

How can a trilateral FTA among
China, Japan, and Korea fulfil their
developmental state objectives
within the RCEP framework?

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Abstract

Northeast Asian relations are focused on economics and trade. The rapid economic development of China, Japan and Korea in the past decades cannot be separated from the government-led model they have adopted. The developmental state model is comprised of the four principles in evidence in all three states: (1) economic development is the priority of the government, (2) the government uses policies to guide the domestic economy, (3) the government tightly collaborates with businesses, and (4) the government establishes capable institutions to support policy implementation. Current economic slowdown, reveals difficulties in implementing some of the principles, such as monopolistic enterprises and vested interest groups impeding the effectiveness of government policies. Until recently, the export-oriented approach of these three states had not led to regional economic institutions involving all three. However, the adoption of the Regional Cooperative Economic Partnership (RCEP) contributes to meeting the Chinese, Japanese and Korean governments' developmental state aims. RCEP is the first regional institution to include China, Japan and Korea in a free trade agreement. RCEP provides mutual benefits to collaboratively achieve the goal of economic development, but still leaves the space for further progress. Hence, this thesis adopts the gravity model to estimate the potential economic benefits China, Japan and Korea can obtain from the China-Japan-Korea FTA (CJK FTA). By aligning with the estimated results of the CJK FTA in trade values and specific industrial volumes, China, Japan and Korea, as developmental states, can leverage the CJK FTA to achieve significant economic benefits and industrial structure upgrading. The idea of a CJK FTA has long been promoted by these states and has recently become an area of renewed interest. This thesis demonstrates that FTAs are powerful tools that can be used by developmental state governments to fulfill their current domestic economic and industrial goals. China, Japan and Korea as developmental states, can further expand a deeper cooperation under FTAs by guiding emerging enterprises to integrate into FTAs and regional industrial chains.

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List of Table

Table 1: Increasing rate of trade values after 2001.....	61
Table 2: China's top 10 export products after joining the WTO.....	62
Table 3: China's top 10 export products from 2016 to 2024.....	63
Table 4: Japan's top 10 exporting products from 2016 to 2024.....	65
Table 5: Korea's top 10 export products from 2016 to 2024.....	67
Table 6: FTA partners of China, Japan, and Korea.....	74
Table 7: East Asia economic institutions.....	131
Table 8: China-Japan-Korea trade overview from 2021 to 2023.....	137
Table 9: China-Japan-Korea trade intensity index (TII).....	139
Table 10: FTD from Japan and Korea to China.....	143
Table 11: Tariff reductions on agricultural imports from China under the RCEP...147	
Table 12: Tariff reductions on agricultural imports from Korea under the RCEP...147	
Table 13: Non-tariff cut agricultural products imported from China to Korea.....	150
Table 14: The 16 rounds of CJK FTA negotiation.....	155
Table 15: Simple 0-1 encoding for categories A, B, and C.....	171
Table 16: SITC categories.....	197
Table 17: HS 2-digit categories.....	197
Table 18: HS 4-digit categories.....	198
Table 19 Export growth rates among China, Japan, and Korea.....	212
Table 20: Growth rate of trade values after the CJK FTA for China, Japan, and Korea	237
Table 21: Growth rate of GDP after the CJK FTA for China, Japan, and Korea....	238

List of Figure

Figure 1: East Asia primary institutions as a ‘spaghetti bowl’	131
Figure 2: China’s PMI Index.....	142
Figure 3: Growth rate of RCEP certificates of origin issued in Japan in 2022.....	153
Figure 4: Korean monthly import and export performance in 2022 under RCEP.	153
Figure 5: Estimated partners with positive trade growth with China.....	174
Figure 6: Estimated partners with negative trade growth with China.....	175
Figure 7: Estimated partners with positive trade growth with Japan.....	176
Figure 8: Estimated partners with negative trade growth with Japan.....	176
Figure 9: Estimated partners with positive trade growth with Korea.....	177
Figure 10: Estimated partners with negative trade growth with Korea.....	177
Figure 11: Estimates of increased trade values for China, Japan, and Korea.....	178
Figure 12: Estimated partners with positive trade growth with China based on world GDP.....	180
Figure 13: Estimated partners with negative trade growth with China based on world GDP.....	180
Figure 14: Estimated partners with positive trade growth with Japan based on world GDP.....	181
Figure 15: Estimated partners with negative trade growth with Japan based on world GDP.....	182
Figure 16: Estimated partners with positive trade growth with Korea based on world GDP.....	183
Figure 17: Estimated partners with negative trade growth with Korea based on world GDP.....	184
Figure 18: Estimated partners with positive trade growth with China based on exporter GDP.....	185

Figure 19: Estimated partners with negative trade growth with China based on exporter GDP.....	185
Figure 20: Estimated partners with positive trade growth with Japan based on exporter GDP.....	186
Figure 21: Estimated partners with negative trade growth with Japan based on exporter GDP.....	186
Figure 22: Estimated partners with positive trade growth with Korea based on exporter GDP.....	187
Figure 23: Estimated partners with negative trade growth with Korea based on exporter GDP.....	187
Figure 24: Estimated partners with positive trade growth with China based on importer GDP.....	189
Figure 25: Estimated partners with negative trade growth with China based on importer GDP.....	189
Figure 26: Estimated partners with positive trade growth with Japan based on importer GDP.....	191
Figure 27: Estimated partners with negative trade growth with Japan based on importer GDP.....	191
Figure 28: Estimated partners with positive trade growth with Korea based on importer GDP	192
Figure 29: Estimated partners with negative trade growth with Korea based on importer GDP	192
Figure 30: Estimated industrial growth rate from China to Japan based on SITC classifications.....	199
Figure 31: Estimated industrial growth rate from China to Korea based on SITC classifications.....	200
Figure 32: Estimated industrial growth rate from Japan to China based on SITC classifications.....	201
Figure 33: Estimated industrial growth rate from Japan to Korea based on SITC classifications.....	201

Figure 34: Estimated industrial growth rate from Korea to China based on SITC classifications.....	202
Figure 35: Estimated industrial growth rate from Korea to Japan based on SITC classifications.....	202
Figure 36: Overall estimated impact of CJK FTA on China, Japan, and Korea.....	203
Figure 37: Estimated industrial growth rate from China to Japan based on HS 2-digit classifications.....	205
Figure 38: Estimated industrial growth rate from China to Korea based on HS 2-digit classifications.....	205
Figure 39: Estimated industrial growth rate from Japan to China based on HS 2-digit classifications.....	206
Figure 40: Estimated industrial growth rate from Japan to Korea based on HS 2-digit classifications.....	206
Figure 41: Estimated industrial growth rate from Korea to China based on HS 2-digit classifications.....	207
Figure 42: Estimated industrial growth rate from Korea to Japan based on HS 2-digit classifications.....	207
Figure 43: Estimated industrial growth rate from China to Japan based on HS 4-digit classifications.....	208
Figure 44: Estimated industrial growth rate from China to Korea based on HS 4-digit classifications.....	208
Figure 45: Estimated industrial growth rate from Japan to China based on HS 4-digit classifications.....	209
Figure 46: Estimated industrial growth rate from Japan to Korea based on HS 4-digit classifications.....	209
Figure 47: Estimated industrial growth rate from Korea to China based on HS 4-digit classifications.....	210
Figure 48: Estimated industrial growth rate from Korea to Japan based on HS 4-digit classifications.....	210

List of Acronyms

ACFTA ASEAN-China FTA

AEC ASEAN Economic Community

AKFTA ASEAN-Korea FTA

AJFTA ASEAN-Japan FTA

AMMTC+3 APT Ministerial Meeting on Transnational Crime

AMRO ASEAN+3 Macroeconomic Research Office

APEC Asia-Pacific Economic Cooperation

APT Association of Southeast Asian Nations Plus Three

ARF ASEAN Regional Forum

ASEAN Association of the Southeast Asian Nations

BOJ The Bank of Japan

BRI Belt and Road Initiative

CCP Chinese Communist Party

CCPIT China Council for the Promotion of International Trade FTA Service

CES Constant Elasticity of Substitution

CGE Comprehensive General Equilibrium

CIECC China FTA Network

CKFTA The China-Korea Free Trade Agreement

CJKFTA The China–Japan–Korea Trilateral Free Trade Agreement

CMI Chiang Mai Initiative

COST+3 ASEAN Committee on Science and Technology plus Three

COVID-19 Coronavirus Disease

CPTPP Comprehensive and Progressive Agreement for Trans-Pacific

Partnership

DRC China's Development Research Center of The State Council

DS Development States

EAS East Asia Summit

EAVG 1 East Asia Vision Group 1

EPS Economic Partnership Agreement

EU European Union

FDI Foreign Direct investment

FEZ Free Economic Zone

FTA Free Trade Agreement

FTD Foreign Trade Dependence

FTZ Free Trade Zone

GDP Gross Domestic Product

HS Harmonised System Code

ICT Information and Communications Technology

IMF International Monetary Fund

IPE International Political Economy

IPP The Innovation Platform Program

IR International relations

ITI Institute for International Trade and Investment

KEPCO Korea Electric Power Corporation

KIEP Korea Institute for International Economic Policy

LDP Liberal Democratic Party

LG Lucky Goldstar (Korea)

MAFE The Ministry of Agriculture, Forestry and Fisheries (Japan)

METI Ministry of Economy, Trade and Industry

MERCOSUR Southern Common Market

MFA Ministry of Foreign Affairs (China)

MITI Ministry of International Trade and Industry

MOFA Ministry of Foreign Affairs (Japan)

MOFCOM Ministry of Commerce (China)

MOF Ministry of Finance

MOFE Ministry of Economy and Finance (Korea)

MOTIE Ministry of Trade, Industry and Energy

NAFTA North American Free Trade Agreement

NIRA Japan's Comprehensive Development Research Organization

OLS Ordinary Least Squares

PMI Purchasing Managers' Index

PRC People's Republic of China

PTA Preferential Trade Agreement

RCEP Regional Comprehensive Economic Partnership

SCAP The Supreme Commander for the Allied Powers

SCO Shanghai Cooperation Organisation

SITC Standard International Trade Classification Code

SK Sunkyong Group (Korea)

SOMTC+3 APT Senior Officials' Meeting on Transnational Crime

SME Small and Medium Enterprises

SOE State-Owned Enterprises

TII Trade Intensity Index

THAAD Terminal High Altitude Area Defense

TPP The Trans-Pacific Partnership

UN United Nations

US United States

USD United States Dollars

WTO World Trade Organization

WWII The Second World War

Table of Contents

How can a trilateral FTA among China, Japan, and Korea fulfil their developmental state objectives within the RCEP framework?.....	1
Abstract.....	2
Statement of Originality.....	Error! Bookmark not defined.
Acknowledgements.....	3
List of Table.....	6
List of Figure.....	7
List of Acronyms.....	10
Table of Contents.....	14
Chapter 1 Introduction: China, Japan, and Korea: classical developmental states	19
1.1 Developmental states, economic power, and the existing problem with regional cooperation.....	19
1.1.1 The development path of developmental states: Evolution and exploration	19
1.1.2 National economic development and FTA strategy.....	20
1.1.3 Geopolitical impediments to cooperation between China, Japan, and Korea.....	26
1.1.4 The context of the RCEP and the CJK FTA.....	30
1.2 Research questions.....	32
1.3 Cases, sources, and methods.....	33
1.4 Significance of the thesis.....	34
1.5 Limitations of the study.....	35
1.6 Overview of the thesis.....	36
Chapter 2 The compatibility of the developmental state model with China, Japan, and Korea.....	38
2.1 Introduction.....	38
2.2 The combination of classical IR theories: Why are they unsuitable for cooperative	

analysis of the developmental states of China, Japan, and Korea?.....	39
2.2.1 Neorealism: No or limited cooperation.....	39
2.2.2 The restricted importance of shared identity and loyalty in the interstate cooperation of China, Japan, and Korea based on Constructivism.....	42
2.2.3 Neoliberalism: A focus on the role of external institutions in interstate cooperation.....	44
2.3 Understanding the concept of the developmental state.....	47
2.3.1 What is the developmental state model?.....	47
2.3.2 The DS model in Japan, Korea, and China in chronological order.....	50
2.3.3 The four principles of the DS model in the economic development of China, Japan, and Korea.....	57
2.4 How do developmental states work in an FTA?.....	74
2.5 Conclusion.....	79
Chapter 3 The dysfunction of the developmental state model: Exploring the reasons for domestic economic stagnation.....	81
3.1 Introduction.....	81
3.2 Japan’s dilemma regarding the four principles of the DS model.....	83
3.2.1 First principle: Central government still makes economic growth the priority.....	84
3.2.2 Second principle: Inefficient government-led policy and reforms influenced by multi-interest actors.....	85
3.2.3 Third principle: The overreach of bureaucrats in the relationship between government and business in Japan.....	90
3.2.4 Fourth principle: A Complete Set of Institutions.....	94
3.3 Korea’s dilemma regarding the four principles of the DS model.....	95
3.3.1 First principle: The state has been keen to continue economic growth via industrial transition.....	95
3.3.2 Second and third principles: Government-business relations and Chaebol interests hinder effective economic development.....	97

3.3.3 Fourth principle: Functional institutions to help government.....	103
3.4 China's dilemma regarding the four principles of the DS model.....	104
3.4.1 First principle: Continuously focusing on economic growth.....	105
3.4.2 Second principle: Efficient government-led policy.....	106
3.4.3 Third principle: State-owned-enterprises and other business sectors cooperate with the government.....	109
3.4.4 Fourth principle: The absence of strong, functional institutions hinders the effective implementation of top-down policies aimed at addressing regional development imbalances.....	112
3.5 Conclusion.....	116
Chapter 4 Understanding the limited function of East Asia's primary institutions in China-Japan-Korea trade cooperation and the significance of the establishment of the RCEP.....	118
4.1 Introduction.....	118
4.2 China, Japan, and Korea's regional cooperative strategy since 2000.....	121
4.2.1 Consistently maintaining enthusiasm for regional cooperation in China	121
4.2.2 Japan's flexible choice due to its inability to reconcile regional leadership goals with domestic economic development.....	124
4.2.3 The required FTA strategy based on Korea's export-oriented economy and its role as a mediator.....	128
4.3 The limitations of existing institutions for China, Japan, and Korea: APEC, APT, and TPP.....	131
4.3.1 Chronology of East Asian economic institutions.....	132
4.3.2 Limitations of APEC, APT, and TPP/CPTPP.....	134
4.4 The first regional FTA for China, Japan, and Korea: RCEP leaves space for a CJK FTA.....	138
4.4.1 Interdependent and irreplaceable: The current economic situation between China, Japan, and Korea.....	139
4.4.2 First step for China-Japan-Korea cooperation: RCEP tariff reduction review.....	148

4.4.3 Tangible benefits to enterprises and markets increasing under the RCEP	156
4.4.4 Next step for CJK cooperation: The space for the CJK FTA	158
4.5 Conclusion	164
Chapter 5 The estimated economic benefits of the CJK FTA	166
5.1 Introduction	166
5.2 Overview of gravity model	168
5.2.1 Introduction to general gravity and counterfactual analysis	168
5.2.2 Methodology	170
5.3 The estimated results of aggregate trade flows	174
5.3.1 The approach and economic issues	174
5.3.2 Data sources and sample	178
5.3.3 Partial equilibrium effects of general trade flows	179
5.4 Industrial sector shifts under the estimation	201
5.4.1 The approach and economic issues	201
5.4.2 Data sources and sample	203
5.4.3 Partial equilibrium effects of industrial sectors	205
5.5 Conclusion	219
Chapter 6 What role do the developmental states of China, Japan, and Korea play in the process of RCEP and CJK FTA?	222
6.1 Introduction	222
6.2 Reinforced characteristics: Application of the four principles of the DS model	224
6.2.1 Economic growth as priority: China, Japan, and Korea are each in their own stage of industrial transformation	224
6.2.2 Government transformation policy: China's 15th five-year plan, Japan's Startup Development Five-Year Plan, and Korea's innovation-driven policy	229
6.2.3 Nurturing and supporting the development of SMEs and private enterprises	235
6.2.4 The establishment of the Chinese Private Economic Bureau, the New	

