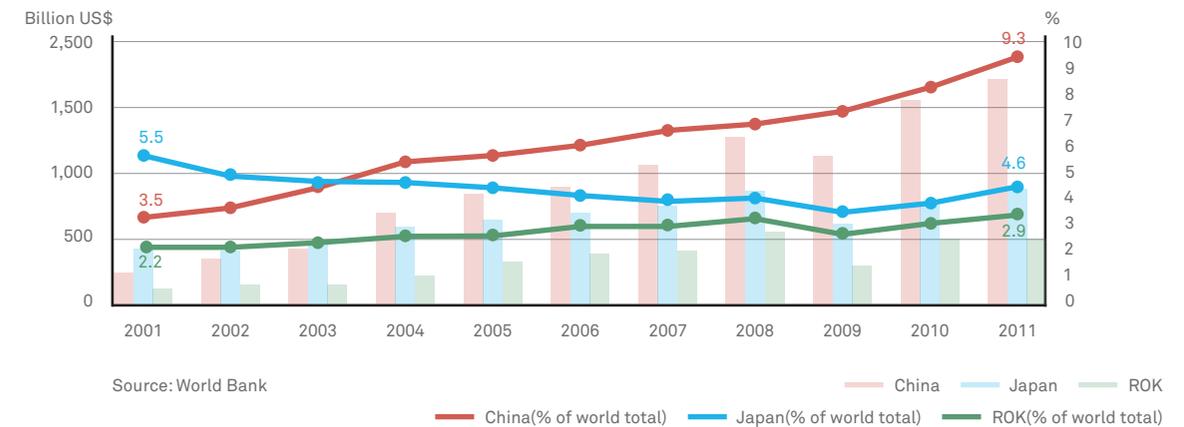
Trade in goods

- The share of the three countries in the world's total trade value increased from 11.6% in 2001 to 17.5% in 2011.
 - China, Japan and ROK accounted for 10.7%, 4.6% and 3.1% of the world's total exports respectively in 2011.
 - China, Japan and ROK made up 9.3%, 4.6% and 2.9% of the world's total imports respectively in 2011.
- Growth in the share of the three countries in the world's trade can attribute to China's rapid growth in trade volume.

Three Countries' Share in World's Exports



Three Countries' Share in World's Imports

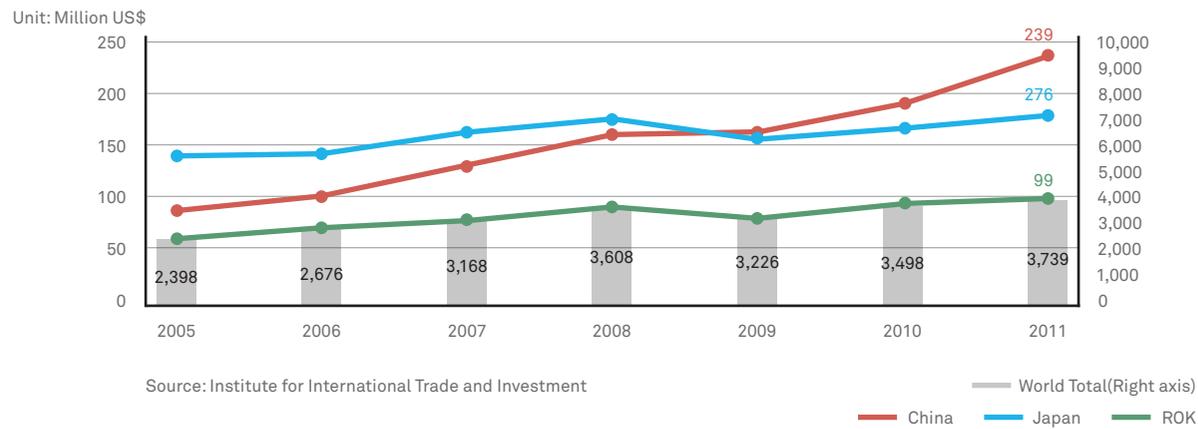


Three Countries' Trade Relations with the Rest of the World

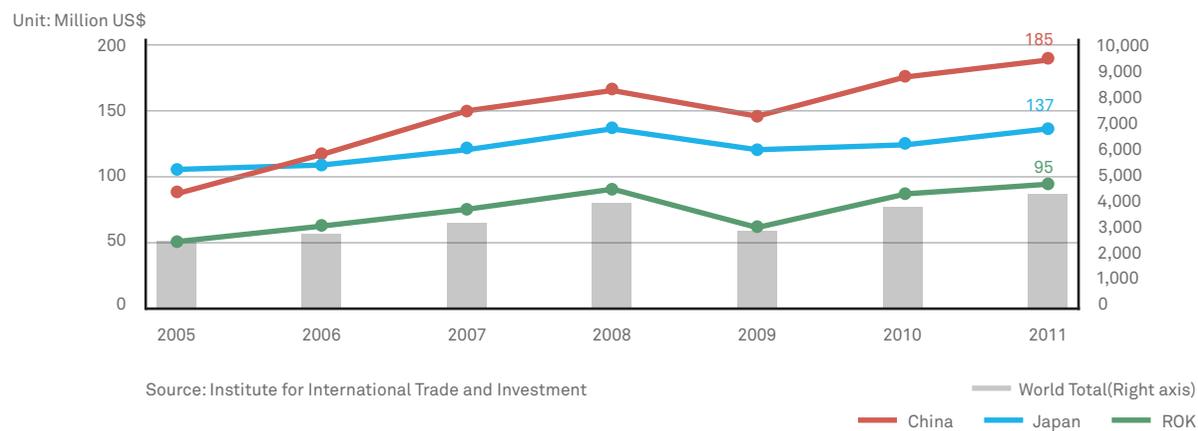
Trade in services

- Total value of trade in services of the three countries have increased in the past few years.
- In 2011, China, Japan and ROK ranked in **3rd, 6th and 11th** in the total value of service exports and **5th, 7th and 14th** in the total value of service imports respectively.

Trade in Services (Export)



Trade in Services (Import)

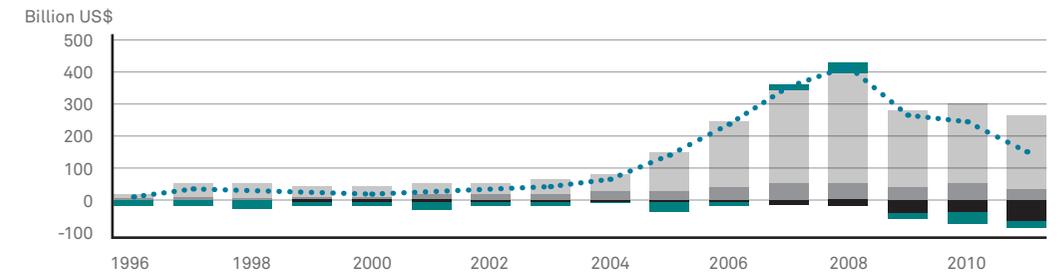


Three Countries' Trade Relations with the Rest of the World

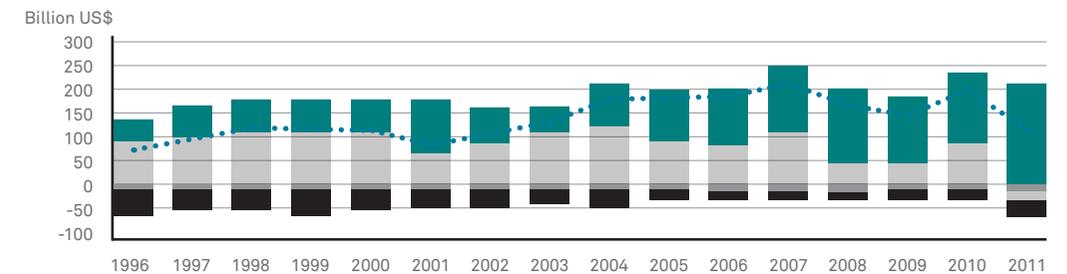
Balance of Payment

- China and ROK has overall surplus in balance of payments thanks to the huge surplus in trade in goods.
- China, Japan and ROK have had a negative record in service sector.
- Japan recorded a **trade deficit in goods** in 2011 for the first time in the long time due to the rapid demand for oil and gas after the Great East Japan Earthquake in 2011.
- Japan maintains balance of payments surplus thanks to the huge surplus in balance on income.

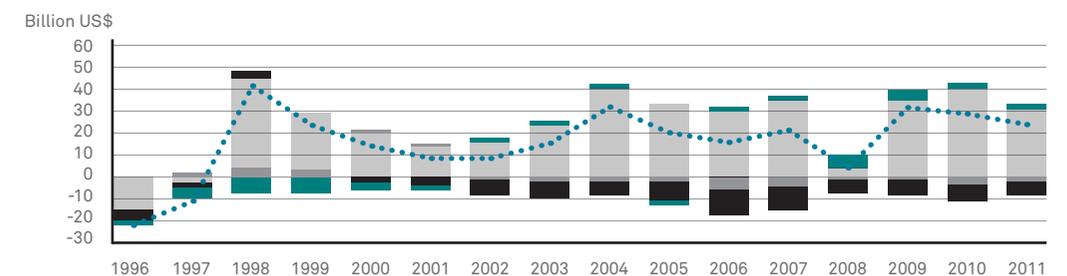
Balance of Payment: China



Balance of Payment: Japan



Balance of Payment: ROK



Legend: current transfers, balance on goods, balance on services, balance on income, current account

Trade relations among the three countries

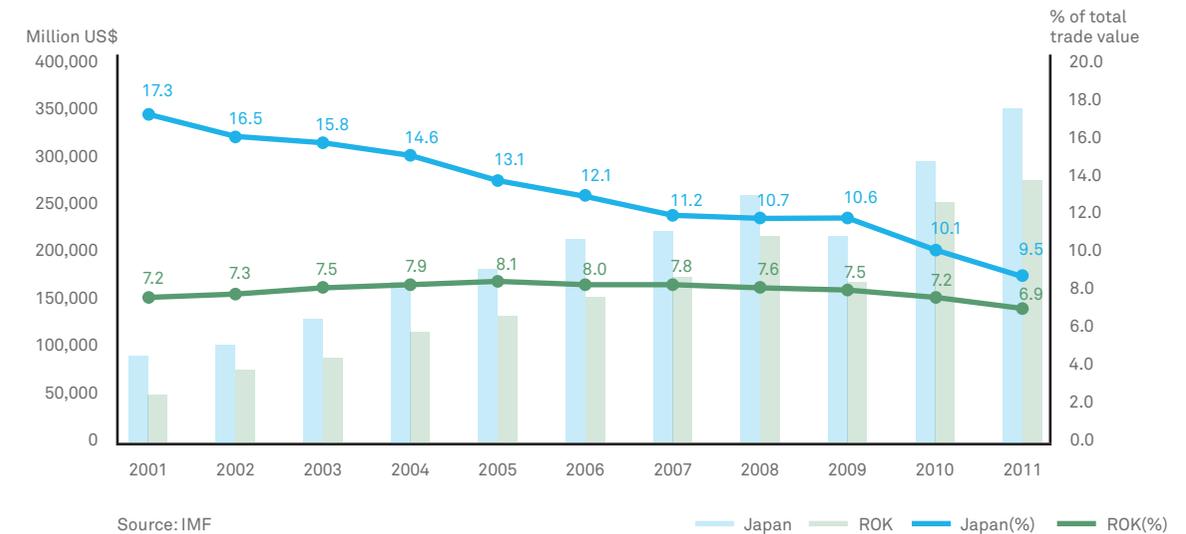
- The three countries are major trading nations in the world. They have forged close trade relations and become the leading trading partners to each other.
- The three countries have established production networks in the region. Japan and ROK exports more intermediate goods such as parts and components and capital goods to China, and record trade surplus. China exports final goods to the rest of the world with capitals from Japan and ROK.
- The three countries have huge trade surplus with the US and EU by exporting consumption goods, and are frequently requested to increase imports.
- Rapid growth of China's trade volume contributed overall increase in intra-regional trade volumes but the intra-regional trade ratio has decreased instead.
- The level of trade in services of the three countries in the world is relatively low compared to that of trade in goods. All the three countries also constantly recorded trade deficits in services.