Japanese-Style Capitalism Promotion Department, and the Korean Ministry of SMEs and Startups.....	241
6.3 Analysis of the role of the CJK FTA in the economic development of China, Japan, and Korea.....	244
6.3.1 The target of obtaining benefits can be fulfilled by the CJK FTA.....	244
6.3.2 Further promotion of industrial structure upgrading in the CJK FTA.....	247
6.3.3 The CJK FTA offers a trajectory for nurturing SMEs and private firms...	249
6.3.4 Deeper cooperation of China, Japan, and Korea with Southeast Asia in the CJK FTA.....	250
6.4 Conclusion.....	253
Chapter 7 Conclusion.....	255
7.1 Brief introduction.....	255
7.2 Reviewing the arguments: A Detailed Analysis.....	255
7.3 The findings.....	259
7.3.1 Major findings.....	259
7.3.2 The findings for China, Japan, and Korea.....	261
7.4 Implications for further research.....	263
Appendix.....	266
Bibliography.....	270

Chapter 1 Introduction: China, Japan, and Korea: classical developmental states

1.1 Developmental states, economic power, and the existing problem with regional cooperation

1.1.1 The development path of developmental states: Evolution and exploration

The concept of the developmental state emerged from Chalmers Johnson's seminal analysis of Japan's economic trajectory between the 1950s and 1980s. It refers to a model in which the state plays a central and proactive role in guiding economic development and industrialisation, characterised by close cooperation between the government and the private sector (Johnson 1982). Through this approach, Japan entered a period of rapid economic growth during the 1960s; by the end of that decade, its gross domestic product (GDP) had reached a level equivalent to the combined economies of Britain and France, making it the world's second-largest economy after the United States (Xu 2013). Subsequently, Japan began transferring technological expertise to neighbouring East Asian states, acting as a leader, facilitator, and the 'lead goose' in the so-called 'flying geese' paradigm (Ozawa 2007). This regional model of production division and technological diffusion enabled states such as South Korea (hereafter Korea), China, and Singapore to adopt and adapt elements of Japan's developmental strategy. These states evolved into developmental states with distinct national characteristics. Over time, the developmental state model extended beyond East Asia, influencing economic strategies in regions such as Latin America and Africa. A more detailed discussion of this transnational diffusion and its variations is presented in Chapter 2 (see, e.g., Johnson 1982; Amsden 1989; Rodan 1989; Wade 1990; Evans 1979, 1995; Pempel 1998; Woo-Cumings 1999; Chang 2002; Kohli 2004; Weiss 2003; Nolan 2004; Naughton 2007; Low 2001; Fine 2012).

In analysing developmental states, scholarly attention has predominantly centred on the role of the government, political leadership, and state-business relations. Some scholars emphasise the delicate balance between state autonomy and engagement, with society as a critical factor for achieving sustainable development. Others

highlight the importance of historical and geopolitical contexts in shaping the emergence and characteristics of developmental states. A further line of inquiry considers how variations in political structure and leadership priorities affect the performance and adaptability of the developmental state model (hereafter the DS model). While this body of literature has extensively examined state and societal roles within the DS model, it has paid comparatively little attention to the concrete developmental outcomes generated by such frameworks (see, e.g., Wade 1990; Evans 1979, 1995; Woo-Cumings 1999; Kohli 2004; Zhang 2017; Ricz 2022).

This thesis addresses that gap by proposing a new theoretical perspective on the tangible benefits developmental states may derive from government-led economic policy. In particular, it engages with the rising prominence of free trade agreements (hereafter FTAs) as a key economic strategy for China, Japan, and Korea, especially in the context of ongoing regional economic downturns of varying severity. Focusing on the Regional Comprehensive Economic Partnership (hereafter the RCEP) and the proposed China-Japan-Korea Free Trade Agreement (hereafter CJK FTA), this research explores the extent to which these FTAs can advance the developmental objectives of the three states. In doing so, the study seeks to answer the core research question: How can FTAs between China, Japan, and Korea support the realisation of their developmental state agendas?

The remainder of this chapter is structured as follows: Section 1 provides an overview of the current political and economic context of China, Japan, and Korea; Section 2 outlines the central research questions; Section 3 discusses the research methods and data sources employed; Section 4 articulates the thesis's contributions to the field; Section 5 addresses its limitations; and Section 6 presents an outline of the overall structure of the thesis.

1.1.2 National economic development and FTA strategy

China, Japan, and Korea are widely recognised as economic powerhouses. Collectively, their GDP accounts for approximately 90% of East Asia's economy, 70% of Asia's, and nearly 30% of the global economy (Lee and Zhu 2015). According to the International Monetary Fund (IMF), China—currently the world's second-largest economy—has consistently maintained a GDP growth rate above 6% since the early 2000s, far exceeding the global average of around 3% (Arora and

Vamvakidis 2010). Japan, the world's third-largest economy, and Korea, ranked tenth, have reported more modest but stable growth, with annual GDP growth rates generally ranging between 1% and 2% over the past two decades (O'Neill 2024a and 2024b).

The combined economic output of these three countries rivals that of the United States, together accounting for more than 20% of global GDP (World Bank n.d.). This economic strength is further reflected in their performance in trade and industrial development. China, Japan, and Korea rank as the world's first, fifth, and sixth largest exporters, respectively, contributing around 23% of total global exports (Du 2023). Additionally, the three countries are home to 199 companies on the Fortune Global 500 list, representing 38.3% of the world's top firms by revenue (Yu 2023). These indicators underscore the high level of industrial capacity across the region, supported by favourable domestic environments, proactive government policies, and sustained market demand.

The impressive economic performance of China, Japan, and Korea is striking on the global stage; however, these achievements did not occur overnight. Rather, they are the result of sustained and strategic long-term development. In China's case, the transformation began with the reform and opening-up policy initiated in 1978, which marked a critical shift in the country's economic orientation. After a period of experimentation and institutional restructuring, the Chinese government adopted a series of policy measures aimed at attracting foreign direct investment (FDI), including reforming its investment approval system and laying the foundation for a socialist market economy.

While these early reforms enabled China to access international trade and global markets, the most transformative step in China's economic trajectory was its accession to the World Trade Organization (WTO) in 2001. WTO membership catalysed major structural changes, particularly in areas such as tariff reductions, FDI liberalisation, and reforms to both state-owned enterprises (hereafter SOEs) and the burgeoning private sector (Yu and Li 2022). These changes created a more favourable environment for foreign investment. The abolition of designated monopoly rights in certain sectors and the expansion of trade management rights further contributed to the diversification and modernisation of China's economic landscape. From the 2000s onward, SOEs underwent significant reforms, while a wave of foreign-funded and private enterprises emerged, supported by proactive fiscal policies (Yu and Li 2022).

As China's economic power and global standing continued to grow, so too did its international economic and trade engagements. China's economy became increasingly integrated into global value chains and international markets (Chen 2009). Following its entry into the 'drive to maturity' phase, as conceptualised by Rostow (1960), the country's economic growth has naturally decelerated. This phase is characterised by diminishing returns from infrastructure and industrial expansion, with future growth relying more on technological innovation and domestic consumption—albeit at a slower pace than during earlier stages. More recently, the COVID-19 pandemic and China's strict containment policies have further contributed to a slowdown in national economic activity and trade development.

In comparison with China, Japan entered its period of rapid economic growth much earlier. During the 1960s, Japan's GDP growth rate surged to approximately 10%, a clear indicator of its emergence as one of the world's fastest-developing economies. This expansion was largely driven by industrial upgrading, particularly the shift towards heavy industries and advanced manufacturing sectors (Ohkawa and Rosovsky 1973). The Japanese government actively imported advanced technologies from Western countries and improved upon them through domestic innovation, laying a solid foundation for the development of key sectors such as automobiles, consumer electronics, and shipbuilding.

As Japan's industrial base matured, the government began transferring certain technologies to other East Asian economies, positioning itself as both leader and facilitator of the so-called 'flying geese' paradigm (Ozawa 2007). Through this role, Japan solidified its place at the top of the regional production and technology value chain. However, by the 1980s, the Japanese economy became increasingly vulnerable due to rampant financial speculation and over-investment, particularly in the stock and real estate markets. This speculative bubble ultimately burst in the late 1980s and early 1990s, triggering what became known as the Heisei Recession or the bursting of the bubble economy. The resulting economic stagnation led to Japan's diminished centrality in the global economy—a trend that extended well into the 2000s. For instance, in 2012, Japan recorded a trade deficit of 6.93 trillion yen (Zhang 2013).

Following Prime Minister Shinzo Abe's return to office in 2012, the government implemented a set of policies aimed at economic revitalisation. These included currency devaluation, increased public infrastructure spending, and structural economic reforms. While successive administrations attempted to reinvigorate

Japan's export-driven growth model, overall GDP growth remained sluggish. Japan's export sector—historically the main driver of its economic expansion—experienced persistent weakness. Despite a brief recovery between 2014 and 2016, growth was unsustainable. Efforts to stimulate domestic consumption yielded only marginal results, and Japan's average annual GDP growth during this period hovered around 1%, highlighting a structural lack of long-term economic momentum. Today, Japan faces mounting pressure to identify a new, more sustainable path for economic development (China's National Bureau of Statistics 2023).

From the 1960s to the 1980s, Korea emerged as both an inheritor and a beneficiary of Japanese technological advancements and developmental strategies. It successfully positioned itself within the upstream segments of the regional production chain, eventually becoming a developed state in East Asia. Following its post-war recovery in the 1960s, Korea underwent two critical phases in its economic trajectory: a period of rapid industrial growth and a subsequent financial crisis. As an export-oriented economy since 1962, Korea's total exports grew at an annual average rate of 30% throughout the subsequent decade, while its GDP growth consistently exceeded 10%, marking the onset of a sustained economic boom (Lee 1997). This period was characterised by a significant industrial transformation, as the country transitioned from labour-intensive industries to technology-intensive sectors. This structural upgrading was facilitated by capital accumulation and technological spillovers from Japan (Kojima 2000). Despite this remarkable progress, Korea's economic performance in the 1970s and 1980s remained heavily reliant on external factors. The second oil crisis and the resulting global recession had notable adverse effects. Nevertheless, the 1980s witnessed another phase of accelerated growth, with GDP increasing at an annual rate of approximately 12% (Kojima 2000).

However, Korea's growth trajectory encountered severe disruption during the late 1990s. The proliferation of non-performing loans—largely a consequence of unsecured lending to small and medium-sized enterprises (SMEs) established or influenced by large conglomerates (hereafter Chaebols) such as Samsung, LG, and Hyundai—compounded the impact of the 1997 Asian Financial Crisis. As a result, Korea's GDP plummeted from USD 560 billion in 1997 to USD 370 billion in 1998. Recovery was made possible through a combination of IMF assistance and swift domestic reforms. By 2001, Korea had fully repaid its IMF loans, and its economy began a robust recovery, with GDP rising from USD 530 billion in 2001 to USD 1.65 trillion by 2019—an average annual growth rate of approximately 10% (China's

National Bureau of Statistics 2023). Despite its success, Korea today faces structural economic challenges, notably its over-reliance on Chaebols, export markets, and a narrowly focused industrial model dominated by the automobile, semiconductor, and electronics sectors. Over the past two decades, this dependency has contributed to slower and less stable economic growth. In response, the Korean government has identified digital economic transformation and the diversification of foreign markets as strategic imperatives for fostering sustainable, long-term economic development.

Aside from individual economic growth, trade cooperation among China, Japan, and Korea has been steadily strengthening. Japan and Korea began engaging in trade negotiations as early as the 1960s (James 2001). Trade relations among all three nations saw significant growth throughout the 1980s and 1990s. Although trade ties between China and Korea were the last to be formally established—following the normalisation of diplomatic relations in 1992—this bilateral relationship later evolved into the closest among the three (see Section 4.4.1). With China’s rapid economic ascent after joining the WTO in the early 21st century, and in contrast, the economic stagnation experienced by Japan and Korea, both latter nations increasingly turned to China to bolster their economic prospects. In 2005, Japan and China signed the China-Japan Long-Term Trade Agreement, under which China began exporting crude oil and coal to Japan, while Japan reciprocated with technology transfers and exports of complete sets of equipment and construction machinery (The State Council of the People’s Republic of China 2005). Meanwhile, the Korean government swiftly moved to deepen economic ties with China. China became Korea’s largest trading partner by 2004, culminating in the establishment of the China-Korea Free Trade Agreement (hereafter the CK FTA) at the end of 2015. Clearly, the early 2000s marked a turning point in trilateral trade relations, with China, Japan, and Korea entering a period of intensified economic engagement. As of 2024, each of the three countries ranks among the top five trading partners for the others.

Alongside domestic economic development, China, Japan, and Korea have also actively sought to expand foreign trade and investment with third states, aiming to scale up production and access broader markets. In the early 1990s, under the framework of the ‘flying geese’ model, Japan began relocating many of its low-tech industries to neighbouring states. This created concentric investment circles, with Korea and Singapore in the inner circle and Southeast Asia and China in the outer one (Aggarwal 2008). This structure allowed the region to collectively benefit from Japan-led economic growth during the first half of the 1990s. In the latter half of the

decade, China's rapid industrial development accelerated trade and investment flows in the region (Lee 2018).

After joining the WTO in 2001, China began to expand its export-driven growth and economic engagement across Northeast Asia, which soon led to a proliferation of bilateral and multilateral FTAs. The Asian Financial Crisis of 1997 also prompted East Asian economies to adopt FTA strategies as part of broader economic revitalisation plans. FTAs were increasingly seen as instruments to attract FDI, enhance economic resilience, and avoid exclusion from emerging regional trade blocs such as the European single market and customs union and the North America FTA (hereafter NAFTA/ now called the United States, Mexico and Canadian Agreement or USMCA). Accordingly, China, Japan, and Korea each launched their own FTA strategies in the early 2000s, though their respective approaches varied. China has consistently maintained a proactive stance toward FTA negotiations, motivated in part by a desire to avoid political isolation and expand market access (Liang 2011). As of 2024, China has signed 22 FTAs and Economic Partnership Agreements (hereafter EPAs) (Ministry of Commerce, People's Republic of China n.d.).

Japan's FTA policy has evolved over time. Following the decline of its leadership position within the flying geese model, Japan adopted FTAs to boost national interest, implement industrial reforms, and enhance its international stature. By 2024, Japan had concluded 21 FTAs/EPAs, with negotiations ongoing for three more. In contrast, Korea has demonstrated the highest enthusiasm for FTAs, given that nearly three-quarters of its economy depends on international trade. Korea's FTA-related institutional framework is relatively mature and includes a dedicated non-governmental Promotion Committee. Currently, Korea has concluded 21 FTAs/EPAs and is actively pursuing agreements with emerging economies in South America, Africa, and the Middle East, encompassing both traditional goods and high-tech sectors. Through this diversification, Korea aims to reduce its economic dependence on China and enhance its global economic influence (Kriekhaus 2018).

Given their advanced economic development and increasingly sophisticated FTA strategies, it would appear logical for China, Japan, and Korea to establish a trilateral cooperative mechanism. However, this had not materialised until the implementation of the RCEP in 2022. Moreover, negotiations on a trilateral FTA—initiated in 2012—remain incomplete although there is renewed interest amongst these states at the time of writing. Despite their shared identity as developmental states prioritising economic growth, persistent geopolitical tensions have been the primary impediment

to trilateral integration, as discussed in Section 1.1.3.