Trade Relations among the Three Countries: China

China's trade with Japan and ROK

- Japan and ROK are the **2nd and 4th** largest trading partner for China in 2011.
- The trade volume with Japan and ROK have steadily increasing except for 2009.
- The share of Japan in China's total trade has been decreasing in the past 10 years from **17.3% in 2001 to 9.5% in 2011**.
- The share of ROK levels off since 2001.

China's Trade Relations with Japan and ROK

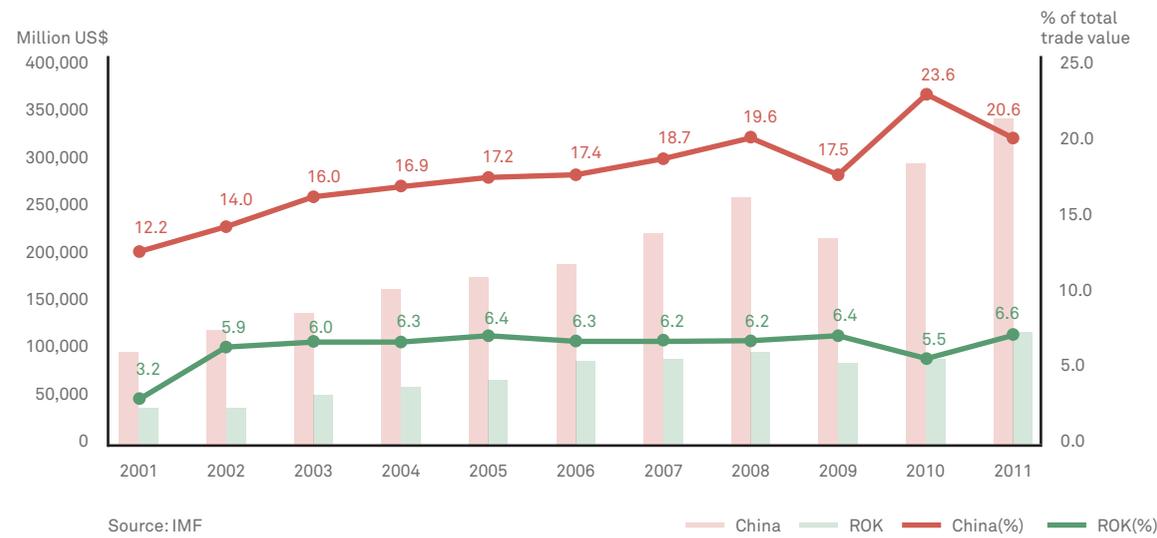


Trade Relations among the Three Countries: Japan

Japan's trade with China and ROK

- China and ROK are the **1st and 3rd** largest trading partners for Japan.
- The share of China in Japan's total trade has been increasing.
- The share of ROK in Japan's total trade has remained on the same level.

Japan's Trade Relations with China and ROK

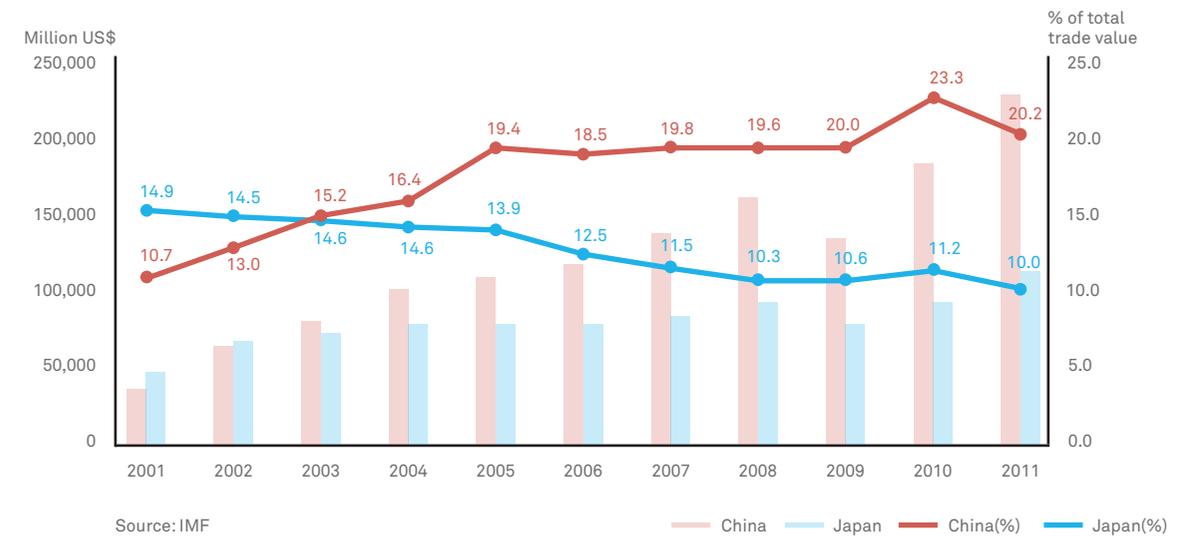


Trade Relations among the Three Countries: ROK

ROK's trade with China and Japan

- China and Japan are the **1st and 2nd** largest trading partners for ROK. Japanese share in ROK's total trade has been decreasing.
- Chinese share has been drastically increasing in ROK.

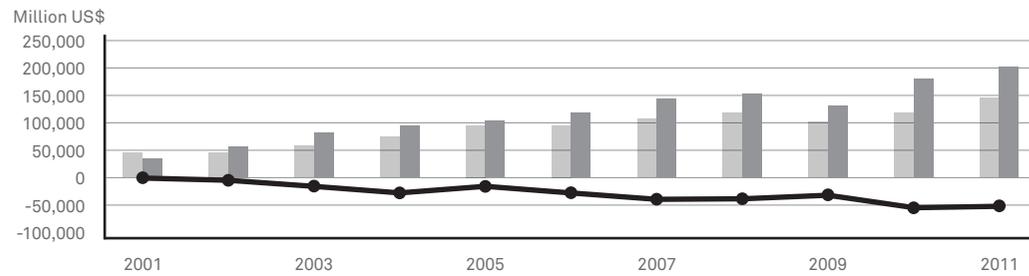
ROK's Trade Relations with China and Japan



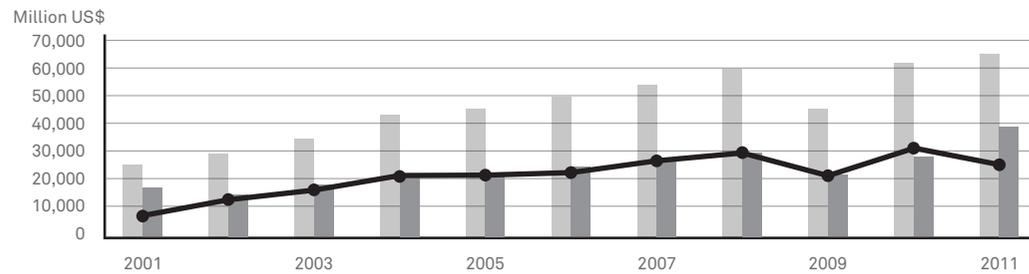
Trade Balance among the Three Countries

- China recorded **trade deficits** with Japan and ROK in 2011, amounting to 47,120 million US dollars and 47,779 million US dollars respectively.
- ROK also recorded **trade deficit** with Japan, amounting to 26,320 million US dollars.
- The three countries have expanded intra-industry trades within the region. China imports intermediate goods from Japan and ROK and exports final goods to the world.

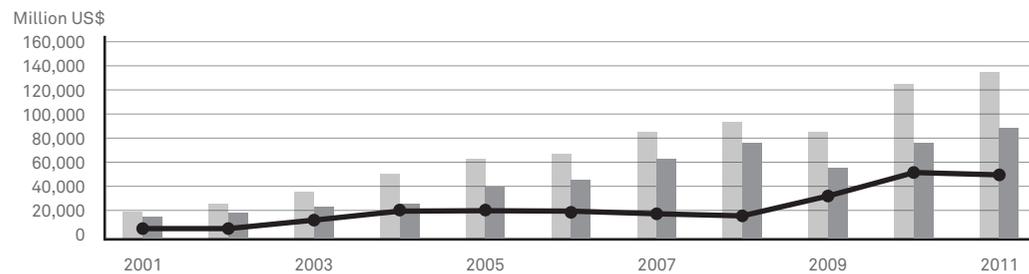
Trade Balance Between China and Japan (China based)



Trade Balance Between Japan and ROK (Japan based)



Trade Balance Between ROK and China (ROK based)



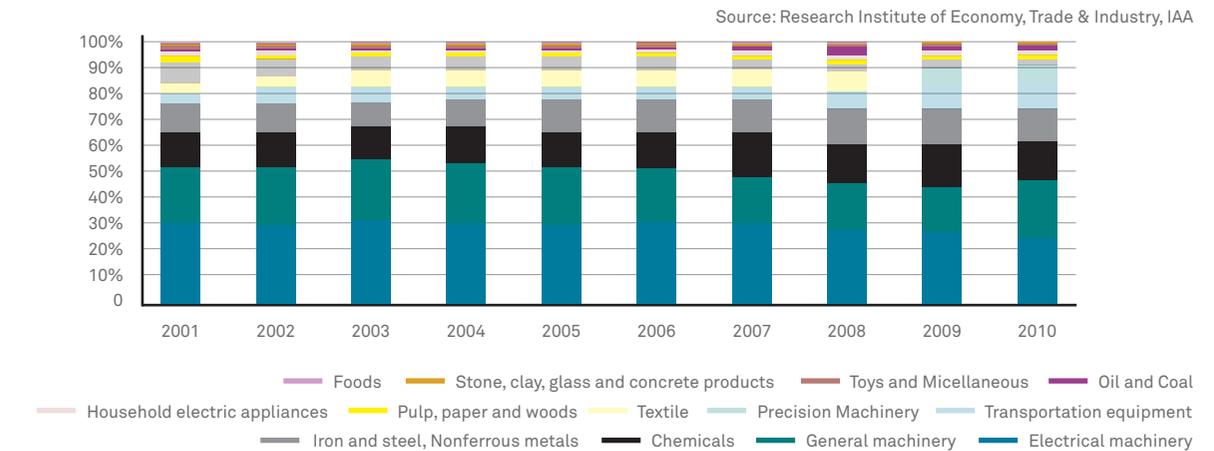
Source: IMF

Exports Imports Trade Balance between the two countries

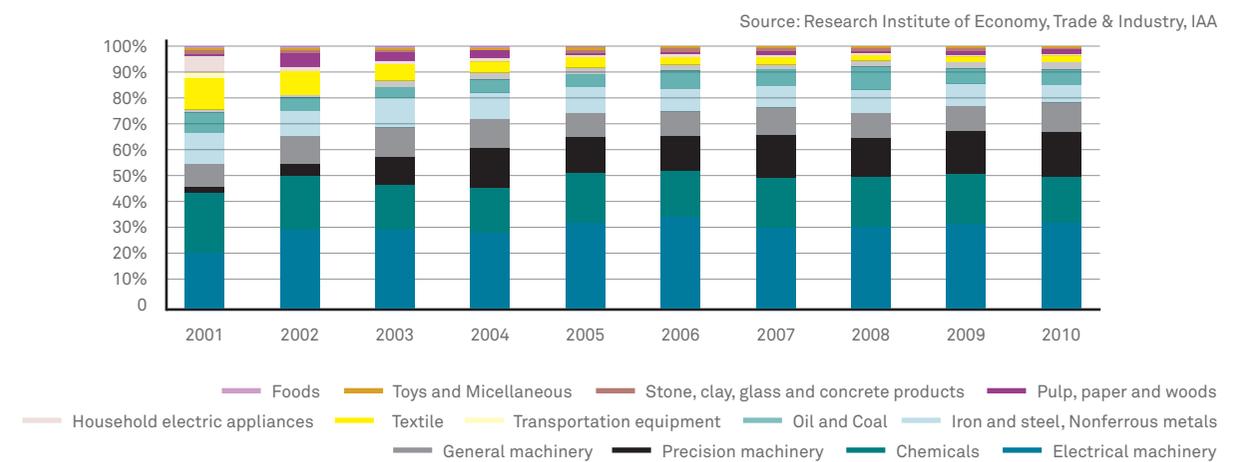
Trade Structure: Exports to China by the Other Two

- **Electrical machinery** such as semi-conductors is the largest exporting industry from Japan and ROK to China.
- **Chemicals** such as rubber and plastic materials are also major export products to China by Japan and ROK.
- The share of **precision machinery** in ROK exports to China has been increasing since 2001.