1.1.3 Geopolitical impediments to cooperation between China, Japan, and Korea

Despite a solid foundation of economic trade and investment, Northeast Asia has yet to establish a specific cooperative framework. This absence is not solely attributable to the protection of sensitive industries, but more profoundly to enduring conflicts rooted in historical grievances, territorial disputes, and divergent strategic interests (Liang 2011). The complexity of economic interdependence juxtaposed with persistent geopolitical tensions suggests that the trilateral relationship among China, Japan, and Korea cannot be adequately explained by any single mainstream International Relations (IR) theory—be it Neorealism, Neoliberal Institutionalism, or Social Constructivism (see Section 2.1).

In the post-World War II era, Japan adopted an evasive stance regarding the atrocities committed during its imperial expansion, notably concerning the issues of ‘comfort women’ and forced labour. For decades, the Japanese government denied the existence of the military-operated comfort women system until the 1990s, when Japanese historian Yoshiaki Yoshimi uncovered archival evidence of the Japanese military’s involvement in the forced recruitment of women. This discovery eventually led to Japan’s official acknowledgment and apology to China and Korea (Yoshimi 2000).

However, Japan’s shifting and often inconsistent approach to these historical issues has triggered significant resistance and distrust, particularly from Korea and China. The perception that Japan is unwilling to accept full legal and moral responsibility has fuelled domestic backlash. For instance, Korean civic groups have organised weekly protests in front of the Japanese Embassy in Seoul for over two decades. In 2011, during the 1,000th such demonstration, a statue commemorating a comfort woman was erected directly across from the embassy—symbolising ongoing public condemnation and the unresolved nature of this issue. Such deep-seated resentment continues to impede trilateral cooperation, as domestic opposition in both China and Korea frequently surfaces whenever engagement with Japan is pursued.

Territorial disputes further exacerbate these tensions. The most prominent example is the Diaoyu/Senkaku Islands dispute between China and Japan, which led to the

suspension of the first round of the CJK FTA negotiations in 2012. Control over these islands is not merely a matter of resource access; it carries considerable military and symbolic weight. Strategically located in the East China Sea, the islands grant the administering state enhanced surveillance and strategic leverage over maritime activities in the region, including the use of long-range radar systems capable of monitoring coastal zones. Additional disputes include those between Korea and China over Suyan Islet (also known as Ieodo or Parangdo), and between Korea and Japan over Dokdo/Takeshima. These territorial claims, steeped in national identity and historical memory, complicate efforts to institutionalise cooperation and build trust.

If the two aforementioned issues were the main impediments in the past, the rising strategic rivalry between China and the United States, along with the reinforced alliance among the US, Japan, and Korea—especially following the release of The Spirit of Camp David joint statement in 2023—have catalysed a shift in mindset within both Japan and Korea. This shift has manifested in a gradual economic decoupling from China, largely in response to the strategic preferences of the United States. During the first Trump administration (2016–2020), the ‘America First’ doctrine—marked by increasing isolationism and trade protectionism—significantly hindered pragmatic progress on both the Trans-Pacific Partnership (TPP, later restructured as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or CPTPP) and the trilateral cooperation mechanism among the US, Japan, and Korea. This mechanism, intended to coordinate on Asia-Pacific regional security, supply chains, and diplomatic strategies, stalled due to a lack of consistent US engagement. The situation worsened in the absence of a leading and balancing role by the United States. Bilateral relations between Japan and Korea deteriorated further prior to the inauguration of Korean President Yoon Suk-yeol in 2022.

However, under President Yoon, Korea has made significant efforts to repair relations with Japan and strengthen trilateral ties with the United States. His administration has prioritised these efforts for two primary reasons: to mitigate the increasing threat posed by North Korea’s nuclear and missile provocations, and to actively participate in the US-led Indo-Pacific cooperative strategy (Yang and Zhang 2023). Since 2022, trilateral cooperation has advanced both exponentially and substantively. This includes not only intelligence sharing, but also collaboration in cybersecurity, energy policy, and other strategic domains. The political rapport between Japan and Korea has notably improved, particularly in the realm of regional security. Between 2022 and 2024, the three nations have engaged in increasingly

regular diplomatic communication, particularly concerning the Korean Peninsula. In the first half of 2024 alone, there have already been approximately nine instances of diplomatic engagement. By comparison, 2023 saw 53 recorded trilateral interactions—ranging from telephone calls and policy dialogues to summit meetings, agreement drafting, ministerial statements, and joint declarations—up from 27 in 2022¹. The release of *The Spirit of Camp David*—a joint statement issued in August 2023—marked a critical milestone. It symbolised the three countries’ firm commitment to deepening institutional cooperation and broadening the scope of their partnership. Looking ahead, this trilateral framework is poised to further integrate political, economic, and security dimensions, paving the way for a more mature and resilient alliance architecture in the Indo-Pacific region.

However, despite some recent improvements, cooperation between Japan and Korea remains fraught with challenges. Although the Korean government under President Yoon Suk-yeol has adopted a more positive stance toward Japan, several points of friction persist. Relations between the two states have begun to recover following a five-year stagnation caused by historical disputes that escalated in 2017 (Xiang 2023). Guided by President Yoon’s diplomatic agenda, the Korean government has pursued a more comprehensive strategy aimed at addressing historical grievances, economic instability, and security concerns, with the goal of overcoming longstanding impediments to bilateral cooperation (Yoon 2023). In a landmark policy shift in 2023, the Yoon administration announced that it would not demand direct compensation from Japanese corporations for Korean victims of wartime forced labour and the ‘comfort women’ system during World War II. Instead, Seoul proposed establishing a government-backed fund to compensate victims directly (China Daily 2023). This decision was in part a response to the Kishida administration’s insistence that bilateral talks could only proceed if Seoul provided a solution to the liquidation of Japanese corporate assets ordered by Korean courts in relation to these historical cases (Yoon 2023). However, Yoon’s decision provoked intense domestic opposition, including backlash from survivors and civic groups. As a result, public support for his administration plummeted, with disapproval ratings reaching 61% in March 2023 and continuing to decline thereafter (Gallup 2023). Despite these tensions, Seoul and Tokyo have maintained intermittent engagement on

¹ Data sourced from the author’s calculations based on official records from the Ministry of Foreign Affairs of Japan and Xiang (2023).

regional security, economic resilience, and Indo-Pacific strategy. However, fragile trust has been repeatedly undermined by renewed territorial disputes—most notably, visits by Korean opposition politicians to the contested Dokdo/Takeshima islands in 2023 and 2024. Such actions have exacerbated public hostility, strained diplomatic ties, and impeded efforts to enhance military intelligence-sharing mechanisms between the two states (The Japan Time 2024).

Although both Japan and Korea have expressed intentions to reduce economic dependence on China, their stance diverges significantly from that of the United States. Unlike Washington's robust push for full economic decoupling, Tokyo and Seoul have adopted a more cautious approach, largely due to the potentially severe repercussions such a move would have on their intertwined economies. Despite growing concerns over economic security, both countries remain highly dependent on trade with China, which complicates any aggressive decoupling strategy. Over the past three years, following a gradual recovery in bilateral relations, Japan and Korea have engaged in multiple rounds of dialogue. While these meetings often emphasise support for a 'free and open Indo-Pacific', their communiqués also highlight several key cooperative priorities. First, both states have shown a strong commitment to coordinating their responses to North Korea's escalating nuclear and missile threats. Second, they have underscored the importance of fostering deeper people-to-people exchanges, particularly among younger generations, as a means of strengthening mutual understanding and softening public animosity. Third, Japan has placed a strategic emphasis on preventing the outflow of advanced technologies, a concern it shares with Korea. Lastly, both Tokyo and Seoul have reaffirmed the importance of reviving high-level negotiations on the CJK FTA, signalling their pragmatic interest in preserving regional economic integration despite strategic tensions (Ministry of Foreign Affairs of Japan 2023). Notably, the policy orientations of the two states reflect differing priorities: Korea's focus is more directly aligned with addressing the North Korean threat and enhancing its role within the Indo-Pacific security framework; Japan, on the other hand, emphasises technological security and aspires to assert greater leadership within the Asia-Pacific region.

Ongoing tensions between China and the United States have introduced new complexities into the trilateral economic cooperation among China, Japan, and Korea. Nevertheless, the three states cannot overlook the strategic and developmental importance of continued collaboration, particularly through frameworks such as FTAs. Despite Japan and Korea's growing ambition to assert leadership in East

Asia—supported by US strategic interests and aimed at maintaining regional balance—these aspirations have led to increased friction with China. This is especially evident in the context of China’s rising global presence, including its creation of alternative institutional frameworks and its rapid development of competitive industrial sectors such as electric vehicles and renewable energy technologies. Yet, in spite of these frictions, significant progress has been made in regional economic integration. The conclusion of RCEP in late 2021 marked a milestone as the first regional FTA to include China, Japan, and Korea. Furthermore, both Prime Minister Kishida and President Yoon have expressed a desire to resume negotiations for the CJK FTA in 2024 (see Section 1.1.4).

In addition, the emerging security partnership between the United States, Japan, and Korea is unlikely to substantially hinder economic cooperation within the China-Japan-Korea triangle in the short term. The trilateral summit’s joint declaration, *The Spirit of Camp David* (2023), emphasises mutual commitment but lacks the formal mechanisms and binding obligations typical of a collective security pact (US Government 2023). This suggests that geopolitical alignment with the US is being pursued in parallel with ongoing regional economic pragmatism.

The longstanding pattern of ‘hot economics but cold politics’, as discussed in this and the previous subsection, has historically delayed progress on trilateral FTAs. Nevertheless, the implementation of RCEP and the anticipated revival of the CJK FTA negotiations are essential instruments for achieving the shared developmental objectives of all three nations. Economic growth remains a central priority for these states, and multilateral agreements such as RCEP and the CJK FTA serve as critical mechanisms for facilitating that goal. Section 1.1.4 further elaborates on the current status and potential of these agreements in shaping future economic cooperation.

1.1.4 The context of the RCEP and the CJK FTA

As the first multilateral FTA to include China, Japan, and Korea, RCEP represents a major milestone in regional cooperation for both East Asia and Northeast Asia. Serving as a platform to reduce trade barriers and promote sustainable development across member states, RCEP was initiated by ASEAN in 2011 amid a broader East Asian integration movement that included frameworks such as ‘ASEAN+1’,

‘ASEAN+3’, and various bilateral FTAs (ASEAN 2023). Spanning 31 rounds of negotiation between 2013 and 2020, RCEP officially entered into force in January 2022. Unlike traditional FTAs, RCEP incorporates contemporary trade topics such as intellectual property, e-commerce, rules of origin, and market access, thereby resolving critical disputes related to the place of origin. Four years into its implementation, RCEP has emerged as a strategic tool for the Chinese, Japanese, and Korean governments to promote participation from domestic enterprises, particularly SMEs (see Sections 4.4.2 and 4.4.3).

Although negotiations for the CJK FTA began in 2012, they remain stalled. RCEP’s relatively limited scope in tariff exemptions and product coverage underscores the continued value and necessity of the CJK FTA as a vehicle for deeper economic integration (see Section 4.4.4). However, geopolitical tensions among the three states have repeatedly disrupted the negotiation process. In 2012, despite optimism at the start of the year regarding the resumption of talks, the eruption of disputes—specifically the Senkaku/Diaoyu Islands issue between China and Japan, and the Takeshima/Dokdo issue between Japan and Korea—delayed the first round of negotiations until March 2013 (Xiang 2024). Between 2013 and 2015, negotiations proceeded at a modest pace of three to four rounds annually but were hampered by Japan and Korea’s protection of sensitive sectors, particularly agriculture. Further strain emerged in 2016 and 2017 with the deployment of the THAAD anti-missile system in Korea, prompting strong objections from China due to its surveillance capabilities. During this period, only four rounds of negotiations took place. From 2018 onward, the intensifying strategic rivalry between China and the United States, combined with Japan’s ambition to lead East Asian economic architecture, led Tokyo to pivot its focus toward the CPTPP, where Japan assumed a leadership role (see Section 4.3.2). The last recorded round of CJK FTA negotiations occurred in 2019.

Despite this five-year stalemate, several factors—including the economic turbulence triggered by the COVID-19 pandemic, the high degree of trade and investment interdependence, and declining public approval ratings of national leaders (particularly in Japan and Korea)—have encouraged a reassessment of trilateral cooperation. Building upon the RCEP framework, momentum has begun to shift toward revitalising the CJK FTA process. At the CJK Foreign Ministers’ Meeting in 2023, Chinese Foreign Minister Wang Yi reaffirmed China’s commitment to restarting negotiations and emphasised the implementation of the ‘10-Year Vision for CJK Cooperation’ (Xinhua News Agency 2023). This was followed by the

resumption of the CJK Leaders' Summit in mid-2024, the first such meeting in four and a half years. The summit culminated in a joint declaration that called for the acceleration of CJK FTA negotiations with the aim of achieving a 'free, fair, comprehensive, high-quality, and reciprocal' agreement. All three states pledged to advance negotiations while recognising RCEP as a foundational framework (State Council of the People's Republic of China 2024).

In conclusion, despite persistent geopolitical impediments, RCEP has created a valuable opening for trilateral economic engagement—particularly between China and Japan—and has reignited collective enthusiasm for promoting the CJK FTA. As developmental states, China, Japan, and Korea view RCEP and the future CJK FTA as crucial instruments to realise their long-term economic development goals.

1.2 Research questions

This thesis provides a theoretical and empirical examination of the developmental state's role in FTAs, using the CJK FTA based on RCEP as a case study. The research is guided by a central question that establishes the study's purpose and direction, supplemented by supporting sub-questions to strengthen its logical coherence.

The primary research question is: How can a trilateral FTA among China, Japan, and Korea fulfil their developmental state objectives within the RCEP framework? This is supported by three theoretical sub-questions:

1. How has the developmental state model manifested in the historical economic development and policies of China, Japan, and Korea, and to what extent does this model remain relevant for analysing their current situations?
2. How has the partial dysfunction of the developmental state model contributed to economic stagnation?
3. What economic benefits can FTAs generate for member states?

The empirical sub-questions include:

1. Why are mainstream IR theories inadequate for explaining relations between China, Japan, and Korea?
2. Do China, Japan, and Korea still conform to the developmental state model and

what are their current developmental state characteristics?

3. How have these states responded to the developmental state model's partial dysfunction during economic slowdowns?

4. Why have existing East Asian institutions beyond RCEP failed to effectively promote economic cooperation among the three states?

5. What are RCEP's advantages and disadvantages for China, Japan, and Korea?

6. How has RCEP performed in its first four years and what improvements could the CJK FTA make?

7. What is the degree of economic interdependence among the three states, and is complete economic decoupling between Japan/Korea and China feasible?

8. What would be the CJK FTA's likely impacts on trade volumes, competitive export sectors, and sensitive industries?

9. How can the three countries utilise RCEP and the CJK FTA to support industrial upgrading while achieving developmental state goals?

1.3 Cases, sources, and methods

This thesis examines the most effective pathways for enhancing trade and economic cooperation among China, Japan, and Korea through a comparative analysis of their engagement with existing East Asian economic institutions, including Asia-Pacific Economic Cooperation (hereafter APEC), ASEAN Plus Three (hereafter APT), the Belt and Road Initiative (hereafter BRI), and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (hereafter CPTPP). However, RCEP (already established) and the CJK FTA (currently under negotiation) emerge as the most compelling cases, being the only frameworks that have demonstrated or potentially can generate substantive trade effects encompassing all three nations. The study reveals the limited capacity of other regional institutions in delivering tangible trade and industrial benefits to these states, while highlighting the measurable impacts of RCEP and CJK FTA on aggregate trade values among China, Japan, Korea, and their 54 global trading partners, with particular emphasis on trilateral trade flows and sector-specific effects.