Percentage Distribution of Japan's Exports to China by Industry



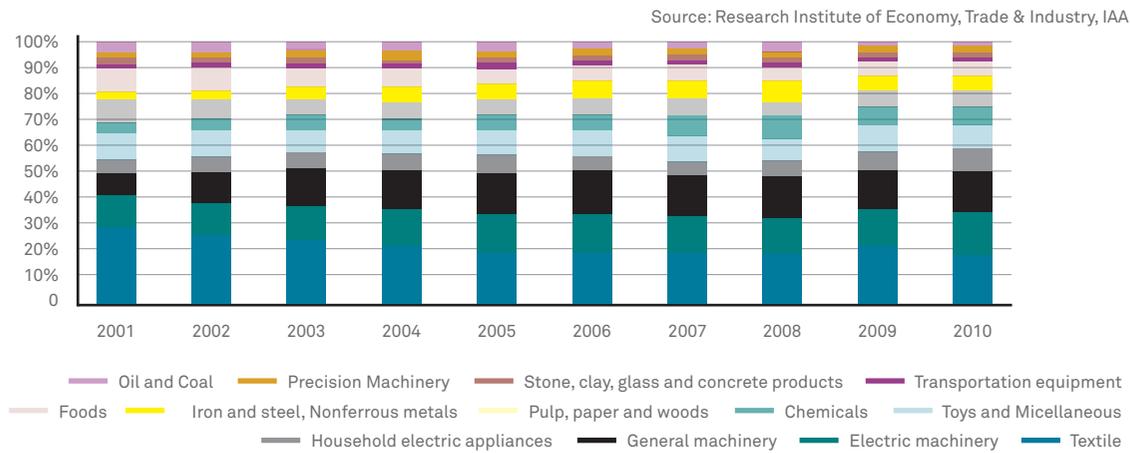
Percentage Distribution of ROK Exports to China by Industry



Trade Structure: Exports to Japan from the Other Two

- China exports **textile** most to Japan though its share in China's total export to Japan has been decreasing from 30% to 20%.
- **Electrical machinery** is the major export products to Japan by both China and ROK.

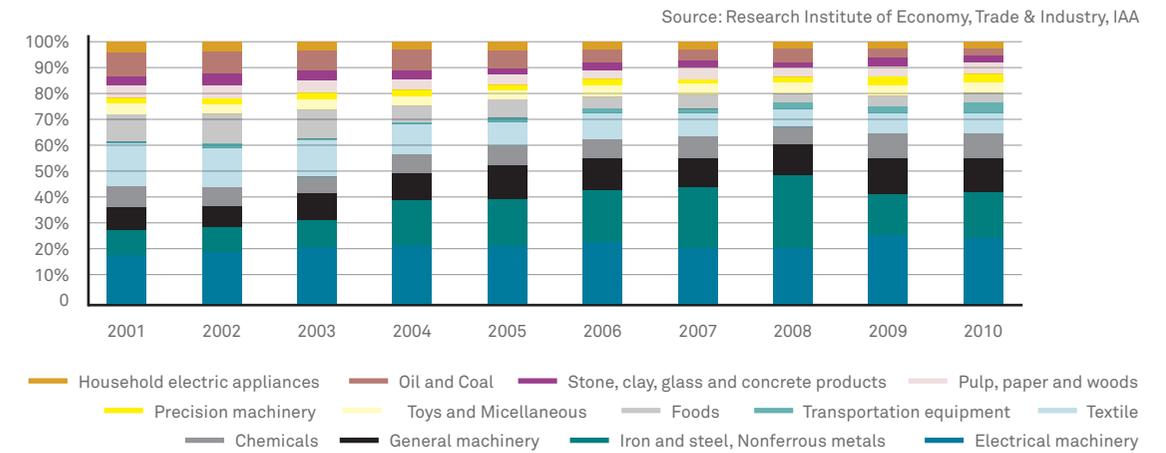
Percentage Distribution of China's Exports to Japan by Industry



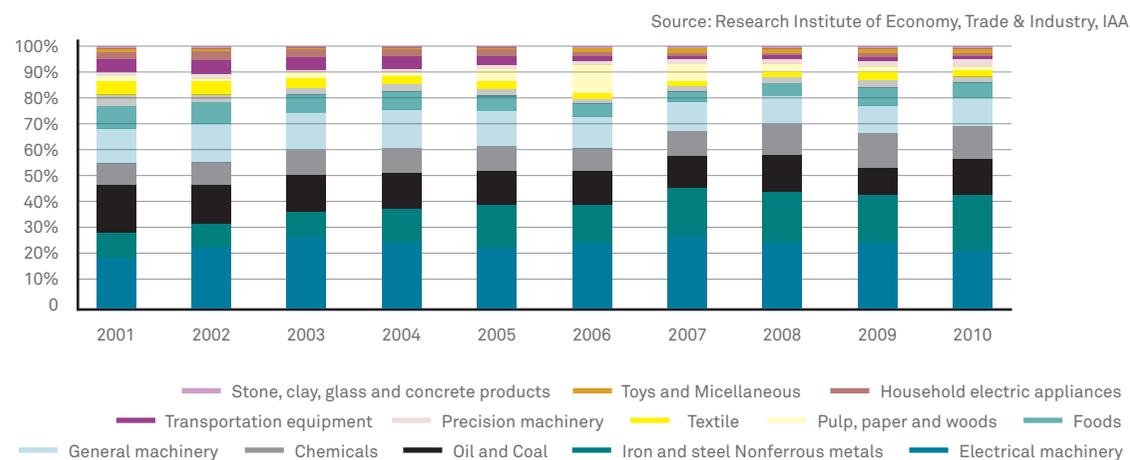
Trade Structure: Exports to ROK by the Other Two

- **Electrical machinery** such as semi-conductors is the largest exporting industry from China to ROK.
- **Chemicals** such as rubber and plastic materials are also major export products to ROK by Japan.
- **Iron and steel** are the second major export products to ROK by China and Japan.

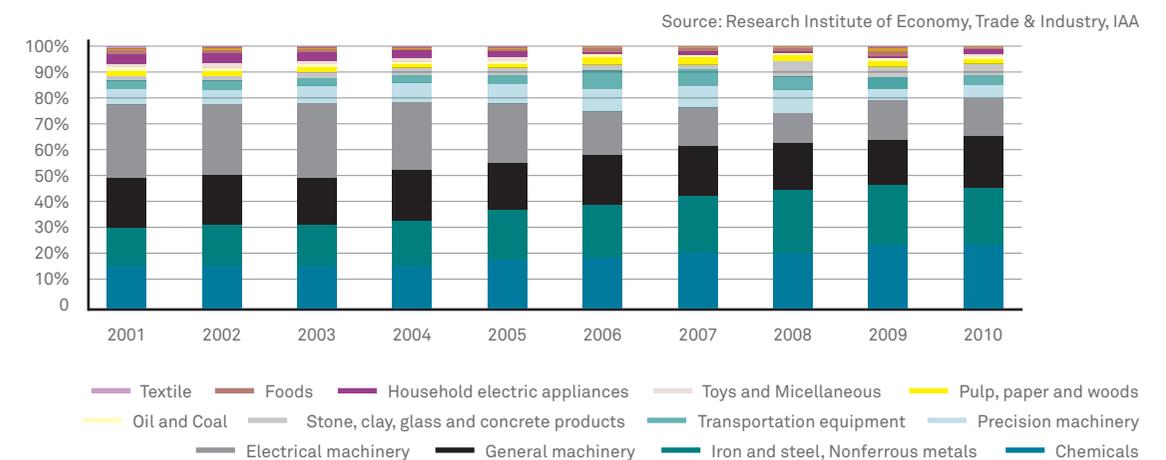
Percentage Distribution of China's Exports to ROK by Industry



Percentage Distribution of ROK Exports to Japan by Industry

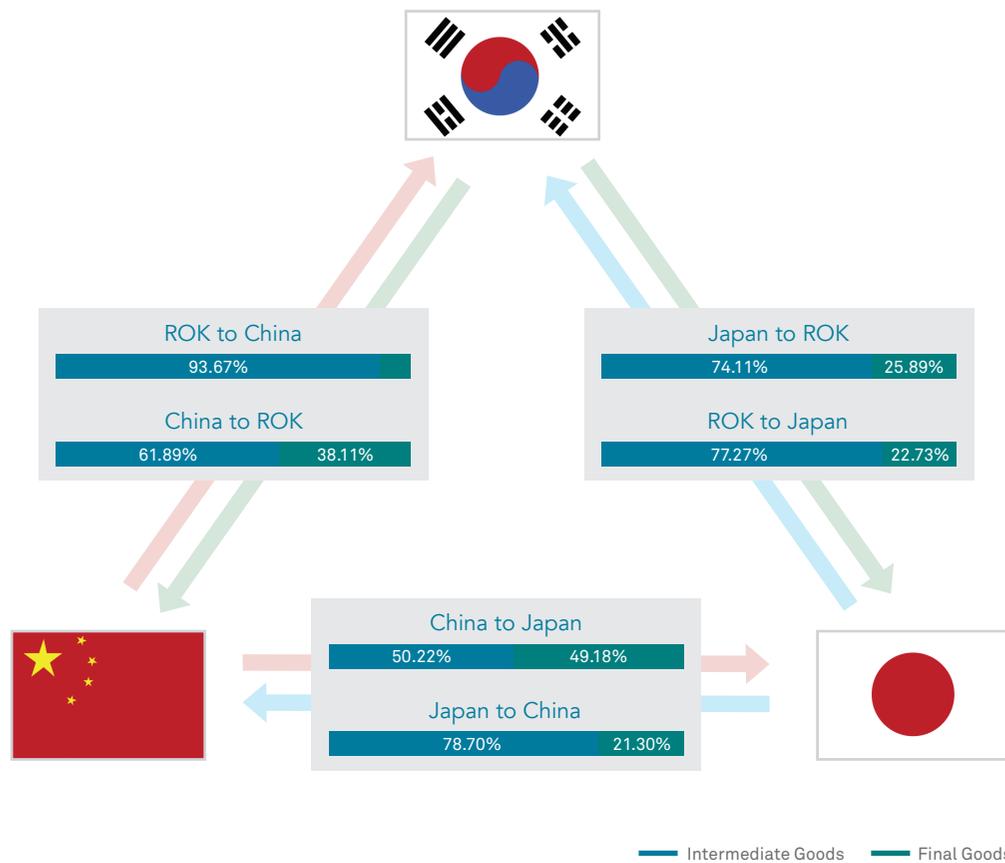


Percentage Distribution of Japan's Exports to ROK by Industry



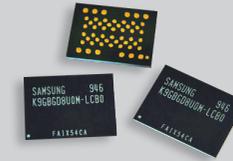
Trade of Electrical Machinery among the Three Countries

- As for **electrical machinery** such as semi-conductors, Japan and ROK have conducted **intra-industry trade**, exchanging intermediate goods between them.
- Between China and Japan as well as between China and ROK, China has conducted **processing-trade** importing intermediate goods from Japan and ROK and exporting final goods to the world.
- China has comparative advantages in relatively low-technology products and assembling and processing of industrial goods.



Making iPhone Together

(A Case Illustration of Regional Production Network)



iPhone 3G, a high-tech smartphone, was designed and marketed by Apple, an American IT giant. But in the manufacturing process, nine companies from China, Japan, ROK, Germany and the US were involved as producers and suppliers of iPhones' components.