Methodologically, this research employs a mixed-methods approach, utilising

extensive trade data alongside primary and secondary sources including official documents, statistical reports, joint statements, meeting records, archival materials, news reports, and scholarly literature. The qualitative analysis focuses on examining domestic political economy dynamics within the developmental state framework, while the quantitative component employs trade and industrial data from 57 states (including China, Japan, and Korea) for statistical computation and estimation using STATA software.

The research follows a multiphase mixed-methods design, using a sequential approach where each analytical phase builds upon previous findings. This structured methodology enables: (1) systematic examination of historical economic stagnation and developmental state model limitations; (2) empirical projection of FTA-induced economic benefits; and (3) comprehensive assessment of developmental state gains from FTAs. The chapters are designed to be cumulative rather than discrete, with each section logically progressing from and building upon its predecessor to maintain analytical coherence throughout the study.

1.4 Significance of the thesis

This thesis presents novel theoretical contributions regarding the relationship between developmental states and FTAs. First, through an interdisciplinary analytical framework, it establishes crucial connections between political and economic dimensions, offering a comprehensive, multidimensional perspective on state behaviour within this theoretical paradigm. The study effectively captures the complex contextual realities facing the examined states.

Theoretically, while existing scholarship predominantly examines how developmental state characteristics manifest in governmental actions, political structures, and unique historical contexts, this research redirects focus toward FTAs as cooperative mechanisms generating concrete economic benefits for developmental states. It provides crucial theoretical insights into why national governments pursue FTAs as instruments for economic revitalisation, thereby addressing a significant gap in the literature. Furthermore, it extends current theoretical discussions by demonstrating how developmental states leverage their inherent advantages to achieve objectives through FTAs, thereby enriching the developmental state model.

A critical component of this study analyses the partial dysfunction of the DS model and its domestic economic consequences, making important theoretical contributions. It specifically examines the economic implications for traditionally state-led economies as developmental state characteristics diminish, while assessing the model's continued relevance during industrial upgrading processes. This analysis establishes the theoretical foundation for understanding why FTAs remain vital for developmental states.

The research provides compelling explanations for why mainstream IR theories—including Neorealism, Constructivism, and Neoliberalism—fail to adequately account for the 'cold politics, hot economics' phenomenon characterising China-Japan-Korea relations. It demonstrates why complete economic decoupling from China remains impractical for Japan and Korea. The study also reveals how social constructivism overlooks the fundamental driver of trilateral relations—concrete economic benefits and national interests—rather than identity or cultural factors in the current regional context. Through its political economy approach, incorporating both internal and external factors, the thesis presents a more accurate depiction of Northeast Asian dynamics.

Finally, the research employs advanced econometric modelling to empirically estimate the trade and industrial benefits of a potential CJK FTA for China, Japan, Korea, ASEAN members, and other major economies. By calculating the general equilibrium effects of such an agreement, the study provides policymakers with crucial evidence-based insights to facilitate FTA implementation and promote substantive regional economic development.

1.5 Limitations of the study

Since the main body of this thesis was finalized in early 2025, it does not take into account the U.S. global tariffs introduced in April 2025 against countries such as China, Japan, and Korea. These newly implemented measures, which carry significant implications for trade flows and market access, fall outside the temporal scope of the present analysis. Consequently, the thesis does not address the potential effects of these tariffs on the dynamics of regional trade cooperation within the RCEP framework or on the negotiations and future implementation of the prospective CJK FTA.

This thesis extends the DS theory framework through its application to China, Japan, and Korea, utilising Chalmers Johnson’s four foundational principles of the traditional Japanese model as an analytical lens. These principles—focusing on governmental objectives, policy leadership, government-industry relations, and supporting institutions—prove particularly relevant given the three nations’ shared developmental trajectories. The analysis demonstrates how the gradual erosion of these principles contributes to their current economic slowdowns, providing important theoretical insights into DS model dynamics.

While acknowledging the historical and cultural connections among these Northeast Asian nations, the study deliberately excludes cultural, ethnic, and identity factors from its quantitative analysis. This methodological choice stems from the challenges in operationalising these qualitative factors within the gravity model framework. Future research could potentially incorporate these dimensions through carefully constructed dummy variables, should appropriate quantification methods be developed.

The research design consciously focuses exclusively on China, Japan, and Korea for several compelling reasons: their status as paradigmatic developmental states, their mature economic development processes, and their significant global economic influence. The quantitative analysis specifically examines export growth patterns from these three economies to their trading partners, while intentionally omitting reciprocal trade effects due to scope limitations.

Methodologically, the study acknowledges certain constraints inherent in its quantitative approach. Technical and copyright limitations precluded the use of more sophisticated modelling techniques such as GTAP, DSGE, or GVC analysis. The employed gravity model presents two specific limitations: (1) it captures only partial equilibrium effects rather than long-term full-endowment consequences, and (2) the assumption of complete trade liberalisation necessarily produces more optimistic estimates than real-world outcomes. However, these limitations do not fundamentally undermine the study’s core findings or theoretical contributions.

1.6 Overview of the thesis

This thesis comprises seven chapters: introduction, theory and literature review,

domestic factors analysis, external factors analysis, quantitative analysis of the CJK FTA, comprehensive cooperation design, and conclusion.

Chapter 2 critically examines the developmental state concept, analysing why existing IR theories fail to adequately explain CJK relations while demonstrating why these three nations still qualify as developmental states. It then develops a theoretical framework for understanding developmental states in FTA contexts, establishing the analytical foundation for assessing the DS model's effects.

Chapter 3 analyses domestic conditions and reform challenges in the three states, revealing their constrained internal economic revitalisation capacity amid public demands for recovery and growth. This creates their need for regional cooperation. The analysis applies the four core principles to examine their domestic economic development patterns. Importantly, it demonstrates how governments leverage DS characteristics during CJK FTA and RCEP negotiations to advance regional trade objectives.

Chapter 4 addresses how institutional overlap, redundant norms, and the 'noodle bowl' effect have created uneven development patterns across East Asia. Complementing the domestic analysis, it examines existing regional institutions' limitations to explain the absence of substantive trilateral cooperation before RCEP. Additionally, it compares the three states' RCEP tariff commitment schedules to identify both current cooperation boundaries and potential expansion areas for the CJK FTA.

Chapter 5 presents quantitative analysis of trade volume benefits and industrial sector impacts using gravity modelling. Beyond trilateral effects, it evaluates broader global consequences, recognising that trade policy changes create ripple effects throughout the interconnected world economy. The analysis provides clear estimates of potential CJK FTA benefits for each state, both in aggregate trade and specific industries.

Chapter 6 discusses how DS characteristics have intensified in all three states during and after RCEP implementation. Building on Chapter 5's findings, it develops a pathway framework for deepening cooperation through the CJK FTA. This leads into Chapter 7's concluding synthesis.

Chapter 2 The compatibility of the developmental state model with China, Japan, and Korea

2.1 Introduction

As introduced in Chapter 1, the main argument of this thesis is: How can a trilateral FTA among China, Japan, and Korea fulfil their developmental state objectives within the RCEP framework? The first step in answering this question is to define whether the situation of China, Japan, and Korea should be crystallised through the pattern of ‘developmental states’, rather than examine any trilateral FTA from the theoretical perspective of Neorealism, Constructivism, or Neoliberalism. Analysis suggests that ‘political tensions’, ‘culture and identity’, or ‘institutional cooperation’ cannot fully explain the nature of China-Japan-Korea relations, which changes frequently. Due to the importance of foreign trade with each other, which causes heavy economic interdependence, and inherent political tension (see Section 1.1.3), a paradoxical situation of ‘cold politics but hot economics’ has arisen between China, Japan and Korea (see, e.g., Dreyer 2014; Davis and Meunier 2011; Nakanishi 2015; Hagström and Söderberg 2006).

This point can be described and explained by the four main principles of the developmental states (DS) model, because the government-led industries in the three states, previously and in the present, support the states’ pillars of industrial and economic development, while also determining their trade orientation. After confirming the definition of the DS model, the strategy of bilateral and multilateral FTAs over two decades has indeed played an important role in economic stability and growth in the three states, so the second part presents the latest viewpoints from scholars and officials about attitudes towards the China-Japan-Korea Free Trade Agreement (CJK FTA) and potential tangible benefits the three states can get from it.

Hence, this chapter, as the literature review, assesses the nature of CJK relations as rated by the DS model rather than by using mainstream IR theories. This analysis suggests that FTAs help these states to develop economically, but with the side-effect of reinforcing state-led economic models in states. This chapter firstly explains, in

Section 2.1, why IR theories are not ideal for explaining the situation between China, Japan, and Korea, and then argues for the benefits of the DS model in Section of 2.2. The exploration of the theory of developmental states focuses mainly on the work of Chalmers Johnson, Alice Amsden, and David Hundt, and is aimed at finding out their thinking about China's, Japan's, and Korea's experience as developmental states. Using the 'four basic principles' of the developmental state, it is easy to compare their similarities and differences in detail, through combining the concept of developmental states with empirical analysis of the growth of industrialisation in the three states, resulting in a comprehensive analysis of specific characteristics in Section 2.3. Then, it is necessary to work out how developmental states work through FTAs in a cooperative way (Section 2.4), and identify the conditions in which East Asian states choose FTAs to explain the focus in this thesis on the CJK FTA and RCEP for China, Japan and Korea.

2.2 The combination of classical IR theories: Why are they unsuitable for cooperative analysis of the developmental states of China, Japan, and Korea?

2.2.1 Neorealism: No or limited cooperation

Traditional Neorealism emphasises that the essence of international relations is conflict among states for securing their survival; however, the high economic interdependence between China, Japan, and Korea differs from this. Briefly, in Neorealism, all things, including trade and investment, can be regarded as tools for securing the power position of the dominant states in the region, or as a mechanism for weaker governments to constrain the actions of dominant actors (Barbieri 1996). In terms of state relations, Neorealism argues that in a self-help system each of the units spends a portion of effort not in forwarding its own good, but in providing the means of protecting itself against others. When faced with the problem of mutual gain, states that feel insecure must ask how the gain would be divided; they are compelled to ask not, 'Will both of us gain?' but rather, Who will gain more (Waltz 1979)? In other words, there are several key terms that can describe international relations from a Neorealism perspective: relative gain, robust self-defence, and constant caution.

This baseline theory of international relations determines that states' attitudes towards cooperation are negative. Some Neorealist scholars, such as Kenneth Waltz (1979), Robert Gilpin (1981), and John Mearsheimer (2003), put forward the concept of cooperation. Respectively, these scholars developed the 'theory of great power cooperation', the 'theory of hegemony cooperation', and the 'theory of balanced cooperation'. These approaches relate to great powers, and argue that hegemony is the main structure of the international system and that 'keeping balance for stable hegemony control' is the target (Waltz 1979; Gilpin 1981; Mearsheimer 2003). These concepts share some common points, including that great power or hegemony is the centre and the cause of formation of international regimes in the process of cooperation. On the basis of the importance of the state as a unit, international politics is regarded as a system structure, and the influence of the anarchic international system on the state is emphasised, while excluding other actors. At the same time, cooperation between states is still a negative, political, and security-related because conflict could break out at any time, and deception and distrust are widespread. In addition, some scholars also focus on the problem of existing anarchy. For example, Joseph Grieco, after comparing Neorealism with the viewpoint of Neoliberalism, concludes that 'anarchy means that states may wish to cooperate, but, aware that cheating is both possible and profitable, are reticent about doing so since they lack a central agency to enforce promises' ... 'because of the uncertainty about a partner's compliance, and because of the transaction costs of ensuring the promises kept, cooperation may be difficult to achieve even when partners have common interests' (Grieco 2018). Even though all IR mainstream theories stress anarchy, Neorealism considers that the anarchy of the international political structure will restrict international cooperation (Cui 2011).

Some scholars explain the turbulence of relations in East Asia and Northeast Asia in recent decades using Neorealism. Choi and Moon (2010) insist that Neorealism is still the leading framework for Northeast Asia's actions. They argue that competition for power and anarchy between states are the main factors determining the relations of states, and that the lack of trust makes it difficult for multilateral institutions to move forward. Focusing on specific states, Victor (2000) uses Neoclassical Realism to identify the reason for the conflicts between Japan and Korea under the US-Japan-Korea cooperation, arguing that analysis of the relations between the two states should also consider domestic variables, such as the leader's preference, and historical context issues. More scholars have focused on the competition between

China and Japan in East Asia, including Hagström (2005), Wan (2006), Lai (2013), Hughes (2016), and Motin (2023 and 2024). They utilise Neorealism as the framework to dissect the two states' competitive policies towards each other and examine how nationalism, regional power structures, and strategic interests shape bilateral interactions. Thomas (2017) refines the topic to nuclear programs in the Korean peninsula and China; using Neorealism, he argues that the security dilemma leads to nuclear proliferation. Coming back to the whole region, scholars writing from a Neorealism perspective about long-term cooperation or regionalism in East Asia and Northeast Asia are generally of the view that this is less possible, and assert that the emergence of cooperation and institutions is also a result of competition among great powers especially between China and the United States (Acharya 2003; Minh 2014; Beeson and Brown 2021). In addition, it has been suggested that other East Asian states adopt a hedging attitude towards China's rise and actions (Liu and Chen 2015).

More scholars have started to use mixed theories to explain East Asia (Paul 2022; Beeson 2007; Kang 2011; Joo 2001; Solingen 2008), and it is true that while Neorealism offers partial explanations, it fails to fully account for the region's complexity, as different time periods have featured varying state configurations and dynamics. In fact, Neorealism can offer an explanation of the conflicts among China, Japan, and Korea which have impeded their past negotiation of the CJK FTA and the process of cooperation between them from the past until now (see Section 1.1.4 and 4.4.4) through states' overemphasis on politics and security, and the possibility of cooperation being undermined at any time.

An example is how the conflicts over territory, including the Diaoyu/Senkaku Islands, and other problems left over by war, resulted in less tangible progress in the first five negotiations of the CJK FTA (see Section 1.1.4), and stopped three-yearly CJK leaders' summits after 2015 (State Council of the People's Republic of China 2015). Thus, the historical, territorial, and foreign strategic issues embedded within them seem perpetually unresolved, consistent with their past behavior. According to Neorealism, if win-win cooperation in institutions between China, Japan, and Korea is to be achieved, any process must firstly mediate and shelve the influence of state power and international political structures in some way. However, in fact, the RCEP became the first FTA in Northeast Asia, and was positively viewed by domestic enterprises and society in the three states; however, at the same time, while some

action towards the CJK FTA is occurring², those conflict between the states continues to affect this process.

No scholars have directly viewed RCEP from the single Neorealism perspective, but have done so from the Neoliberal institutionalism, East Asian regionalism, and Constructivism perspectives, which are discussed in the following subsections. Therefore, a question arises: Why did this cooperation in the RCEP occur? As previously noted in the Neorealism literature (see Choi and Moon 2011), political tensions should make it difficult for the region to advance bilateral or multilateral cooperation. Obviously, based on the paradox of theory and fact, Neorealism is not fully applicable to Northeast Asia and the situation of China, Japan, and Korea, especially regarding their economic and trade exchanges, past and present.

2.2.2 The restricted importance of shared identity and loyalty in the interstate cooperation of China, Japan, and Korea based on Constructivism

Similar to Neorealism, Constructivism theory also has a limited capacity to explain Northeast Asia. Constructivist scholars place more emphasis on shared norms, common identities, and loyalty between states in cooperative institutions, and whether the states are in conflict or cooperation depends on shared conceptions in their social identity (see, e.g., Onuf 1989; Wendt 1994; Katzenstein 1996; Finnemore 1996; Finnemore and Sikkink 2001; Checkel 2005; Wiener 2007). However, those are not the determining factors in Northeast Asia relations today. In Constructivism, whether one actor rightly transfer its idea and norms to the other, and reach an unerring agreement in an institution, is the core element of successful cooperation from the Constructivism perspective. As Oye (1986) said, the ‘explicit codification of norms can limit definitional ambiguity, can permit more effective resort to strategies of reciprocity’.