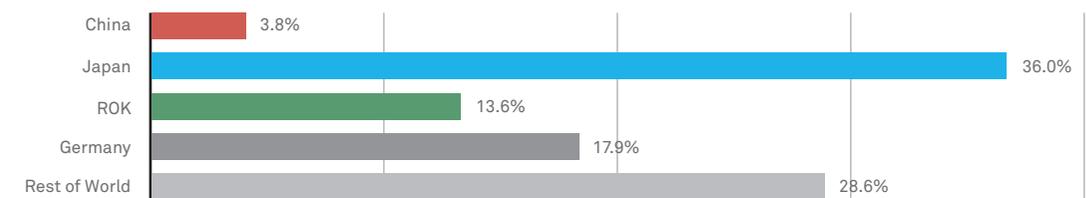
Toshiba of Japan supplied the components of flash memory, display module and touch screen, while **Samsung** of ROK supplied the components of application processor and SDRAM-mobile DDR among other companies.



All the components of iPhone 3G were shipped to **Foxconn**, a production company from Taipei and located in Shenzhen, China. **Foxconn** assembled them into final products and then exported to the US and the rest of the world.

Behind the export of ready-to-use iPhones from China, many valuable parts were exported by Japan and ROK. All the three countries were involved in the iPhone's production line and benefited from massive sales of iPhone 3G.

The Share of the Value Added in the Manufacturing Process of iPhone 3G (2009)

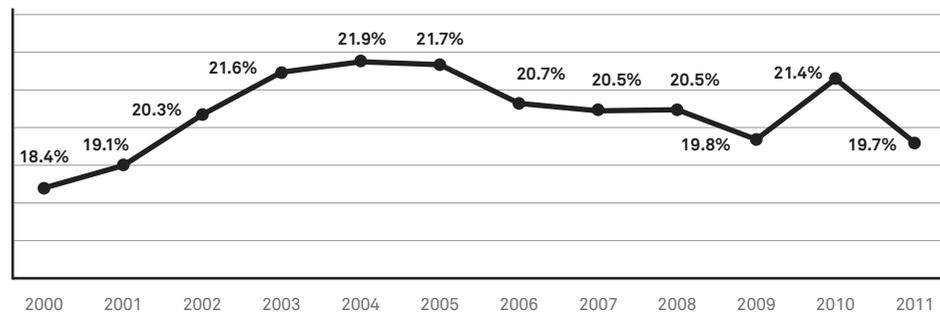


Source: Escaith and Inomata. 2011. The Trade Structure of East Asia and Global Value Chains . IDE-JETRO and WTO.
 Xing, Y. and Detert, N. 2010. "How the iPhone Widens the US Trade Deficit with the People's Republic of China," Asian Development Bank, ADBI Working Paper No. 257.

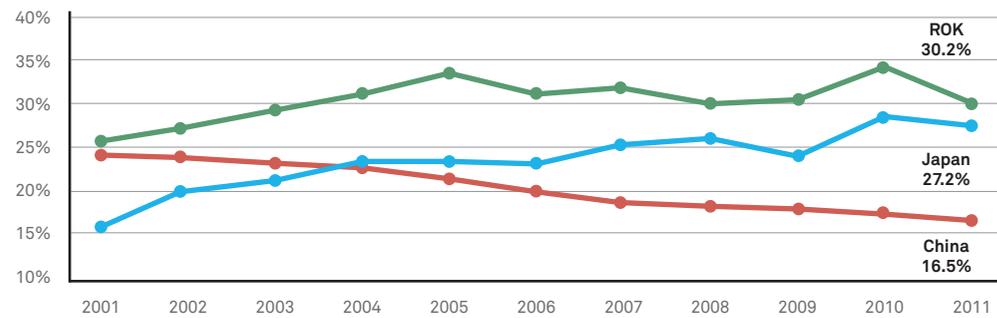
Intra-regional trade ratio

- Three countries' intra-trade share increased rapidly until 2004, and then decreased gradually due to the fact that the intra-regional trade ratio in China's total trade has been decreasing steadily.
- Intra-regional trade level (19.7%) was still much lower than those of the EU (64%) and NAFTA (40%).

Intra-regional trade share



Intra-regional Trade Ratio of Each of the Three Countries



Source: IMF

China Japan ROK

3. INVESTMENT

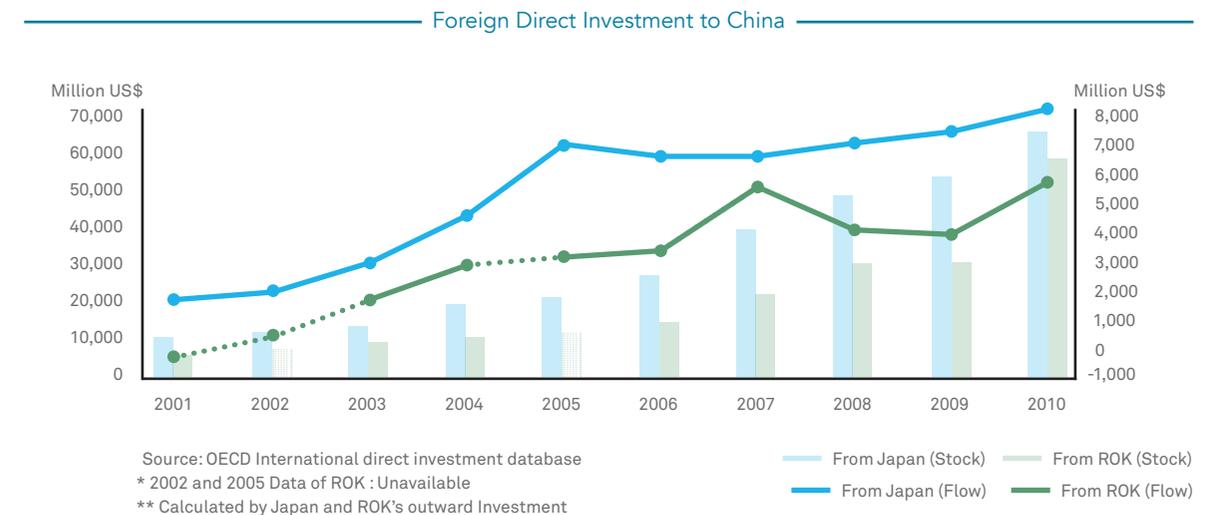
Investment of the Three Countries

- **China, Japan and ROK command a relatively small share in international investment.**
 - due to several structural impediments to flow of capital in the countries
- **Shares of the three countries in FDI stocks: significantly smaller than those of trade, except Japan's outward FDI stock.**
- **Greenfield investment is a dominant mode of FDI in East Asia.**
- **Cross-border M&A, another mode of FDI, is also on the rise, but smaller than green field investment.**
- **Investment from Japan and ROK to China contributed to the formation of regional production network.**

* Greenfield investment: A type of foreign investment in which a parent company will begin a new venture in another country.

Investment of China

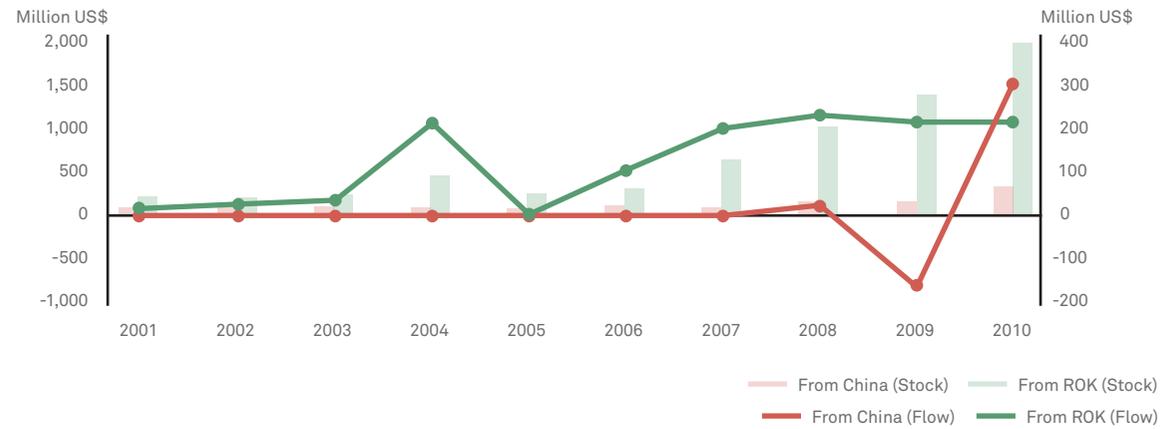
- **China's inward FDI stock is significantly larger than its outward FDI stock.**
- **The level of China's FDIs toward Japan and ROK remains at a low level.**
- **China will continue to absorb a large amount of FDI.**
 - however, the pace is slowing down due to rising wages and production costs



Investment of Japan

- **Japan is the major investor in the region.**
 - partly as a result of the significant appreciation of Yen
 - multinational corporations in Japan have strengthened their efforts in investing abroad
- **The level of FDIs into Japan has remained at a low level compared to its outward FDI.**

Foreign Direct Investment to Japan (Japan reported)



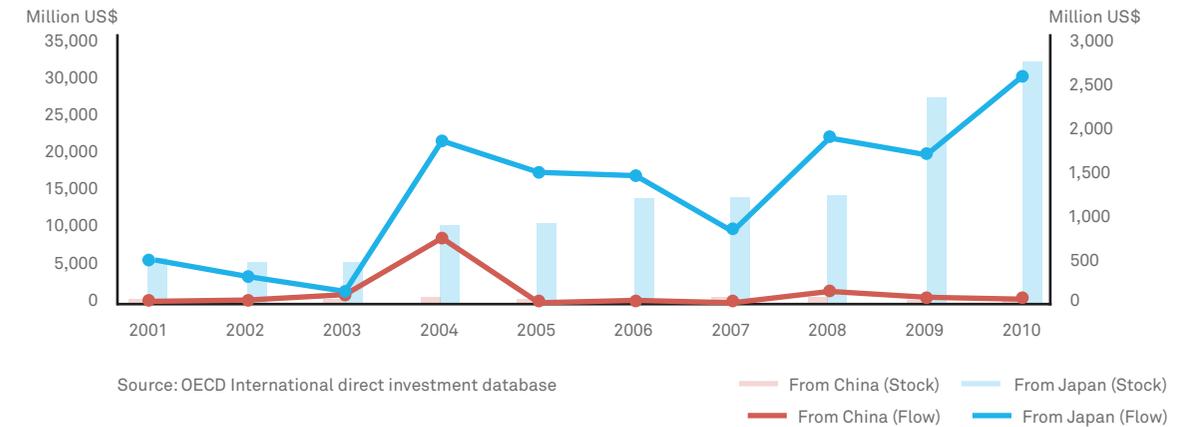
Japan's Foreign Direct Investment (Outward)



Investment of ROK

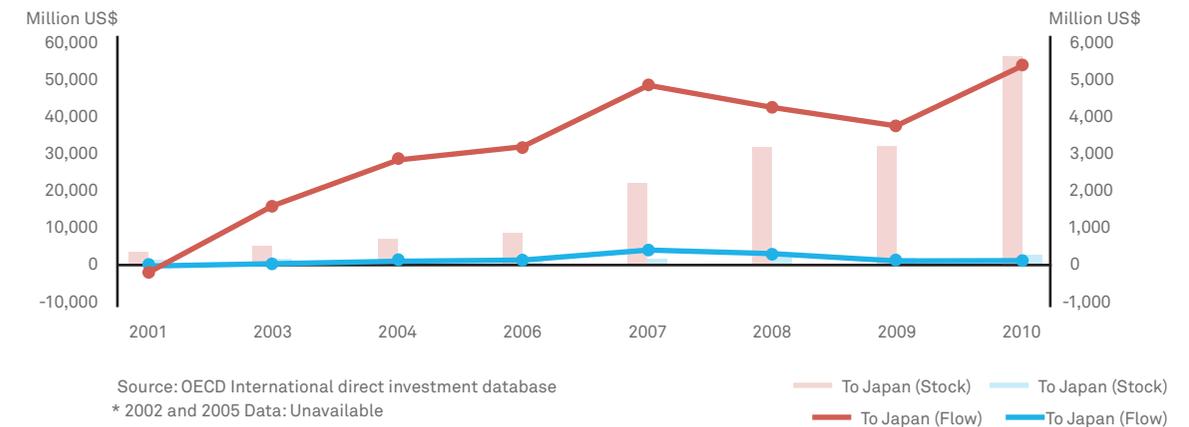
- **ROK's Outward FDI to China has been significantly increasing while that to Japan remained very low.**
- **ROK's inward FDI from Japan has been stable and accounts for a large share in total FDI in ROK.**
- **ROK's status changed from net importer of capital to net exporter due to growing outward FDI by ROK firms.**
 - ROK firms have expanded their international networks of production and sales in the beginning of 21st century

Foreign Direct Investment to ROK (ROK reported)



Source: OECD International direct investment database

ROK's Foreign Direct Investment (Outward)



Source: OECD International direct investment database
* 2002 and 2005 Data: Unavailable

Trilateral Investment Agreement

4. FTA

Background of the Trilateral Investment Agreement

- 2003.10 **Leaders of the three countries agreed to establish the Joint Study Group on the Possible Modality of Trilateral Investment Arrangements at the Trilateral Summit meeting in Bali, Indonesia.**
- 2004.09 **The Joint Study Group adopted a final report on the Possible Trilateral Investment Arrangements.**
- 2004.11 **The Trilateral Summit meeting in Vientiane, Laos, adopted the Action Strategy on Trilateral Cooperation, which stipulated governmental consultations on the Trilateral Investment Agreement.**
- 2005.05 ~
2006.12 **6 rounds of governmental consultations on Trilateral Investment Agreement**
- 2006.12 **The Trilateral Summit meeting in Cebu, the Philippines, agreed on the launch of Trilateral Investment Agreement negotiations.**
2007.01
- 2007.03 ~ **After 13 rounds of the negotiations, the three countries reached a successful conclusion**
2012.03 **of negotiations.**
- 2012.5.12 **Economic and Trade Ministers of the three countries signed the Trilateral Investment Agreement.**

Important clauses of the Trilateral Investment Agreement

- States cannot conduct discriminatory measures against investors (**National Treatment**).
- States are obliged to provide fair and equitable treatment and full protection and security to investments.
- **Protection of intellectual property** rights will be strengthened in accordance with laws and regulations.
- **Unreasonable requirements of technology transfer** will be prohibited.
- Investors who suffer a loss or damage by states can file a claim against the states in accordance with international dispute settlement procedures (**Investor-State Dispute Settlement**).
- States are obliged to promptly publish their laws, regulations, etc which affect investments (**Transparency**).

FTA Strategy of the Three Countries

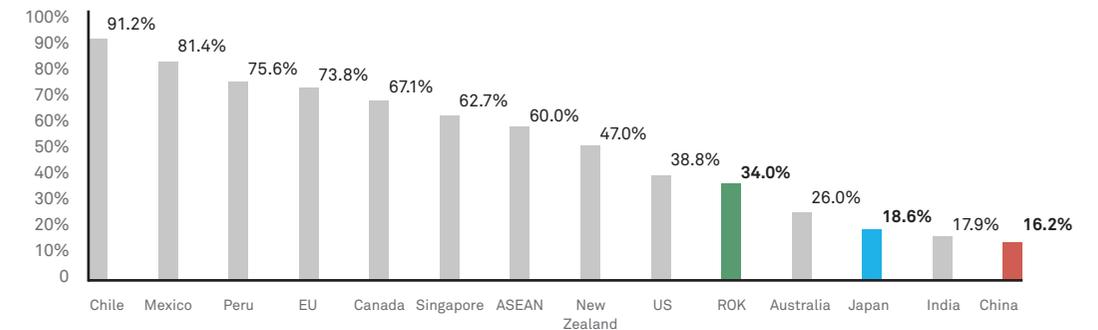
- **China**
 - Mostly with neighboring and developing countries and regions
 - Targeting the countries which have complementarities in trade and economic structure
 - Gradual and progressive approach (trade in goods, trade in services, and investment) with high level liberalization
- **Japan**
 - Mostly with developing countries in the Asia-Pacific region
 - Concluded 13 EPAs but its FTA trade coverage ratio, which indicates how much of a country's overall trade consists of trade with FTA partners, is low at 18.6%
- **ROK**
 - Concluded or simultaneously negotiating with major trading partners located all over the world
 - Its FTA trade coverage ratio is 34.0%, higher than the other two countries.
 - High level liberalizations in services, investment and other non-tariff issues

Current Status of FTAs

Concluded FTAs by the Three Countries

China (10)		Japan (13)		ROK (10)	
Partner	Type of Agreement	Partner	Type of Agreement	Partner	Type of Agreement
ASEAN	FTA	ASEAN	EPA	ASEAN	FTA
New Zealand	FTA	Singapore	EPA	EFTA	FTA
Taiwan	ECFA	Chile	EPA	EU	FTA
Macao	CEPA	India	EPA	USA	FTA
Singapore	FTA	Philippines	EPA	Singapore	FTA
Chile	FTA	Indonesia	EPA	India	FTA
Pakistan	FTA	Thailand	EPA	Chile	FTA
Peru	FTA	Mexico	EPA	Peru	FTA
Hong Kong	CEPA	Malaysia	EPA	Turkey	FTA
Costa Rica	FTA	Brunei Darussalam	EPA	Columbia	FTA
		Viet Nam	EPA		FTA
		Switzerland	EPA		FTA
		Peru	EPA		FTA

FTA Trade Coverage Ratio (As of Aug 2012)



Source: JETRO

Current Status of FTAs

- At the moment, the three countries all engage with regional trade frameworks
- The three countries announced that they would launch official negotiations on the trilateral FTA from early 2013.

FTAs under Negotiation

China (7) *			Japan (5)			ROK (9)		
Partner	Negotiation Launch	Type of Agreement	Partner	Negotiation Launch	Type of Agreement	Partner	Negotiation Launch	Type of Agreement
GCC	Jul. 2004	FTA	ROK**	Oct. 2003	EPA/FTA	Japan**	Dec. 2003	FTA/EPA
SACU	Jun. 2004	FTA	GCC	Sep. 2006	EPA	Canada	Jul. 2005	FTA
Australia	Oct. 2006	FTA	Australia	Apr. 2007	EPA	Mexico	Sep. 2005	FTA
Iceland	Apr. 2007	FTA	Mongolia	Mar. 2012	EPA	GCC	Nov. 2007	FTA
Norway	Apr. 2007	FTA	Canada	Mar. 2012	EPA	Australia	May. 2009	FTA
Switzerland	Sep. 2008	FTA				New Zealand	Jul. 2009	FTA
ROK	Apr. 2011	FTA				China	Apr. 2011	FTA
						Indonesia	Nov. 2011	FTA
						Vietnam	Nov. 2011	FTA

* Indicate the date of the first negotiation.

** Suspended since 2004

FTAs under Discussion

China (3)		Japan (6)		ROK (7)	
Partner	Type of Agreement	Partner	Type of Agreement	Partner	Type of Agreement
India	FTA	China-Japan-ROK	FTA	China-Japan-ROK	FTA
China-Japan-ROK	FTA	Columbia	EPA	MERCOSUR	FTA
RCEP	-	EU	EPA	Israel	FTA
		Turkey	EPA	Mongolia	FTA
		TPP	-	Central America	FTA
		RCEP	-	Malaysia	FTA
				RCEP	-

Trilateral FTA

Background of Trilateral FTA

2003 ~ 2009	Trilateral Academic Joint Research on Trilateral FTA
2009.10	Leaders of the three countries agreed on the launch of Joint Study Committee for Trilateral FTA at Trilateral Summit in Beijing.
2010.5 ~ 2011.12	7 rounds of Joint Study for Trilateral FTA
2012.5	Leaders of the three countries agreed on the launch of negotiations on Trilateral FTA at 5th Trilateral Summit in Beijing.
2012.11	The three countries announced to launch negotiations on Trilateral FTA in early 2013.
2013.3	First round of the Trilateral FTA negotiations was held in Seoul, ROK.

Outcome of the Joint Research

- A trilateral FTA will eliminate trade barrier, expand intra-regional market, and facilitate further economic integrations among the three countries.
- A trilateral FTA will increase the trade volumes and enhance the competitiveness of the manufacturing industries of the three countries by lowering the tariff level, improving market access and expanding production networks and supply chains.
- A trilateral FTA is expected to raise competitiveness of the service industries of the three countries. By reducing restrictions and enhancing transparency, movement of goods, capital, persons and technology.
- A trilateral FTA will increase trilateral investment flows by ensuring a higher level of investment liberalization and protection of investors.

Need for Economic Intergration

- The three countries aim to establish better institutional frameworks on economic matters through multilateral FTAs such as Trilateral FTA and RCEP.
- Trilateral FTA is believed to benefit all the three countries by clearing trade barriers, further facilitating trade and investment among the three countries, and ultimately generating a larger regional market.
- Trilateral FTA, a possible first comprehensive institutional framework of trilateral economic integration, would become a platform where a wide range of trilateral cooperation would evolve.
- Through Trilateral FTA, the three countries can take more responsibility on the institutionalization of regional economic integration and provide international public goods such as sound trade regimes and elimination of trade barriers.

5. FINANCE

The Three Countries' Joint Efforts in Regional Financial Cooperation

1. Chiang Mai Initiative (CMI)

- ASEAN+3 countries agreed to establish CMI framework in May, 2000, to prevent the reoccurrence of Asian Financial Crisis in 1997.
- CMI aims to manage short-term liquidity in East Asia and to supplement the existing international financial arrangements by establishing a network of **bilateral swap arrangements** among ASEAN+3 countries.
- The framework incubated 16 bilateral swap arrangements within the region, which amounted to 90 billion USD as of 2009.

The Three Countries' Joint Efforts in Regional Financial Cooperation

2. Chiang Mai Initiative Multilateralization (CMIM)

- ASEAN+3 countries started to discuss a way of making the framework more effective and disciplined since 2004.
- ASEAN+3 countries completed the signing on CMIM by December 2009.
 - Collective decision-making procedure for the swap arrangements
 - Significant increase of the size of swaps by upgrading one-way swap arrangements to two-way arrangements
 - Improvement of the drawdown mechanism
 - Strengthening surveillance mechanism
- CMIM came into effect on March 2010 with 120 billion USD reserves.
- **Contributions to the financing of the CMIM framework by China, Japan and ROK are 32%, 32% and 16%, respectively.**
- The total size was increased to 240 billion USD in May 2012.

The Three Countries' Joint Efforts in Regional Financial Cooperation

3. Asian Bond Markets Initiative (ABMI)

- **Aims to promote intra-investments to lay the efficient and stable foundation for the economic growth**
- **Undeveloped Asian bond market prior to 2003:**
 - Reserves and capital in Asia have been largely invested in the US and EU
- **2010 ASEAN Bond Market Forum (ABMF) launched as a part of ABMI**
 - Aim to foster standardization of market practices and regulations and to develop the efficient local currency bond markets
 - The currency and maturity mismatches in most Asian countries
- **ABMI reduces the incurring costs**
 - Aim to create regional bond markets where bonds are denominated in regional currencies
- **Significance of East Asia's local currency (LCY) bonds markets an important financial intermediary channel and the banking system**

Bilateral Currency Swaps between the Three Countries

Significance of bilateral currency swaps

Contrary to the bilateral swaps arrangements under the CMI, bilateral swap arrangements between the three countries are designed for non-crisis situations. These swaps would stabilize financial and foreign exchange markets in the region where cross-border flow of goods and capitals are frequent and extensive.