The core elements influencing states’ cooperation in Constructivism can be primarily divided into social identity, followed by cultural structure (competitive, individualistic, and cooperative cultures), rules and norms, communities of practice, and legitimacy and authority (see, e.g., Wendt 1992; Finnemore 1996; Onuf 1989;

² This aspect is illustrated in Chapter 3.

Adler 2005; Hurd 1999; Zürn and Checkel 2010). Social identity helps states define their interest and actions, and a shared identity can foster trust and mutual understanding, reducing the uncertainty and fear that often inhibit cooperation in an anarchic system (Wendt 1992; Alder 2005; Ruggie 1998). Then the different cultural structures decide the states' cooperation to different extents; the progression from a competitive (Hobbesian) culture to individualistic (Lockean) culture and finally to cooperative (Kantian) culture represents an increase in the level of cooperation, moving from low to high (Wendt 1999). Shared ideas, rules, and norms give states a framework for appropriate behaviours, and helps bring states to cooperate (Wendt 1999; Finnemore 1996; Ruggie 1998). At the same time, communities of practice and legitimacy refer to a method of strengthening all the aforementioned factors in states' cooperation (Alder 2005; Hurd 2007; Wenger 1998; Ruggie 1998; Reus-Smit 2007; Zürn and Checkel 2010).

There are many studies from a Constructivism perspective that examine relations between states in East Asia and Northeast Asia and that illustrate the impact of identity, norms, and cultural foundations in states' foreign policies and behaviours, but no one thinks these are the most significant elements in states' relations. Apart from cooperation, scholars have found that the painful historical issues and a lack of common identity generate mutual suspicion and tensions among the states of East Asia, causing stunted integration and regionalism (Clements 2018; Qin 2013; Willis 2020). Meanwhile, focusing on China, Japan, and Korea, which have common cultural bases, some scholars like Gries (2005), Hagström (2005), and Qin (2013) discuss how different attitudes towards historical issues (comfort women and forced labour), territorial disputes, and the deeply ingrained perceptions of each other's competitive roles and identities in the regional order between the Chinese, Japanese, and Korean governments squeeze the space of mutual trust and expand the rivalry in trilateral relations. However, these scholars also note that regional institution-building is also an important method for fixing these issues. Hence, Dent (2008), Terada (2003), Zhang (2021), Yoshimatsu (2023), and Jhuswanto (2024) see East Asian institutions like ASEAN, and ASEAN+3 as the outcome of social interaction, shared values and norms, and regional identity, and assert that this kind of institutionalisation also, in reverse, further strengthens these factors in member states.

While Constructivism is helpful for explaining why East Asia has entered into initial institutional cooperation but not regionalism, and for understanding the disharmony among China, Japan, and Korea, it cannot be seen as the key theoretical

framework for the current development trends of this region, where periods of cooperation alternate with phases of non-cooperation. In the meantime, Constructivism by itself can deliver a good explanation for the ancient East Asia system, in place from the 3rd century BC to the 19th century AD. During that period, the system of hierarchy in China, with its geopolitical and economic advantages, formed tributary relations with other states in return for guaranteeing their security; this occurred together with the spread of Confucianism, which promoted the ideas of harmony, order, and nonviolence (Khono 2013). Both of these played a role in making the rulers of all states tolerant and obedient, which laid a good foundation for the stability of East Asia from the three kingdoms period. But the situation of Northeast Asia today is different from the past, due to the disappearance of Japan and Korea's sense of shared identity with China after the Meiji restoration and the rise of competition among the three states. In the present, the negotiation process of the CJK FTA is a good example of the contradictions of and obstacles to cooperation between the three states, as well as the lack of a shared social identity (see Section 1.1.4 and 4.4.4). At the same time, the worsening relations in Northeast Asia has also been verified again by the impact of the stronger Sino-US tensions, which have fuelled suspicion and distrust in Northeast Asia in recent years, in line with the analysis by many Constructivism scholars of the disharmonious factors between China, Japan, and Korea (see, e.g., Qin 2013; Feng 2013; Zachmann 2014; Shin 2003). However, RCEP become the first FTA between the three states with tangible economic effects when they lacked enough shared values or a shared identity, and the governments of the three states largely encourage domestic enterprises to join and use this FTA. Therefore, it is not appropriate to study the unpredictable relations among China, Japan, and Korea from the Constructivism perspective. Specifically, the situation of Northeast Asia cannot be explained simply by the notion that a shared idea on overcoming domestic economic stagnation necessarily leads to interstate cooperation (Keohane 1984).

2.2.3 Neoliberalism: A focus on the role of external institutions in interstate cooperation

Compared with Neorealism and Constructivism, Neoliberalism delivers a more complete theory about interstate economic cooperation. 'Cooperation is generally

easier in the field of political economics, as the risk of sudden and severe fraud is rare in most international economic sectors' (Liu 2005). However, it is still not sufficient for the current complexity of Northeast Asia, especially given the fact that the CJK FTA has still not come into force even after long-term negotiations.

In considering the relevance of classical Neoliberalism to Northeast Asia, a useful starting point is reviewing how this perspective views cooperation between states. Firstly, even in the absence of some conditions for reconciliation, states are willing to cooperate for their win-win interests, because the needs arising during the process of state development influence whether continuous interdependence emerges between them. In this interdependence, both sides deepen their understanding and prioritise the needs that are most conducive to the maximisation of each other's interests (Keohane 1981). Because the objective of states is absolute gains, they only care whether they can benefit from cooperation. Secondly, international institutions and regimes are a good way to solve these problems and maintain stable cooperation under the circumstance of mutual doubt and fear present in anarchy. When such an orderly system is established, its information symmetry and punishment measures will play an independent role in preventing members from damaging cooperation for their own interests by reducing cheating, increasing mutual trust, and completing the resolution of conflicts. After a period of cooperation, states can continue without hegemonic guidance if they understand each other better and find common interests (Keohane 1984). Furthermore, the presence of an existing regime in one issue area can positively impact the negotiation of a regime in other areas: this is beneficial, as the 'clustering of issues under a regime facilitates side-payments among these issues: more potential quids are available for the quo' (Keohane 1985). In other words, cooperation promotes the formation of regimes, and the existing regime will promote regime cooperation in new issues and areas (Haas 1990). Finally, Neoliberalism holds the idea that institutions can have an impact on maintaining interstate cooperation, and when hegemony weakens, new institutions will emerge based on mutual trust accumulated under old institutions (Keohane 1989)³.

Numerous scholars have applied Neoliberalism theory to the study of East Asia and Northeast Asia, and their central argument is that the regional institutions ease tensions between states and create strong development potential (see, e.g., Aggarwal

³ There have also been liberal scholars who have studied the role of non-state actors in international cooperation, such as Rosenau (1992), who applied the concept of 'Governance Without Government'. However, this point has not been explored in this thesis because the research subject in this earlier work was the state.

and Morrison 1998; Cummings 1999; Katada 2007; Wan 2007; Woo 2007; He 2008; Dent 2008; Evans and Sewell 2013; Beeson 2014). However, although the design of interstate cooperation in institutions or regimes from a Neoliberalism perspective looks more intact than Neorealism and Constructivism, it still very difficult to depict the whole situation in Northeast Asia. According to the trade intensity index (TII) (see Section 4.4.1), there has been a high degree of economic interdependence between China, Japan, and Korea for consecutive years, therefore absolute gains can be taken by the three states from FTAs or other institutions because of the advantages these provide. In addition, their conflicts over territory, marine resources, and issues left over by war should be relieved by their cooperation, or, in Neoliberal terms, there should be some further functional spillover from economic cooperation to political cooperation. However, as Terada (2003), Hwee (2003), and Ba (2006) note, the functional spillover effect presents only to a weak degree in East Asia after this region's participation in institutions like APT and APEC due to the inefficiency of these institutions and distrust among East Asian states. There had not been any economic cooperative institutions in Northeast Asia, except for the ineffective APEC as a forum, until RCEP. Even with the establishment of RCEP, as the first FTA for Northeast Asia, function spillover has not been achieved because of the stronger US-Japan-Korea cooperation mechanism and the increased tension between China and the United States (Zhou 2022). For example, after a trip to the US in April 2023, Korean President Yoon felt that it was time to reduce the dependence on China even if this came at some real cost (East Asia Forum 2023). Meanwhile, even on the basis of good conditions for cooperation, the CJK FTA, which started earlier than the RCEP negotiations, cannot be further substantively advanced due to geopolitical conflicts and historical factors among the three states. All the evidence points towards Neoliberalism theory not fitting with the changeable situation among China, Japan, and Korea. The existing overlapping cooperative institutions in East Asia are unable to fill the gap between the states, and conflicts still happen at variable intervals despite the high level of economic interdependence. As Rozman (2004) argues, Northeast Asia has unique conditions of cooperation in which domestic factors play a significant role, instead of only foreign institutions.

2.3 Understanding the concept of the developmental state

It is reasonable, therefore, to study the current development trend of cooperative relations among China, Japan, and Korea, stemming mainly from domestic factors, especially in terms of economic dynamics, because the factors that sustain their unity are economic trade and FTAs. As states with booming economies, it is essential to highlight the classic government-led economic model prevalent in Northeast Asia, which has been a crucial factor in their past rapid economic growth. This model is called the DS model. This section is divided into three subsections to explore the DS model. The basic concept of developmental states is discussed in Section 2.3.1. This is followed by the Section 2.3.2, which focuses on the DS model in China, Japan, and Korea primarily drawing on Chalmers Johnson, Alice Amsden, and David Hundt. Finally, Section 2.3.3 illustrates the application of the four main principles of the DS model in the development process of China, Japan, and Korea (see Section 3.2).

2.3.1 What is the developmental state model?

Chalmers Johnson provided an explicit definition of the developmental state in 1982, which he defined as the government and bureaucracy directly influencing the state's economic growth not only in terms of regulation but also in relation to industry policy, exchange rate, and state-owned enterprises and financial institutions (Johnson 1982). Differing from some liberal states' dependence on market coordination, the government and bureaucracy in developmental states have the right to shift current industry policy under the goal of economic growth, supporting and inhibiting some industries according to the policy. At the same time, the bureaucracy also controls the state's foreign capital and even exchange rates and protects domestic weak production via tariff or non-tariff measures. To stimulate industry and consumption, it adopts various credit and financial measures depending on the particular situation. This theory has been used later to analyse different states, including Korea, Brazil, and countries in Africa (see Amsden 1989; Leftwich 1995; Beeson 2009; Bresser-Pereira 2019).

But in Johnson's DS theory, the marketing-conforming principle means that state industry policy must bring into correspondence with the market instead of replacing it (Johnson 1982). In other words, the relations between government and private

enterprise should be equal and there should be mutually beneficial cooperation. Instead of simply non-aggression between government and the market, through analysing the case of Korea, Alice Amsden came up with a new paradigm of market augmenting, which refers to market reforming as state intervention in the market rather than state-led liberalising of the market (Amsden 1989). The government supports the evolution of large enterprises and widens and diversifies production to manage small, medium, and large business groups. It also focuses on quantity growth and quality improvement at the same time.

Through case studies in Korea and Taiwan, Wade (1985) also points out the importance of government in constraining market rationality, which means that policy possesses the whole right of determination of industrial development priorities, with the aim of making industrialisation the first priority. In market-governed patterns, the government is more likely to firstly and positively ensure the scope of developing industry sectors and invest an abundance of resources into them, afterwards adjusting or cutting down some secondary sectors like agriculture and textile products (Wade 1985 and 1990). It is noteworthy that although the government does not attach importance to the secondary sectors, it does not intervene in their development through administrative means (Wade and White 1985). In Wade's market-governed pattern, the government of developmental states acts as a mechanism leading, stimulating, and managing the market via its power, and attracting FDI consciously through establishing institutions to protect those industrial sectors (Wade 1990).

In addition, Chang (1994) illustrates government's incentives and punishments for firms, based on an analysis of Korea's DS. This is a step up from Wade's limited control guidance from government, and it has also emerged in China's DS model (Nee 2007). The success of DS in East Asia relies on a functioning and capable state base beyond the market economy (Amsden 1989; Beeson 2006). Chang (1994) determined that some states, like Korea, are based on an individual political system and historical development process, and therefore this kind of policy-led economic mode can exist in the region, avoiding unnecessary impediments to development. In later DS analysis of other states, such as Brazil and India, Evans (1995) applied the concept of embedded autonomy, emphasising the state's power in deciding economic development efficiency. One of the elements of this power is a strong national capability as the political base, which can surpass individual power in the business groups.

For this purpose of economic development, the government must establish a powerful regime that ensures the presence of enough force to be able to adjust national resources. In other words, the most important institutional feature of the DS model is that the state has a high degree of autonomy for integrating the business community into its decision-making system, then turning this autonomy into management capacity. Similar to Evans, Kohli (2004, pp10) identified the reason for India and Nigeria being developmental states is that their ‘developmental outcomes are tightly linked to the political structures within which states operate, and to the priorities established by those in power’. Apart from state, government, and political structure, Thurbon (2016) also considered the importance of the mindset of leaders and elites in shaping domestic economic development, drawing insights from Korea’s experience. Woo-Cumings (1999) developed a new way of understanding the birth of the DS model in Northeast Asia, identifying it as originating from ‘a historically special response’, which refers to the eagerness of these states to rebuild domestic economies after World War II (WWII).

For the sake of keeping states’ capacity for international competition, governments also focus on states’ ‘long-life battery’, setting up academic research institutions and developing education, and emphasising the creation and accumulation of new factors of production to cultivate more industrial sectors (Woo-Cumings 1999), as has occurred in Japan and Korea. And within the development of green power and environmental awareness, the role the state and government play in industrial and technical upgrading towards new and clean energy has become a critical point for DS scholars (Thurbon and Weiss 2016; Florini 2020). As Florini (2020) described in regard to China and Korea, the green developmental state emerges as a critical actor in the 21st century, where the urgency of climate action requires state-led coordination, investment, and long-term planning to balance economic growth with environmental sustainability.

The operation of the DS model has also attracted some critics, particularly regarding the situation of the East Asian states after the Asian Financial Crisis in 1997. As Krugman (1997) put it, government over-control of the economy meant that market adjustment ability failed, and thus these states were at a loss when disaster struck (Caldentey 2007). The excessive waste of resources and investments associated with growth performance has also attracted questioning and critics. Some scholars have also criticised the lack of transparency from government in the operational process, causing corruption and complexity in administration (Evans 1995; Wade

1990; Khan 2000). In addition, Kwon (2007) points out that government also has limited functions in solving unemployment issues because of the lack of methods available under the full-employment DS model. This argument better explains the strong dissatisfaction of labour unions towards the Korean government during the 1990s.

Overall, DS scholars prefer to study the role of government, leaders, and elites, political structure, society actors, and historical context in economic development, industrial policies, business community, and emerging sectors. Since this thesis is mainly concerned with the economic development and industrial structure changes of China, Japan, and Korea as developmental states participating in FTAs, the classic four principles of Johnson's successful economic development case in Japan are adopted. These are: 1) clear goals for economic development; 2) government-led policy for economic development; 3) close relations between government and business; and 4) a set of supporting institutions.

2.3.2 The DS model in Japan, Korea, and China in chronological order

Generally, during the first 20 years after the end of WWII, the Supreme Commander for the Allied Powers (SCAP) firstly restricted the military's interactive impact over economic development in Japan, and merged economic functions into the government, thus establishing the foundation of the developmental state of Japan⁴. The Ministry of International Trade and Industry (hereafter MITI/METI⁵) also started to regulate the direction of economic development through enacting legislation controlling foreign exchange and trade. After the failure of government control and self-control before 1952, Japan committed to collaboration between the public and private sectors and formed a management system.