China-Japan

As a part of the CMI arrangements, the People's Bank of China and the Bank of Japan established a **bilateral yuan/yen swap arrangement with the maximum amount of 3 billion USD equivalent in March 2002.**

Bilateral Currency Swaps between the Three Countries

Japan-ROK

In addition to the bilateral USD swap arrangement amounting to 10 billion USD under the CMI, the Bank of Japan and the Bank of Korea established a **bilateral yen/won swap arrangement up to 3 billion USD equivalent in May 2005**.

The two sides increased the size of the arrangement to **20 billion USD equivalent in December 2008** due to the financial crisis. It was increased to **30 billion USD equivalent in October 2011** as a temporary measure.

The measure was expired in October 2012.

ROK-China

In addition to the bilateral USD swap arrangement amounting to 4 billion USD under the CMI, the Bank of Korea and the People's Bank of China established a **bilateral won/yuan swap arrangement** with the maximum amount of **180 billion RMB/38 trillion KRW in April 2009**. The two sides increased the size of arrangement to **360 billion RMB/ 64 trillion KRW in October 2011**.

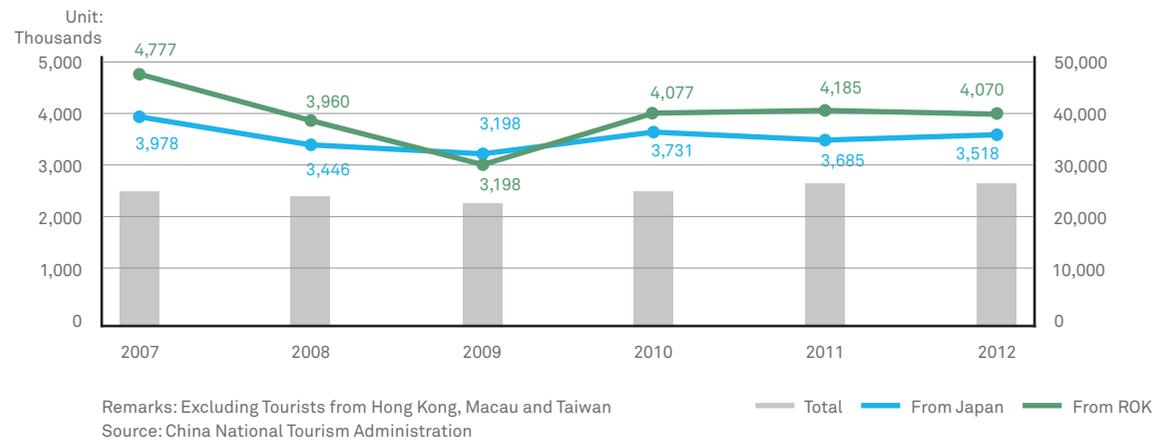
The two sides decided **in December 2012** to utilize the swap arrangement to support **trade settlement in local currency** of each country so that firms can avoid the risk of foreign exchange.

6. PEOPLE-TO-PEOPLE EXCHANGE

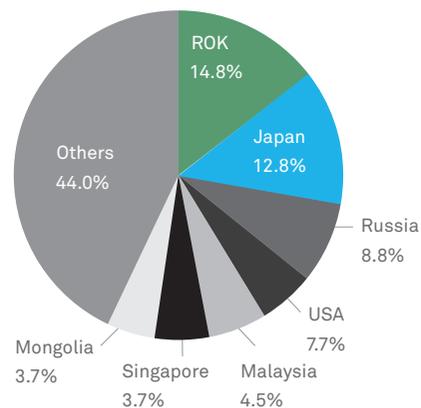
Inbound Tourism of China

- The number of ROK and Japanese tourists coming to China has not fully recovered from the drop in 2009.
- ROK has the largest share in the Chinese inbound tourism market at 10.7% while Japan is the 4th at 7.3% in 2011.
- The share of business-related visitors in total tourists is relatively high for both ROK and Japan.
- The share of sightseers in total Japanese tourists to China has been decreasing for the past 3 years.
- There is a potential to expand the share of leisure tourists of Japan and ROK to China.

Number of ROK and Japanese Tourists to China



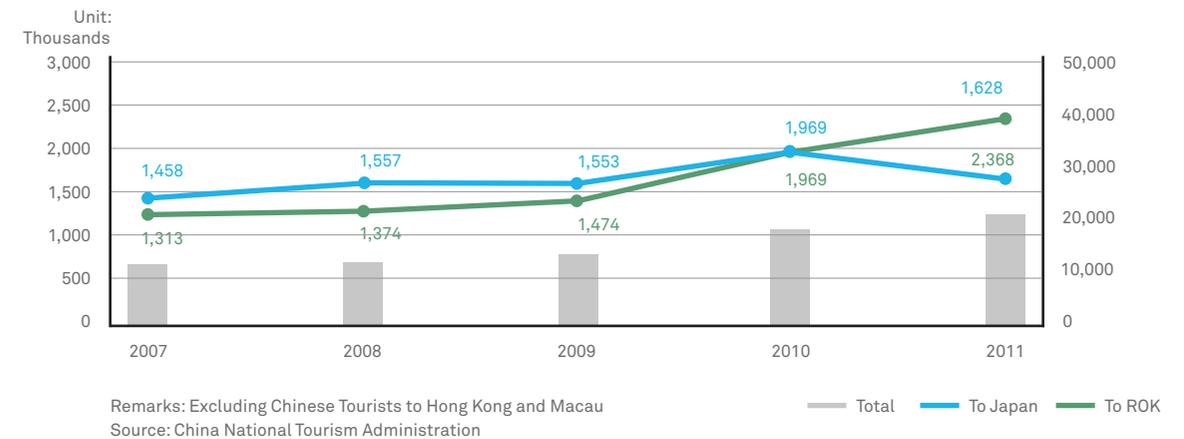
Percentage Distribution Foreign Tourists to China by Region (2011)



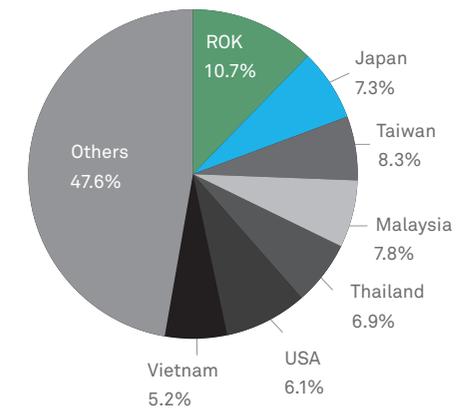
Outbound Tourism of China

- The number of Chinese tourists to ROK is increasing rapidly while that to Japan decreased abruptly in 2011, which can be attributed to the influence of the Great East Japan Earthquake.
- The share of ROK and Japan as destination of Chinese tourists is relatively high, but, decreasing steadily due to the rapid growth in China's overall outbound tourism market as well as travel liberalization.

Number of Chinese Tourists to ROK and Japan



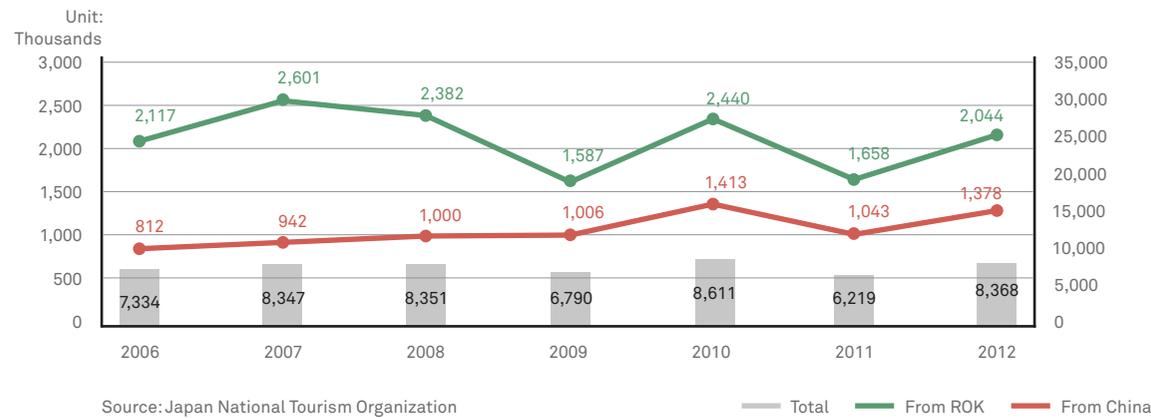
Percentage Distribution of Chinese Tourists by Destination (2011)



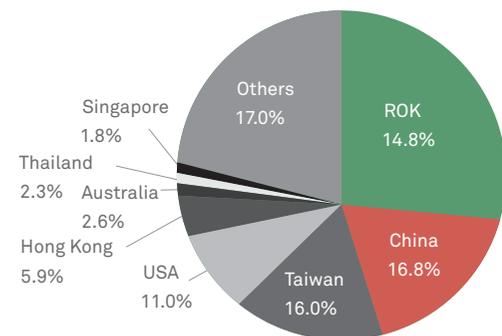
Inbound Tourism of Japan

- The number of ROK tourists decreased in 2009 and 2011 drastically, possibly due to the financial crisis in 2009 and the Great East Japan Earthquake in 2011.
- The number of Chinese tourists to Japan has been increasing steadily.
- ROK and China is the 1st and 2nd largest supplier of tourists in Japanese inbound tourism market.
- The number of business-related visitors from both China and ROK remains on the same level. The rise and fall in the trend of ROK and Chinese visitors are mainly due to the fluctuations in sightseers.

Number of Chinese and ROK Tourists to Japan



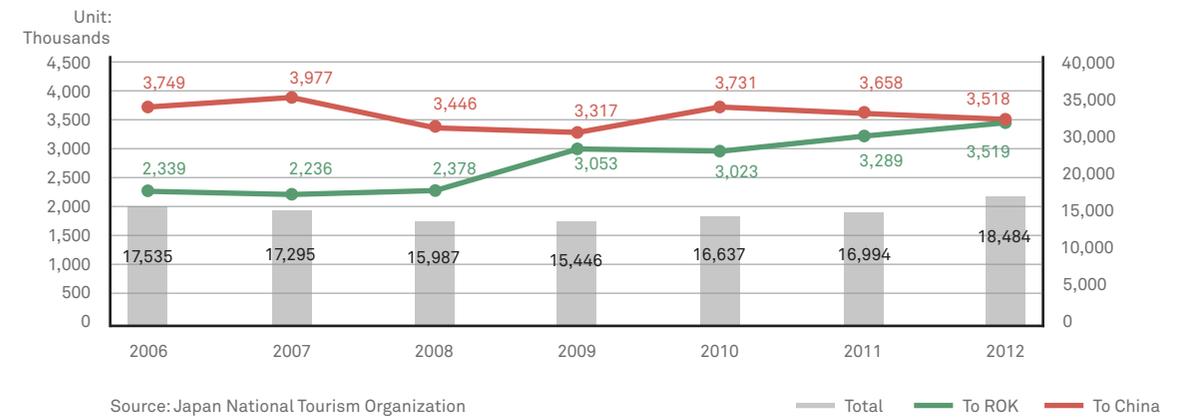
Percentage Distribution of foreign tourists to Japan by Region (2011)



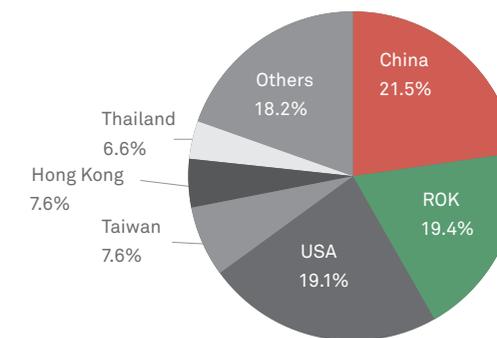
Outbound Tourism of Japan

- Japanese tourists to ROK have been increasing and the share of ROK in Japanese outbound tourism market has been increasing from 12.9% in 2007 to 19.4% in 2011.
- The number of Japanese tourists to China remains on the same level.
- China and ROK are the 1st and 2nd most popular destination for Japanese tourists.

Number of Japanese Tourists to China and ROK



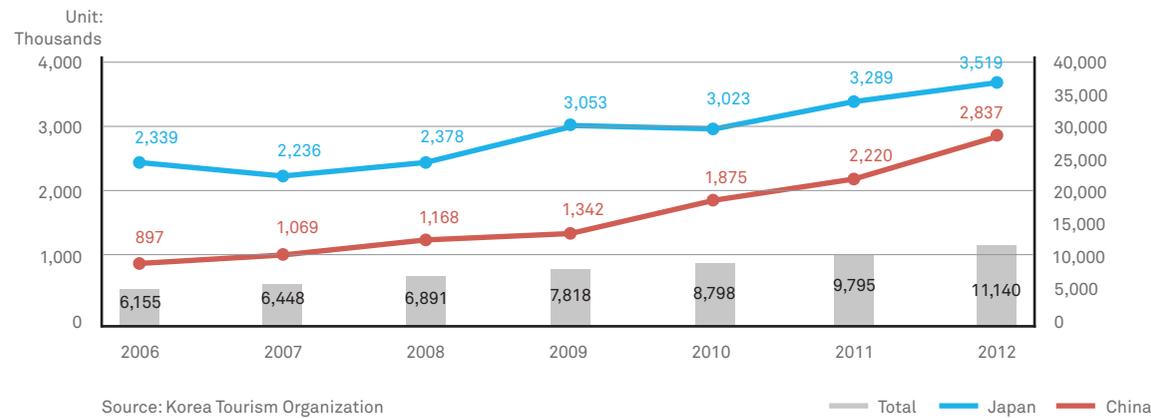
Percentage Distribution of Japanese Tourists by Destination (2011)



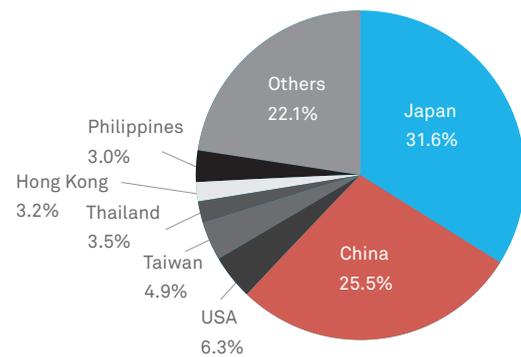
Inbound Tourism of ROK

- The increase in Japanese and Chinese tourists to ROK is the main source for the overall growth of ROK inbound tourism market.
- Japan and China are the 1st and 2nd largest supplier of foreign tourists to ROK.
- Most of Japanese visit ROK for sightseeing.
- The share of sightseers in total Chinese tourists has increasing, which is the major source of increase in the total foreign tourists in ROK.

Number of Japanese and Chinese Tourists to ROK



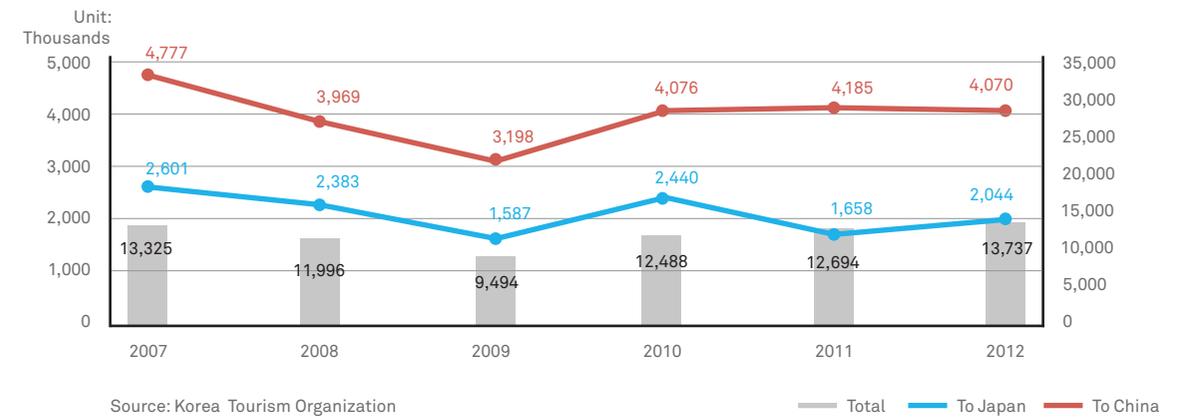
Percentage Distribution of foreign tourists to ROK by Region (2011)



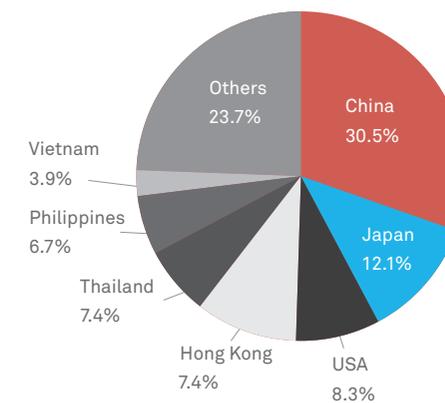
Outbound Tourism of ROK

- The number of ROK tourists to Japan and is fluctuating mainly due to the financial crisis and the Great East Japan Earthquake.
- The decrease in the combined share of China and Japan is caused by the decrease in ROK tourists to Japan.

Number of ROK Tourists to Japan and China



Percentage Distribution of ROK Tourists by Destination (2011)

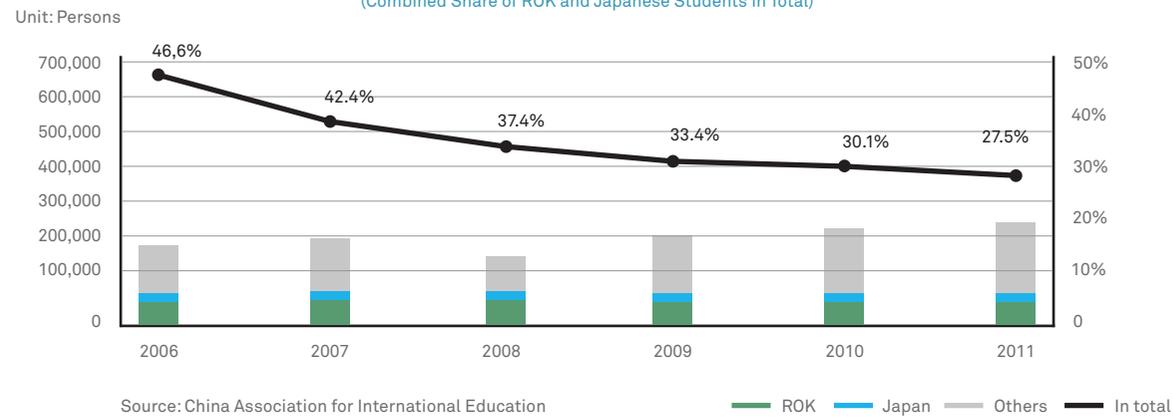


Foreign Students: China

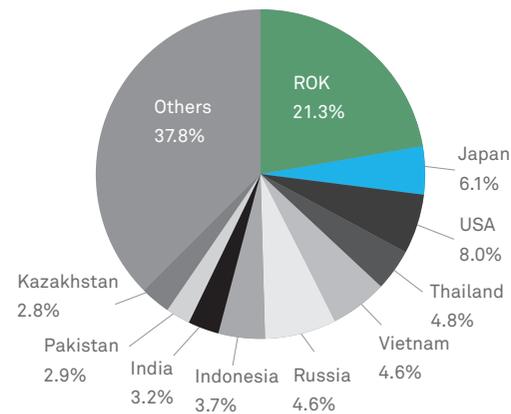
- The number of ROK and Japanese students studying in China has leveled off while the total number of foreign students has been increasing rapidly.
- The combined share of ROK and Japanese students in China has been decreasing significantly in the past 6 years.

Foreign Students in China

(Combined Share of ROK and Japanese Students in Total)



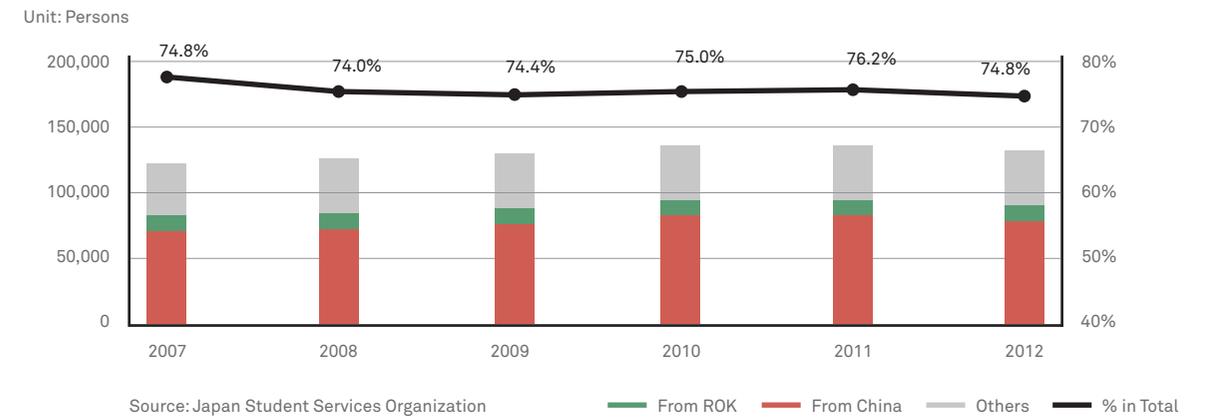
Percentage Distribution of Foreign Students in China by Region (2011)



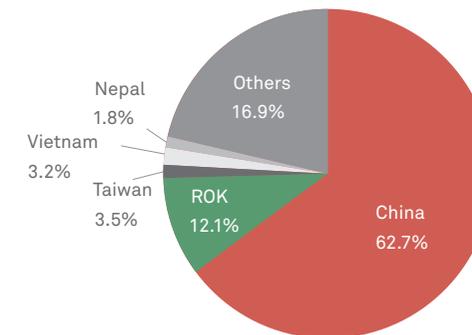
Foreign Students: Japan

- The number of Chinese students studying in Japan has been increasing while that of ROK students has been decreasing.
- The combined share of Chinese and ROK students in total has been stable at around 75%.
- Chinese students make up the majority of foreign students in Japan.
- ROK students studying in Japan have been decreasing possibly due to the Earthquake.

Number of ROK Tourists to Japan and China



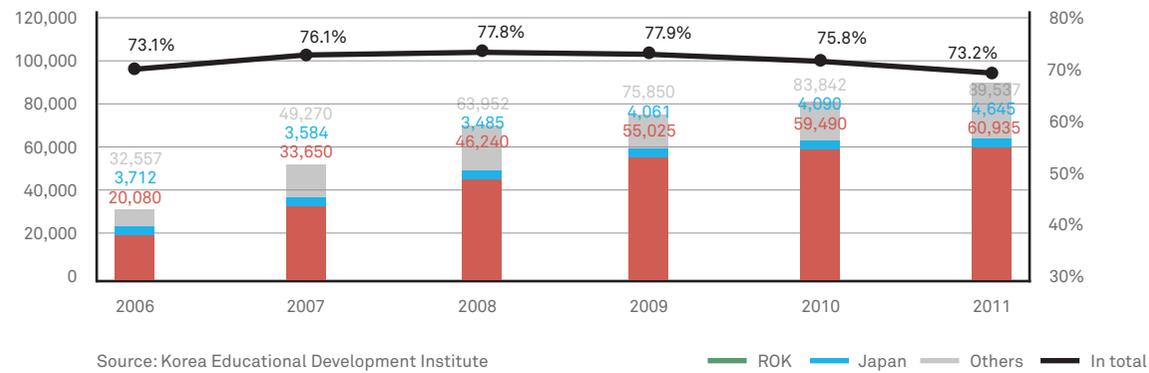
Percentage Distribution of Foreign Students in Japan by Country (2012)



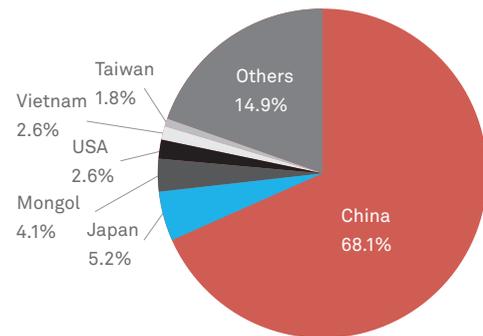
Foreign Students: ROK

- The number of Japanese and Chinese students has been increasing but at a faster pace for Chinese.
- The overall number of foreign students in ROK has also increasing quickly.
- The combined share of Japanese and Chinese students in total has remained on the same level at around 75%.