In Johnson's analysis of the Japanese model, MITI plays an important role in the 'economic miracle', it is a symbolic institution of mobilisation and shows the essence

⁴ This section follows the sequence of the emergence and development of DS—beginning with Japan, followed by Korea, and concluding with China—with the same output also presented in the chapter 3 for consistency. The remaining sections follow the sequence of China, Japan, and Korea.

⁵ In 2001, Japan's Ministry of International Trade and Industry (MITI) was reorganised into the Ministry of Economy, Trade and Industry (METI) to reflect broader responsibilities in a changing global and technological environment.

of nationalism in East Asia. At the same time, Japan's colonialism during the period of WWII brought developmentalism to Korea which helped it industrialise. In regard to finance, Japan and Korea are similar in that state intervention is very important, with a credit-based financial structure that influences economic investment and industry development by government (Johnson 1982). In this framework, credit controlled by the state can exert influence on firms that get benefits and adapt to innovative industry policy, while foreign investment and capital is strictly monitored and operated by the state (Johnson 1982). On the other side, capitals flows from the government to the firms also stimulate corruption, which means that the state government can take advantage of this part of capital to enrich itself, using the excuse of industry policy for state development (Johnson 1982). At the same time, industrial groups like Keiretsu in Japan and Chaebols in Korea, supported by the industry policy of government, such as preferential loan support, can also strength their private power and exclude mid-sized and small firms, which may create substantial disadvantages in promoting normal economic development (Lincoln and Michael 1992; Lim and Suh 2006). Even though this traditional model caused some issues, it still helped both Japanese and Korean enterprises to be competitive in the international system.

In Japan over the past 50 years, owing to the huge destruction of the economy during WWII, the Japanese government embarked on making its first priority economic development through close business-government relations and numerous changes to its industrial policy. The government moved from strict control of market dynamics, including importing and exporting, during the 1940s and 1950s, to later export-oriented policy and transferring the division of labour. It led the other East Asian states into the 'Japanese model', which is also called the 'flying geese' model (Ravenhill 1995). As Johnson (1982) saw it, Japan experienced three stages of trialling of government-private relations, respectively 'self-control, state-control and cooperation', but did not find the completely perfect solution. While that series of manipulations has brought success to Japan-led state economic development, it was also was the cause of Asian Financial Crisis because of the weakness of government-private collaboration and the fragility of export-oriented industrial policy led by the government (Pang 2000). To be specific, preferential treatment of certain businesses, often based on political connections rather than economic merits, created inefficiencies and reduced competitiveness, while over-reliance on exports increased the state's vulnerability to fluctuations in the global market.

Johnson (1982) concluded the DS model in Japan can be described as: 1) 'the

existence of a small, inexpensive, but elite state bureaucracy staffed by the best managerial talent available in the system'; and 2) the function of the bureaucracy is to choose the industry policy and the best way for achieving, and monitoring the dynamic of sectors included in strategy for keeping its healthy development. For achieving these two goals, there are three extra requirements: a political system that can limit the influence of legislative and judicial branches of government; set government financial institutions that maintain the government's intervention in the economy through tax, investment budget, public corporations, and other elements; and pilot organisations like MITI that deliver advice related to micro-level industry policy.

This model has been emulated by Korea, Taiwan, and Singapore with minimal change according to their own unique situations; however, Johnson thought the absence of MITI-like body created high structural corruption and chaos in the economic environment in other states, which contributed to the Asian Financial Crisis in 1997 (Johnson 1998). However, the powerful control of the Japanese government over capital is also evident in its restrictions on unchecked growth. Responsibility for managing the overall situation does not rest solely with MITI; this shared approach is a uniquely successful element. This kind of excessive management in the 1990s brought domestic crisis to Japan, which led to economic collapse as a result of over-investment and a real estate bubble. However, Japan chose to transfer the bubble to other East Asian states, thus stimulating the spread of the crisis (Wade and Veneroso 1998). In East Asia, Johnson (1982) pointed to the distinctive feature of the blurred boundary between private and public, government and market, official and non-official.

Korea was deeply influenced by Japan from the time of colonialism, and this lasted to the 1980s, laying a foundation for the developmental state model in Korea, as a production-oriented alliance can be used to strengthen a state's controlling and managing power (Kohli 1994). In the earlier stages of colonialism, Japan had transferred its economic pattern to Korea, such as using bureaucratic ability to intervene in some economic activities, viewing Korea as a strategic asset to maximize benefits. Then, after WWII, the Korean government was eager to save and renew the domestic economy. These historical contexts easily gave Korea access to Japan's developmental state pattern in the 1960s (Woo-Cumings 1999), developing a model similar to Japan's highly bureaucratic approach, and with a similar mode of alliance between state and private business for industry development (Amsden 1989; Evans

1995; Weiss 1995 and 1998; Ravenhill 2006). In addition, the state in Korea has typically been very close to the country's financial system, and to this day remains the most heavily engaged of the developed states, through the nationalisation of banks and the establishment of state-owned financial policy institutions (Thurbon 2016). Meanwhile, Korean capitalism has been heavily dependent on the state, from the colonial period until the present, noting that 60 percent of founders in Korea's top 50 Chaebols has processed business activity under colonial support (Amsden 1993; Eckert 2016), representing the early prototypes of state-led alliance with business. All these similar development patterns with Japan made Kohli (2004) conclude that postwar Japan remained the reference for Korea, resulting in a high level of coincidence between the two nations in regard to language, economic structure, and goals.

Therefore, it is not surprising that Korea transferred its policy towards 'export-oriented' industrialisation from the 1960s owing to past rich experience of overseas selling. The pathway of the developmental state of Korea also has other characteristics similar to Japan, like central authority, economic growth as the first priority, and alliance with state property owners (Amsden 1989, 1991 and 1994; Wade 1990; Evans 1995; Eckert 2016). Among these, the government established a credit system, currency system, and bank, and also all kinds of institutions connecting with all social classes to increase its controlling rationality.

One aspect that differs from Japan is the effect of Chaebols on the government and market in Korea (Gerald 2014; Shim and Lee 2019). Even after the establishment of an institution called the state's Economic Planning Board (EPB), which responds to the distribution of resources and investment to certain industries, and also the government's solid grasp of a high level of autonomy from the beginning, the Chaebols' effect on national industrial development has greatly increased and has caused some conflicts with government from the 1980s. Among dissatisfied workers on wages, the government's credibility and control have clearly been eroded by the rising influence of the labour movement and the Chaebols, which has also led to the dissolution of the state alliance (Minns 2001). At the same time as regime instability after 1979 and growing American protectionism increased the inner and outer pressures on national economic development, the Chaebols started to consolidate their position through deepening capital networks with foreign corporations, avoiding

government-led reforms for small and medium-sized enterprises⁶. The subsequent two financial crises nurtured some ‘declinist’ and ‘endist’ schools of thought about Korea’s developmental state mode; for example, opinion about the crises gave rise to the process of eliminating the state management of the economy (Kalinowski and Cho 2009). In addition, the fact that over 50 percent of foreign capital was in Korea’s top Chaebol led scholars like Pirie (2005) to think that the government had completely lost its coordination ability in the private sector. From the 21st century, Korea’s government has deepened its ties with the Chaebols to keep the state’s economy afloat after the Asian Financial Crisis hit hard, and even though it has tried several times it has failed to reform the Chaebols. Therefore, there are voices suggesting that the new market regulations and broadening of foreign capital in Chaebols can give a birth to new ‘developmental state’, which can help government rebuilt the economic structure based on its strategic intent (Chu 2009; Park 2011; Hundt 2014).

Compared with the past decades, as David Hundt (2009) notes, Korea after 2000 has not fully followed the pathway of the developmental state due to a lack of efficiency and rationality, but still maintains a type of alliance between government and the Chaebols for the sake of national economic growth, despite many conflicts. However, other scholars think that Korea is a successful case of the DS model because of its perfect institutions of increasing learning, which means the government has enough power to decide ‘what, when and how much to produce’, and also to invest heavily in education that focuses on well-educated workers and engineers. This kind of concentrated economy actually consolidates the relations between government and private business, and easily forms the ‘economies of scope’ (Amsden 1989, 1992, 2001, 2003, and 2007; Thurbon 2014, 2016; Thurbon and Weiss 2016).

From Johnson’s (1995) perspective, China’s economic growth has also learned from Japan’s economic miracle and has become part of a transformation. This opinion is supported by many Western scholars like John Knight, who identify the China’s economic growth via two main criteria. According to Knight’s concept, if a state’s government puts economic growth as its first intention and establishes institutions with regulations to incentivise industry development, and ultimately achieve fast growth, it belongs to the mode of developmental state that is like China (Knight 2014). However, there have been some opposite voices about this argument, especially from

⁶ For example, the Chun and Roh governments made numerous attempts to transfer direct credit and finance to middle-sized and small firms, but failed to do so because of the intervention of the Chaebols.

Chinese scholars, and this will be discussed below.

The adoption of the DS model in China after 1976 can be attributed to two main factors: the need to enhance political legitimacy and the influence of Western economic prosperity (Knight 2014). The subsequent reforms sought to solve almost all problems, including SOEs, urban workers, housing, government income, trade, social security and foreign exchange, which extremely rapidly achieved the initiative's goal by means of eliminating all inefficiency factors (Naughton 2008). This kind of incentive from the top to certain enterprises actually promotes their economic production through lending facilities and a favourable policy tilt, with local government implementing specific facilitation policies to firms and as a result indirectly promoting the economic development of the state (Nee 2007). In Knight's (2014, 1340-1346) view, the unambiguous features of China's DS model are its performance incentive system and accountability system. This means political advancement is tied to economic performance while in office and that strong competition among lateral governmental officials exists; these are significant elements for achieving the central government's goals. Even though the kind of actions China took also brought about many issues like environmental pollution, corruption, and unlimited economic growth, the stronger base of central government and bureaucracy, robust heavy industry, and more sufficient natural and labour resources than Korea and Japan mean that these issues have had less of an overall impact on the economic growth of China. Hence, Nikolaos (2018) concluded that the obvious profile of China's DS model can be described as follows: 1) a competent and relatively autonomous state without too much social pressure; 2) talented and highly capable administrators selected by the Chinese bureaucracy; and 3) dynamic economic policy to keep local industry alive under the consensus goal of state development. However, problems of over-rated SOEs, the focus of openness on the Eastern coastal area, the capital and financial control, and the numerous labour-intensive industries in rural areas have limited China's growth rate and capacity.

Compared to China's developmental states model by Western scholars, Chinese scholars prefer to study the domestic development pathway from an ideological perspective; 'China's model' is used to present its uniqueness, being different from the models in place in Japan and Korea. Specifically, Xu (2011, 1339) describes the reason for successful economic growth in China as being due to its unique institution, which Xu calls 'regionally decentralized authoritarianism'. In Zhang's (2011) analysis

of China's economic growth pattern, the situation of its economy is more complex than that of other states because of its different historical stages, different social system (a perfect combination of China's socialist system and a market economy), and the specific economic management system and operational mechanism it uses (a basic economic system with public ownership as the mainstay and diverse forms of ownership developing side by side). However, the emphasis on its characteristics should not obscure the fact that it is a functionally developmental state, and conforms to the framework of the main principles of the DS model used in this thesis (see Section 2.3.1).

Certainly, some scholars have claimed that the DS model has already become unsuitable for describing the current situation in Northeast Asia based on the lessons of dysfunction of government-intervention economic systems after the Asian Financial Crisis in 1997 (Pang 2000; Maswood 2002; Wilson 2003). These scholars consider that the DS model could only work under the Cold War circumstances, as the US government allowed it to develop in light of the political tension with the Soviet Union, and for the sake of national security, the high demand for national strength also requires the fast improvement of economic growth. Within the context of globalisation, Northeast Asian states have started a process of economic stagnation. In the meantime, as the representative of liberalised market economic system, the United States is likely to put more pressure on them to transform their government-led economic systems. The long-term economic stagnation which followed the Asian Financial Crisis further proved, from scholars' perspectives, the failure of the DS model in Japan and Korea (Pang 2000; Wong 2004), which the IMF demanded should open up market capitalism and help banks and enterprises freely develop without government control.

If the entrenchment of liberalised capitalism has indeed been progressing as those critics claim, then the legitimacy of the DS concept has actually been weakened after the Asian Financial Crisis, and foreign capitalism flowed into the domestic economic market in Japan and Korea (Hayashi 2010). However, this cannot assign Northeast Asia into either a liberalised-capitalism or government-led economic system. On the one hand, as Hayashi (2010) asserts, a government-led economy does not mean that states cannot integrate into the development of globalisation, and can help attract more FDI through strong economic ability. In reverse, Hayashi's supports Chang's viewpoint that highly efficient industrial policy that leads to high productivity can help states bring in more FDI and become better integrated into world markets as a

link in the production chain (Chang 2003). Moreover, it is clearly a fact that China, Japan, and Korea have become a very important part of the global economy during the whole of the 21st century, and also that the Asian Financial Crisis in 1997 taught East Asian states the lesson that government control should not be diminished, but increased (Dent 2004). As Fingleton (1999) said, states should ‘channel the nation’s enormous pool of savings into the right industries and to ensure that corporate clients stay in line with industrial policy’. After the 2000s, under government adjustment and intervention, the three states gradually opened their markets to foreign capitalism and sought for regional and trans-regional multilateral cooperation through FTAs and investment abroad. The Japanese and Korean economies began to recover from the economic crisis, while China was set on a path of rapid economic growth.

2.3.3 The four principles of the DS model in the economic development of China, Japan, and Korea

This section focuses on the foundational aspects of the partial dysfunction of DS principles in the post-2000 era, as outlined in Chapter 3. As discussed in Section 2.3.1, the four principles that form the analytical framework refer to: 1) economic growth as the top national priority; 2) government is responsible for economic policies; 3) government works collaboratively with businesses; 4) capable institutions to execute industrial policies. This discussion is rooted in the viewpoint that China, Japan, and Korea are developmental states through the analysis of development processes based on these principles.

Economic growth as one clear and defined goal permeates the development process in China, Japan, and Korea. Since 1978, the Chinese government has shifted its policy priority from political to economic through reforms that increased economic efficiency via state intervention (Knight 2014). The strong determination of the economic priority goal has emerged from several policy shifts in the 30 years following the opening reform. These have included the ‘CPC Central Committee’s decision on restructuring the economic system’ in 1984, making the point that ‘accelerating the pace of the reform of the entire economic system is an urgent need for China’s development’, and in 1987 ‘taking economic development as the central task and the Four Cardinal Principles as the basic line for building the state’ (Peking Review 1984). Later, China’s government decided to join the WTO in 2001 and

accelerated trade relations within globalisation. Internally, the goal was to achieve a moderately prosperous society by 2020 (People's Daily 2012).

Chinese exports also played an important role in world economic growth externally, helping keep economic growth as the central point of government policy. In recent years, the government has shifted the focus from merely economic growth to the strengthening of economic efficiency. Premier Li Keqiang said at an achievement exhibition marking the 70th anniversary of the founding of the PRC in 2019 that 'we must continue to focus on economic development, implement the new development philosophy, accelerate the development of new drivers, ensure the economic operation within a reasonable range and promote high-quality development.' At the same time, Xi Jinping has repeatedly stressed at the Central Economic Work Conference the need to improve the quality of development and carry out structural reform (Xi 2018).