Foreign Students in ROK
(Combined Share of Japanese and Chinese Students in Total)



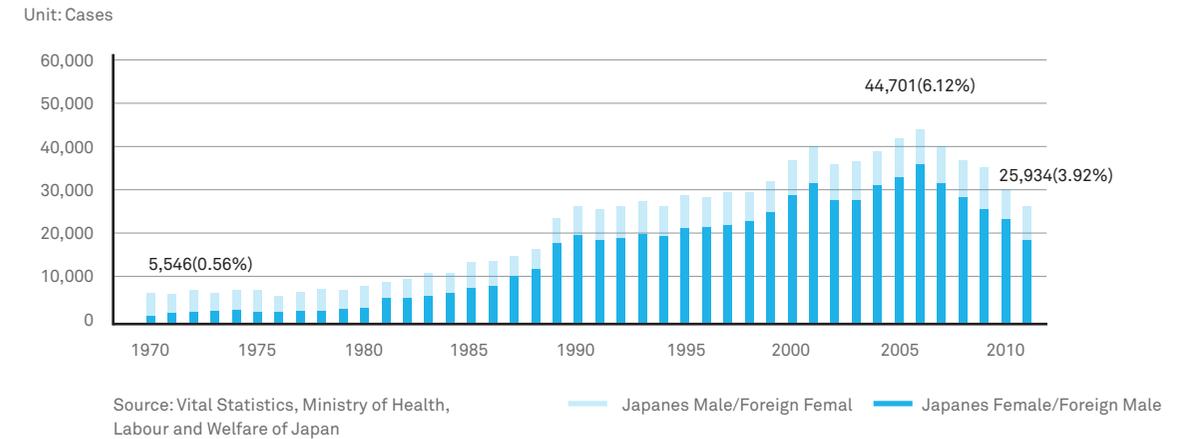
Percentage Distribution of Foreign Students in ROK by Country (2011)



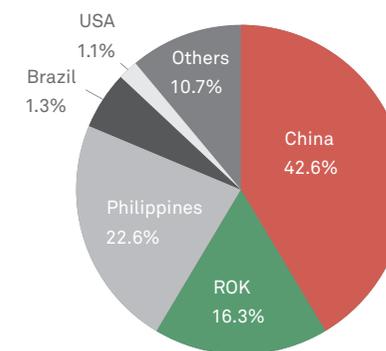
International Marriage: Japan

- The cases of international marriage as well as the share in the total cases of marriage in Japan peaked in 2006, marking 6.12%, and have been decreasing since then. The share of international marriage in total accounts for 3.92% as of 2011.
- Chinese brides account for 42.6% of the total international marriage by Japanese male in 2011. Korean brides had the 3rd largest share. Korean grooms account for 26.6% of the total international marriage by Japanese female in 2011 while Chinese grooms account for 12.3%, which was the 3rd largest.

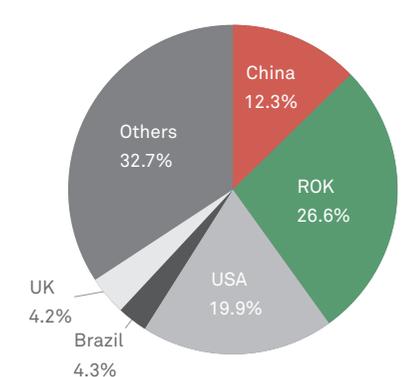
Cases of International Marriage in Japan (% in total)



Percent Distribution of International Marriage in Japan by Country (Nationality of Bride, 2011)



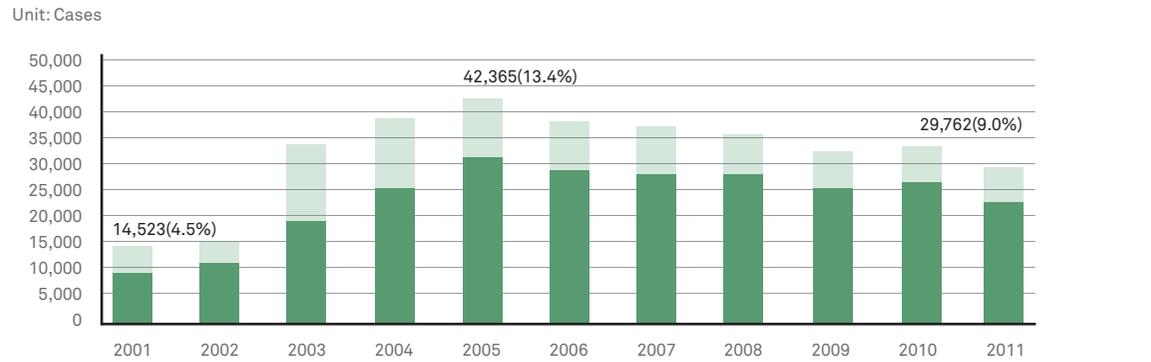
Percent Distribution of International Marriage in Japan by Country (Nationality of Groom, 2011)



International Marriage: ROK

- The cases of international marriage in ROK have been decreasing since 2006. The ratio of international marriage to total marriage is 9.0 % in 2011, which is higher than that of Japanese.
- The cases and share of marriage between Korean grooms and Chinese brides has been decreasing from 50.7% in 2007 to 33.9% in 2011. The cases of marriage between Korean grooms and Japanese brides has remained on the same level.
- The cases and share of marriage between Korean brides and Japanese grooms has been decreasing. China has the largest share in total in 2011 at 24.9%

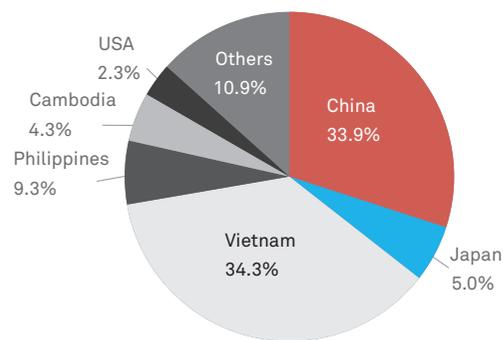
Cases of International Marriage in ROK (% in total)



Source: Annual Report on the Vital Statistics, National Statistical Office of ROK

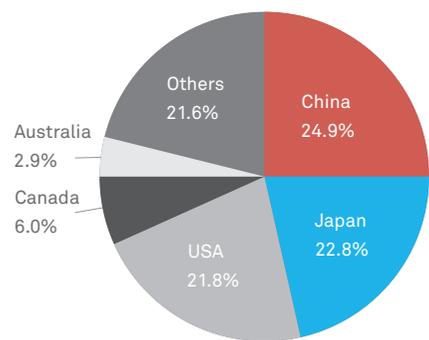
Legend: Korean Male/Foreign Female (light green), Korean Female/Foreign Male (dark green)

Percent Distribution of International Marriage in ROK by Country (Nationality of Bride, 2011)



Source: Annual Report on the Vital Statistics, National Statistical Office

Percent Distribution of International Marriage in ROK by Country (Nationality of Groom, 2011)

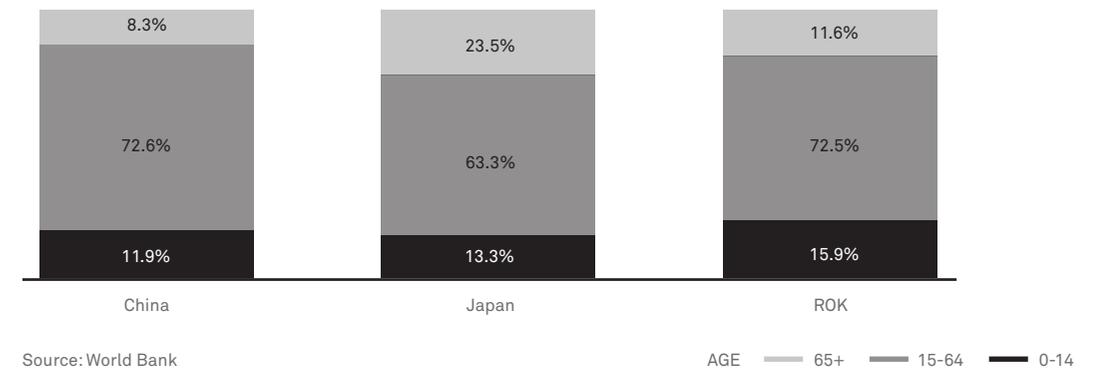


Source: Annual Report on the Vital Statistics, National Statistical Office

Demography

- All the three countries face aging problem at a faster pace than the world's average.
 - Japan = Super-aged Society (More than 21% of the elderly aged 65 and over in total population)
 - ROK and China = Aging Society (more than 7%)

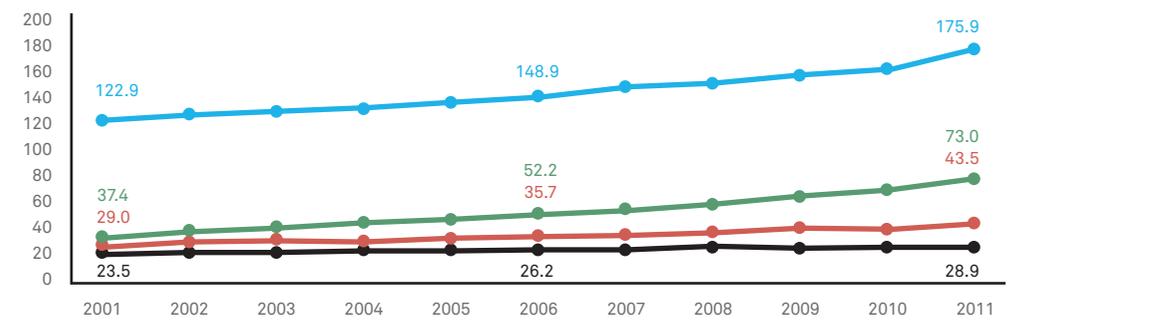
Percent distribution of population by 3 age groups (2011)



Source: World Bank

AGE: 65+, 15-64, 0-14

Aging Index



* Aging Index = (65 and above/0-14 Age)*100
Source: World Bank

Legend: World (black), China (red), ROK (green), Japan (blue)

Observation

- Tourists of China, ROK and Japan take a large share of tourism markets of the three countries.
- The presence of ROK and Japan in China's tourism market has relatively decreased in the past few years.
- Japan's inbound tourism has recovered from the drop in 2011 due to the Great East Japan Earthquake in 2011, but not to full extent.
- There is a stable demand for business-related visits among the three countries while there is a huge potential for expanding the scale of tourism by promoting sightseeing, especially for China.

7. FUTURE ECONOMIC INTEGRATION

Suggestions for the economic integration among three countries

- **Strengthening economic inter-relationship and promoting intra-regional trade, investment, finance and people-to-people exchange among the three countries can bring the competitive economies of scale to three countries.**
 - **Trade cooperation:** Increase of intra-regional trade may lead to de facto initial level of economic integration among three countries.
 - **Investment cooperation:** Improve market conditions for better flow of good, technology and management.
 - **Finance cooperation:** Safeguard market stability and facilitate flow of capitals
 - **People-to-people exchange:** Growth in tourism and education exchange may spearhead freer movement of people and foster a sense of community for macroeconomic consistency over the region.
- **Comprehensive and institutional framework of economic integration is needed.**
- **Trilateral FTA can be a growth engine.**
- **Functional cooperation in a practical manner will support and expand the existing economic relationship.**
- **Political will is essential for future trilateral economic integration.**