Compared with China, Japan's economic priorities policy started earlier, from immediately after the end of WWII. Japan's fast economic growth in the last century obviously shows the government's determination to enhance international economic competition and eradicate the failure of WWII, and the government has actually made economic growth its primary aim for more than 50 years (Johnson 1999). Through the reconstruction that took place in the 1950s, the Japanese economy began to take off in the 1960s. All successive Liberal Democratic Party (hereafter LDP) governments took economic development and catching up with Europe and the United States as the top priority; their mainstream thought has been 'the pursuit of rapid economic growth through the realization of Japan to become an economic power', and maintain 2% per year of economic growth (Junzo 1997). Under this guidance, Japan's national economy had exceeded two-thirds of the total production in East Asia by the end of the 1970s and the beginning of the 1980s. Owing to the bursting of the bubble economy at the end of the 1980s and the Asian Financial Crisis in 1997, the Japanese economy cannot grow as much as it once did but has maintained a stable development trend in the first decade after the 2000s because of the government's attention to economic development. However, the Japanese government has still been anxious due to the failure to retain the 'East Asian miracle' in the 2000s, and therefore economic recovery policy has become the top priority of every prime minister's campaign. For example, Shinzo Abe, in his second tenure, advocated for prioritising the economy and spoke about 'Abe's economy', while Yoshihide Suga admitted that kick-starting the economy was the top priority (The Australian 2020).

Korea is heavily dependent on the export-oriented economic development mode dating back to the Park Chung-hee government in the 1960s, which means that the principle of national construction leans on foreign trade (Amsden 1989). Park regarded economic growth as the top priority during 1960s and 1970s due to its crucial support of the military regime (Mason 1980). In the 1980s, after Park's rule ended, economic priority policy was still the main approach used to maintain the state's strong competitiveness and promote industrial transformation, given that Korea had already become an economic giant in East Asia. However, the situation of Korea's domestic economy was similar to that of Japan, entering into a shrinking phase. The Kim Young-sam government, in power from 1993, was in a rush to promote a series of reforms for establishing a 'new Korea' that was a variant of a market-oriented economy. In order to achieve the goal of an 'affluent social life', this administration also considered economic recovery as the main goal (Lee and Lee and Park 2012). After the 2000s, almost every Korean president stated the importance of economic recovery and development for Korea. For example, Kim Dae-jung emphasised, 'The economy is the foundation of the nation', while Roh Moo-hyun said 'True national prosperity can only be achieved when economic growth is achieved'; these remarks were later followed by the same attitudes from Lee, Park, Moon, and Yoon.

Government-led policies play a main role in the economic development of China, Japan, and Korea. The fast industrialisation in China has occurred under the central control of government leadership, and it went through two important phases of light to heavy industry and an attempt to transfer to high-tech innovation (Knight 2014). The reforms in 1978 also modernised the leadership system, providing a series of incentive systems to state cadres and regional leaders by means of performance evaluation, reward and punishment mechanisms, and educational training (Knight 2014). At the same time, SOEs operated by state government have contributed a lot to heavy industry development and were not deeply influenced by economic reforms in the first two decades after 1978 (Naughton 2008). Coming forward into the 1990s, some drawbacks of SOEs, like corruption and lack of innovation, caused the stagnation of economic development; they also took advantage of their relations with government to achieve private interests, with a large amount of bank borrowing under the pretext of starting a business. This has led to a fiscal deficit.

The Asian Financial Crisis in 1997 also had a certain impact on China at that time; given its reliance on foreign capital and foreign demand through the crisis, a big

reform was imminent. In light of those difficulties, the government undertook the rapid implementation of macro-control to intervene in the market, including foreign exchange reform, credit expansion, and tax sharing reforms. Among these, foreign exchange reform became the basis of future export-oriented policy, and tax sharing between central government and local government further increased the power and autonomy of the latter (Zhang and Gong 2005). At the same time, the concept of ‘trade liberalisation’ was first formally put forward in 1995 by the trade authority that established a trade system with Chinese characteristics and that is compatible with the prevailing world trade system (Zhang 1996). Later, the government lowered import tariffs to 23 percent for 225 projects and ensured the export-oriented strategy, especially the export of labour-manufacturing products (intermediate manufacturing), became the main focus in the first stage; it also adopted ‘investment attraction’ as the most effective policy choice for development (Shen and Liu 2004).

As well as establishing the overall goal of prioritising economic growth, the central government at the same time set up an incentive mechanism for upgrading local government enthusiasm, by means of ranking local governments according to the achievement of local economies, especially in terms of GDP growth rate and FDI share. Later, the competitive ranking would directly decide officials’ promotions, which had a positive effect on them taking reform initiatives in their jurisdictions (Xu 2011). The true starting point for China’s large-scale foreign trade is its participation in WTO from the 2000s. Since its formal accession to the WTO in 2002, foreign trade has made rapid progress, with Table 1 showing the rapid increases that occurred in the years immediately after China joined the WTO.

Table 1 Increasing rate of trade values after 2001

	Trade Value (US dollars)	Rate of Increase From the Previous Year
2002	6207.85 million	21.8%
2003	8512.1 million	37.1%

Data source: China Statistical Yearbook.

Compared with the year 2001, the scale of trade has increased by 2.3 times since accession (Li 2005). Central government had released the latest industrial policy orientation in 2002, after joining the WTO, which was to continue to accelerate the transformation and upgrading of traditional industries, including energy and the raw

materials of metallurgy, building materials, the petrochemical and chemical industries, an increase in equipment to lower the cost of manufacturing products, light industries, the textile industry, and the mechanical and electrical industries, in order to become the world manufacturing centre (Ministry of Commerce of the People’s Republic of China 2002). According to the China Statistical Yearbook of 2005, export products can be split into primary commodities (including food and live animals, beverages, and cigarettes, non-edible raw materials, fossil fuels, and animal and vegetable oil and wax) and manufactured goods (like chemical products, light textile products, rubber products and mineral products, equipment and transportation products, miscellaneous products, and others). Among these, manufactured goods occupied nearly 93 percent of the overall export volume in the three years after 2001, and light textile, rubber and mineral products, equipment and transportation products, and miscellaneous products made up 95% of all manufactured goods, which means China’s exporting trend after it joined the WTO was perfectly in accordance with the government’s policy orientation (see Table 2).

Table 2 China’s top 10 export products after joining the WTO

Export Value (Billion USD)	2001	2002	2003	2004
Mechanical and Electrical Products	118.8	140	170	200
High-tech Products	46.5	60	80	100
Textiles	50	52	54	56
Clothing and Accessories	36	38	40	42
Plastic Products	5	5.5	6	6.5
Furniture and Parts	4	4.5	5	5.5
Footwear	7	7.5	8	8.5
Steel	3	3.5	4	4.5
Toys	8	8.5	9	9.5
Vehicles and Parts	2	2.5	3	3.5

Data source: China Statistical Yearbook.

After the Global Financial Crisis in 2008, the central government gradually promoted relevant polices to support the industry output, like ‘Promoting industrialisation of independent innovation achievements’, and ‘Several policies on supporting technological innovation of small and medium-sized enterprises’.

Focusing on the excess production of manufacturing materials, the Belt and Road policy has been adopted by the government with the aim of shifting this part of production to other regions and states started from 2013 (Li 2018). During the period of industrial transferal and technological upgrading, the main goal for central government has been promoting new energy and green technological industries, on the base of keeping the prior main trade structure for maintaining growing trade volume. For example, from 2016 to 2024, as shown in Table 3, the top 10 kinds of export goods reflect these goals.

Table 3 China's top 10 export products from 2016 to 2024

Export Value (Billion USD)	2016	2017	2018	2019	2020	2021	2022	2023	2024
Electrical, Electronic Equipment	553	598	664	670	710	890	955	896	927
Machinery, Nuclear Reactor	344	383	430	417	440	544	552	511	568
Vehicles other than Railway, Tramway	60	67	75	74	76	119	150	192	216
Plastics	62	70	80	84	96	128	144	131	141
Furniture, Lighting Signs, Prefabricated Buildings	88	89	96	99	109	135	131	121	126
Articles of Iron or Steel	52	57	66	69	71	93	110	97	100
Articles of Apparel, Knit or Crocheted	74	72	74	71	62	85	91	82	85
Organic Chemicals	42	50	60	57	57	83	102	78	83
Toys, Games, Sports Requisites	44	55	57	62	72	98	103	89	82
Optical, Photo, Technical, Medical Apparatus	68	71	71	73	80	97	70	70	72

Data source: China Statistical Yearbook.

Compared with China, Japan's bureaucracy has a longer history and more mature control over the direction of the economy, including the role of MITI, which controls a large part of domestic economic policy and which Johnson described as 'social

engineering'. As Johnson (1982) said, the Japanese government directly controls and stipulates economic growth instead of regulating and supervising it like most states, and MITI played an important role in increasing Japan's competition in the heavy metal and shipbuilding industries in the global market through supporting the development of relevant enterprises during the 1960s and 1970s. This does represent a strong history of central government intervention in the economy. As one Japanese official said in the 1960s, 'The Japanese government, especially the MITI, is the parent company, and the enterprises are the branches or business units of the company. The relationship between the Japanese government and the industry is that of hand and glove' (Kaplan 1972). In Japan, political parties allied themselves with bureaucrats, who in turn cooperated closely with finance and business, and this model of cooperation contributed to Japan's 'East Asian miracle' because of effective work on industrial structure upgrades (Sun 2010). In contrast to other states, the relations between consortium and bureaucracy appears to have been harmonious and close. There was one 'Industry Association-Review Committee' to help the two sides to coordinate relations through the way that consortiums conveyed orders to relevant government departments, and governments conveyed policy intentions to the consortiums. This kind of tight structure in the early phase contributed to Japan's flourishing economic development. During the 1960s and 1970s, the Japanese government published a series of industry-transforming policies. These included more focus on its industrial policy of shifting comparative advantage rather than having normal competition among factors; adoption of measures such as strict foreign exchange control, import restrictions, and export encouragement; and the introduction of technology and support for the development of competitive industries like heavy industry.

After achieving trade liberalisation, the Japanese government initially considered the issue of capital liberalisation to promote faster integration into the open international economic system. It achieved complete liberalisation in 1973 after attempting this five times attempting from 1967 (Li 2001), an effort that was totally led by government. During this process, the government adopted measures like strengthening domestic technology development and innovation to enhance international competitiveness, and promoting the merger of SMEs to improve the industrial system and structure of Japan. This step was very significant for domestic high-technology development and innovation, and also formed a solid alliance between government, industry, and finance in order to increase the size of surviving

enterprises, which laid a strong basis for the transformation of the industrial structure in the later first and second oil shocks. However, the disadvantages of this system have been fully demonstrated since the 1980s. With the development of the capital market, the ratio of self-owned capital of enterprises increased, the shareholding shares of individual shareholders and foreign investors increased, and the proportion of banking system and mutual shareholding decreased. At the same time, the government was cracking down on bureaucrats, so that the role of MITI and the finance minister (Kura-sh) was reduced, and thus Japan's stable structure of 'enterprise' was being challenged by the market and the rule of law. Therefore, it was suggested that the convoy system for growth could not play a significant role in the time of information technology and computer science (Okimoto 1989).

Despite the challenges, a series of regulations for helping the development of high-tech industry was also implemented, such as to cultivate scientific research through financial expenditure and awards, and also alleviate the preferential tax for research (Flath 2005). The strategy of 'building the state through technology and science' was also put forward, shifting from limitation and importing to innovation and invention. Corresponding to this, the Japanese exporting industry output has changed in accordance with government policy transformations. In the 1960s, heavy chemical industries, such as iron, steel, and ship construction, were developed, and heavy, long, and large industrial products were exported as pillar sectors, followed by the cabinet determination⁷. In the 1970s and 1980s, the competitiveness of Japanese industries was greatly improved, and processed and assembled products such as electronic and electrical equipment, transportation equipment like cars and semiconductors, and precision equipment became the main export focus. In the 1980s, Japan's economy grew rapidly. Due to trade imbalances and trade frictions, Japanese manufacturers actively entered overseas markets and carried out local production overseas. In the 1990s, products with high added value that required high-tech knowledge, such as automobiles and IT, brought in a new era of competition. Entering the 21st century and ushering in the era of economic globalisation, new industrial fields such as biotechnology and bio-engineering and solar power generation have

⁷ As stated by Hayato Ikeda at the 36th Congress, the goal is to double the gross national product within 10 years. As specific measures for economic growth, it is proposed to enrich social capital, shift to heavy chemical industries centred on oil and steel, expand exports, and revitalise science and technology.

<https://www.archives.go.jp/exhibition/digital/high-growth/policy.html>

been born. The overall top 10 major exporting products from Japan are shown in Table 4.

Table 4 Japan's top 10 exporting products from 2016 to 2024

Export Value (Billion USD)	2016	2017	2018	2019	2020	2021	2022	2023	2024
Vehicles other than Railway, Tramway	142	146	154	149	123	138	136	157	151
Machinery, Nuclear Reactor	124	138	148	137	122	147	142	130	126
Electrical, Electronic Equipment	98	106	109	103	103	119	113	102	101
Optical, Photo, Technical	36	40	41	39	37	43	39	36	36
Iron and Steel	25	28	30	26	23	35	35	31	27
Plastics	23	25	26	25	26	30	27	24	25
Pearls, Precious Stones, Metals, Coins	14	15	12	12	13	14	17	19	23
Organic Chemicals	16	18	19	18	15	18	25	21	22
Optical, Photo, Technical	28	29	28	21	20	22	17	15	14
Copper	6	7	9	8	9	13	13	13	13

Data source: Trade Statistics of Japan.

Korea has a similarly structured system for promoting economic expansion as Japan. The former Prime Minister Park Chung-hee led the domestic economy to remarkable progress through supporting Chaebols, setting the economic developmental planning strategy, and attracting FDI. During the 1960s, owing to Park

Chung-hee's despotic power over the nation, very strong ties developed between the state and Chaebols, who got support for developing heavy industry in the face of huge social discontent. This was one way that Park wanted to achieve economic growth, but large inflows of foreign capital caused instability (Hundt 2012). After the end of Park's reign, a high degree of centralisation of a state-business and export-promotion economic regime left its mark on Korea. It promoted heavy and chemical industries, and encouraging SMEs, through various of methods, which had a great impact on stimulating Korea's economic development. At the same time, the Korean government also adopted measures to control the exchange rate, decreasing the exchange rate through controlling capital flow for the sake of increasing exports. In addition, the bureaucratic system had been improved through establishing some institutions focused on policy studies. An example is the Korea Development Institute, which was established in 1971 and helped to formulate medium- and long-term economic policies; it consisted mainly of foreign-educated economists and other social scientists with doctorates. Later, the Korea Educational Development Institute was established in 1972 and Korea Institute of Agriculture Economics in 1978.

The high-quality relations between bureaucratic, business, and political leaders drove economic development. Indeed, it helped Korea to deal with some crises, including the oil shock in the 1970s. However, in contrast to Japan, the Korean government gradually lost control of the Chaebols from the 1980s due to the these having gained too much power under the previous governments and their increasingly mixed multinational character (Minns 2001). Even though there are complex conflicts between government, Chaebols and labour unions in Korea, the industrial transformation of Korea is still developing smoothly under the joint efforts. Relevant legislation about trade and capital liberalisation had been enacted by government, with important examples including the 'Five-year Tariff Restructuring Plan' (1983), 'Regulations on the Introduction of Foreign Investment' (1984), and the 'Industrial Development Law' (1986), aimed at gradually reducing the intensity of government control over imports, exports, and FDI. At the same time, to solve the problems of high pollution and a high unemployment rate, the government thought that technology development and energy conservation could strengthen the market capacity. Chaebols took advantage of the trend set by this policy and the relaxation of investment control to invest abundantly in industry upgrading and technical research and development, which helped them further consolidate their influence in the national economy and society. This became a major problem for economic reform by the Korean

government.

The Asian Financial Crisis in 1997 not only inflicted heavy losses on the Korean economy, it also delivered support for the Kim Dae-jung government's reform of Chaebols and economic management from 1998 to 2002, which opened the market to liberalisation instead of the government's 'economic discrimination' control, and integrated Korea into the globalisation process (Haggard 2000). Due to this reform, the Korean government started to liberalise foreign investment inflow, resulting in nearly 50 percent of Chaebol shares belonging to foreign investors. After 1997, Korea's version of the Neoliberal economic model emerged within economic globalisation and foreign capital intervention; Korea also implemented a freely floating exchange rate. Thus the liberalisation of trade, investment, and finance has been completed, but the economy is still strictly supervised by government and institutions.

Within the development of economic globalisation and the emergence of regionalism, the Korean government embarked on promoting FTA negotiations with other states in order to enhance its trade competitiveness around the world. In recent years, because of the fear of emerging states like China in the upstream and middle industry chain gradually increasing competitiveness (Song 2019), the Korean government adjusted its policy orientation towards reviving manufacturing industries, focusing on semiconductors, automotive and parts, aviation, rare metals, and the white biotechnology by means of the combination of intelligence, environmental protection, and integration⁸. Meanwhile, through the 'Alchemist Project', Korea has attempted to boost the innovation and growth of ultra high-technology, currently a difficult area, trying to break the limits of cutting-edge technology, which may bring about numerous social and economic benefits if it is successful.

All these policies are reliant on a very strong base of electronic information growth encouraged by central government in the past decade. Sixteen policies were released from 2010 to 2016, including 'The Basic Plan of Establishing Mobile e-Government (2010)', 'Establishment of Intelligent e-Government Promotion Plan (2011–2015)',

⁸ These policies include: 2030 Rechargeable Battery Industry Development Strategy (2021), Future Vehicle Modification Support Plan for Auto Parts Companies (2021), K-Semiconductor Strategy to Achieve a Comprehensive Semiconductor Power (2021), Rare Metal Industry Development Measures 2.0 (2021), Aviation Industry Development Third Ten Year Plan (2021), The Fourth Basic Plan for Environmentally Friendly Vehicles (2021), The White Bio-Industry Revitalization Strategy (2020), The Artificial Intelligence Semiconductor Industry Development Strategy (2020), and The Future Vehicle Expansion and Market Occupation Strategy (2020).

and ‘Establishment of the First Cloud Computing Development Basic Plan (2016–2020)’. Maintaining traditional preferential industries like the automobile industry is also very important to stabilise the country’s GDP level. Therefore, in the last five years, Korea’s main export products have shifted to clean energy, green industries, and high-tech industries, matching well with government policy (Thurbon 2021, 2023), as shown in Table 5.

Table 5 Korea’s top 10 export products from 2016 to 2024

Export Value (Billion USD)	2016	2017	2018	2019	2020	2021	2022	2023	2024
Electrical, Electronic equipment	134	163	185	154	160	201	210	171	213
Vehicles other than Railway, Tramway	63	62	61	63	54	67	76	92	92
Machinery, Nuclear Reactor	58	69	78	71	68	76	73	73	80
Mineral Fuels and Oils	28	36	48	42	25	40	65	54	53
Plastics	28	32	35	33	32	43	41	35	36
Iron and Steel	19	22	25	23	20	28	28	26	25
Ships, Boats, and Other	33	41	20	19	19	22	17	20	24
Organic Chemicals	18	23	25	21	15	24	25	21	22
Optical, Photo, Technical	28	29	28	21	20	22	18	17	17
Articles of Iron or Steel	11	13	11	9	8	10	12	11	10

Data source: KOSIS.

There is also close correlation between government and businesses in China, Japan, and Korea. As well as industrial output in different periods having been reliant on government policy, the relations between Chinese government and business have also demonstrated a close connection. As mentioned above, industry transformations have been achieved several times under the direction of the bureaucracy in all three states. Since the opening up reforms in the last century, China has made great efforts to attract FDI through various policies, including the reform of the investment system and the establishment of a socialist market economy system. The China's Communist Party's determination to try the socialist market economy was voiced by Deng Xiaoping in the third plenary session of the eleventh party central committee in 1978. This determination obviously gave more freedom and rights to specialised companies and merged companies, and also shifted the focus of the economic administrative organs from power to law and regulations (Suliman 1998). With the passing of the 'Decision of the Central Committee of the Communist Party of China on Reform of the Economic Structure' in 1984, this reform gradually implemented specific regulations focusing on SOEs, and decreased government control of goods prices and market progress. However, even though the market system has shifted gradually from a planned economy, similar to the developmental states of Japan and Korea, this economic system is still aimed at rationalisation through national plans and emphasises that the operation of markets must be guided by such national plans (Zheng 2004).

At the same time, industry policy has been regarded as the connection between government and business (Yang 1995). Specifically, the characteristics of Chinese industry policy firstly encourage enterprises to become bigger, and to better develop national pillar industries, and the government also uses policy tools to adjust the industrial structure and coordinate the balance between supply and demand. The central government is also involved in finance, administration, prices, direct investment in major industries, protection of weak enterprises, and restrictions on foreign-funded enterprises in order to promote a better economic development environment (Yu and Shi 2008). In addition, it is important to note the relations between local government and business because the influence of the state on economic development is more prominent at the local level in China, with this level having a certain degree of autonomy. There are three main ways that local governments support economic development in their jurisdictions: 1) supporting basic infrastructure, laws, and planning; 2) directly joining in business, and 3) to some

extent intervening in enterprises' developmental direction (Wang 2008).

Equally, it is clear that the Japanese government has played an important role in finding a suitable path to economic recovery from just after WWII until the present, from a Japanese-style planned economy initially to liberal-capitalism after the Korean peninsula war (Johnson 1993). However, Zaibatsu, the representative of Japan's business, also had a deep influence on Japan's politics before and in the first few years after WWII, which indicates the deep historical roots of the connection between Japanese government and business, although their dominant relationship was later reversed. Zaibatsu has been reformed and lost its political power, but the original spirit of Zaibatsu has not changed in the sense that employees' loyalty continues in the business community (Bission 1954; Lee 2008). In Japan's enterprises, employees need to focus on the interests of the community rather than the interests of individuals, on harmonious cooperation and coordination, and on the development of the state rather than the wellbeing of individuals. In government-business relations, instead of directly managing or controlling enterprises, the government uses industrial policy to guide enterprises to develop in a way that is in line with national interests, and supervises enterprises by appointing other profit-related enterprises to oversee them.

These kinds of close structures have brought about high efficiency in industrial transformation and economic development. For example, to promote trade liberalisation, the Japanese government published a series of industry-transforming policies, such as focusing on its industrial policy of shifting comparative advantage rather than normal competition among factors, adopting measures such as strict foreign exchange control, import restrictions, and export encouragement, introducing technology, and supporting the development of competitive industries like heavy industry. After achieving trade liberalisation, the Japanese government initially considered the issue of capital liberalisation to promote faster integration into the open international economic system, and achieved complete liberalisation in 1973 (Li 2001). But there were also some issues with this kind of structure, including the reduced control of government over the private sector, and the tradition of retired government officials returning to the private sector brings problems such as corruption. Hence, Japan has reformed its central government to address its weakness, both in the budget process and in the cabinet's policy agenda.

The relationship between government and the Chaebols in Korea is solid and highly correlated, but different from Japan's. Several attempts at reforms to Chaebols from

past governments have been verified as failures. In the 1960s, owing to Park Chung-hee's despotic power over the nation, there were very strong ties between the state and Chaebols, who got support for developing heavy industry in the face of huge social discontent. This was one way that Park wanted to achieve economic growth, but large amount of foreign capital inflow caused instability (Hundt 2012). After the end of Park's reign, a high degree of centralisation of a state-business and export-promotion economic regime left its mark on Korea, promoting heavy and chemical industries. Encouraging small and mid-sized companies through various methods also had a great impact on stimulating Korea's economic development (Hundt 2012). In the 1980s, to solve the problems of high pollution and a high unemployment rate, the government thought that technology development and energy conservation could strengthen the market capacity. Korean Chaebols took advantage of the trend of this policy and the relaxation of investment control to invest abundantly in industry upgrading and technical research and development, which helped them further consolidate their influence in the national economy and society. This became a major problem for economic reform by the Korean government. The Asian Financial Crisis in 1997 not only inflicted heavy losses on the Korean economy, it also delivered support for the Kim Dae-jung government's reform of Chaebols and economic management, which opened the market to liberalisation instead of government 'economic discrimination' and control, further integrating Korea into a global economy (Jwa 2017: 65).

Well-developed institutions are excellent facilitators of economic growth in China, Japan, and Korea. China differs most compared with Japan and Korea in regard to its domestic institutional structure. Even though in the Third Plenary Session of the 18th CPC Central Committee, the influence of market adjustment was made a priority by administrative control, it is not like Japan's industry association connecting the government and enterprises, but more related to directly influencing enterprise service work, levelling the playing field, reducing costs and addressing other issues, which means it can be challenging to get a sense of proportion in relationships with companies. In addition, the relations between the central government and local governments is more collaborative than simply giving and following orders, while in strengthening the top-level design, more attention has been paid to the innovation and implementation of local governments in accordance with local conditions. This tight relationship between central and local levels reflect the need to the need to strengthen the economic capacity of local governments, and this should be adjusted according to

the local cultural characteristics (China has huge diversity in different local cultures based on multi-ethnic state characteristics). Therefore when a foreign-funded enterprise or multinational enterprise or free trade zone (FTZ) is established in China, consideration must be made not only the central government's relevant laws and regulations, but also local government regulations and customs (State Council of the People's Republic of China 2018).

The structure of Japanese management institutions comprises the government as the main body, combined with the industry council and industry association, to regulate the domestic economy. Within the government system, MITI/METI take responsibility for both SOEs and private enterprises. In regard to investment and technology, the Ministry of Agriculture, Forestry and Fisheries (hereafter MAFF), the Ministry of Finance (hereafter MOF), the Bank of Japan (hereafter BOJ), the economic planning agency, and the fair trade commission are each in charge of, respectively: agriculture, forestry and fisheries, and foreign trade; taxation and banking supervision; controlling the supply of capital; adjusting industrial policy and making medium and long-term plans; and ensuring fair and effective competition (Johnson 1982). In addition, the review system, which combines government, industry, and the university sector, is responsible for submitting interest appeals and negotiating with government agencies through the review council, while various industry associations play a role in connecting government agencies and enterprises.

Similar to Japan, Korea has a series of complete trade, investment, and industry mechanisms, and banks system laws, and also functional departments like the Ministry of Economy and Finance, the Ministry of Industry and Commerce, the Ministry of Science and Technology Information and Communications, and the Finance Committee. However, large domestic companies in Korea are all family enterprises, and there is no strategy of separating management and ownership as in Japan. As a result, the wealth, resources, and economic power of these Chaebol enterprises are excessively concentrated, the collusion between government and business is extremely serious, and the government departments have very limited macro-control power over the whole market (Kim 2013). The government is currently trying to reverse this situation through supporting SMEs.

2.4 How do developmental states work in an FTA?

The question of how developmental states perform in economic interaction and promoting FTAs, and debates around this, provided a good beginning for a comparative study of the development of government-led FTA strategy (Johnson 1982). Generally, developmental states bring about advanced policy leading domestic economic growth, and export-led orientation in economic policy has been one of the most important elements of this, especially in Northeast Asia. Korea (1960s), Japan (1950s), and China (1970s) set up their own export-led policy as the pillar for economic development. Since these policies have been in place, the scope of trade networks has expanded based on Japanese technological transfer and overseas investment, and Chinese abundant foreign investment. This has boosted regional economic development, or, to express it in a different way, has provided a kind of lift to ‘economic regionalization’ (Hayashi 2010; Liang 2011). To be specific, Japan has changed its attitude to an FTA after seeing the relative benefits gained by this type of cooperation (Kim 2018), because an FTA was originally regarded as a reform tool to solve economic troubles while promoting developmental liberalisation to reduce, to large extent, the damage caused by relevant interest groups (Pempel and Urata 2006). Korea has followed the trend towards FTAs after its big loss in the 1997 Asian Financial Crisis, with the government introducing its ‘Act in Designation and Management of Free Trade Zones’ in 2018 to attract FDI more quickly and enforce the development of trade (Ravenhill 2009; Choi 2007; Kim 2015; Park 2018; Kim and Lee 2025). China, at the same time, has been very proactive in joining various regional cooperation mechanisms to further expand its foreign market, especially in the context of its WTO accession (Li and Wang and Whalley 2014; Liang 2011). These networks are summarised in the Table 6.

Table 6 FTA partners of China, Japan, and Korea (excluding RCEP)

PRC	Australia, ASEAN, Belarus, Cambodia, Chile, Costa Rica, Ecuador, Georgia, Hong Kong, Iceland, Korea, Macau, Maldives, Mauritius, New Zealand, Nicaragua, Pakistan, Peru, Serbia, Singapore, Switzerland.
Japan	Australia, ASEAN, Brunei, Chile, European Union, India, Indonesia, Malaysia, Mexico, Mongolia, Peru, Philippines, Singapore, Switzerland, Thailand, United Kingdom, Vietnam.
Korea	Australia, ASEAN, Canada, China, Chile, Colombia, European Union, Israel, India, New Zealand, Panama, Pakistan, Peru, Philippines, Singapore, Turkey, United Kingdom, United States, Vietnam.

Data source: International Monetary Fund (2024).

Past trade protectionism in the context of the development of globalisation has gradually revealed its disadvantages to states and regions. These include restricting the suitable allocation of resources and impeding the effectiveness of production. This means such protectionism loses its essential intention of protecting the domestic market and economy, and the market loses vitality and innovation as a result (Strange 1985; Feenstra 1992; Kutlina-Dimitrova and Lakatos 2017). Hence, discarding drawback policies and finding more suitable development pathways, including the adjustment of domestic markets and society, are the classical actions that developmental states are most likely to take (Ohno 2000; Chang 2003; Hayashi 2010). After the 2000s, the concept of ‘embedded mercantilism’ in East Asia states has been supported by their policy settings (Dent 2004).

The key driver of the policy shift was the 1997 Asian Financial Crisis, and after this crisis these developmental states started to increase their intervention in and supervision of market and economic activities, rather than giving up the role of the state in these (Dent 2004; Hayashi 2010). These kinds of economic activities, thus, did not emerge entirely in the context of market and production requirements, but instead have grown in response to government decisions and national security needs after a regional crisis event. Another distinctive feature of developmental states in East Asia dealing with economic issues and institutions (Koo 2010) is illustrated, for example, by the APT and Chiang-Mai initiatives. These are regional financial supervision and management mechanisms established after the financial crisis that symbolise a DS approach to restricting market and financial liberalisation (Dent 2004). This means that states and their governments again grabbed some rights of economic governance back from the natural development of economy, even while they ceded some sovereignty to regional organisations.

FTAs became the main way for these states, especially East Asian states, to integrate into regional economic cooperation (Liang 2011). FTA strategies driven by governments’ willingness and goals satisfied their requirement to control and utilise all tools for promoting economic growth, with these tools including fiscal, financial, and capital policies to achieve their aims. The governments immediately and effectively shifted their policy orientation if they considered that the old orientation was invalid (Johnson 1982; Amsden 1989; Wade 1990; Woo-cumings 1999; Koo 2014). For example, after the policy shift towards bilateral FTAs, and RCEP as the

first regional multilateral FTA, also emphasised this transfer in China, Japan, and Korea for the purpose of more partners and bigger benefits (Zhang 2020; Oba 2022; Lee 2022).

Apart from government-led goal and policy adjustment according to governments' own economic needs, during the preparation and negotiation period for an FTA, governments in East Asia, because of the large amount of information needed, have to consult domestic business sectors and associations with related interests (Postigo 2016). Domestic business sectors, in turn, actively promote the government adopting an appropriate stance, like the Japanese private sector urging the central government to readily expand FTAs (Yoshimatsu 2005; Katada and Solis 2012; Postigo 2016). This communication between government and business sectors helps them to cross the border between them and to better understand each other (Postigo 2016). For instance, frequent exchanges and cooperation within the RCEP have encouraged domestic enterprises to operate on a more international scale, thereby increasing the demand for the CJK FTA, which offers a higher-standard environment (Ping 2022). Within this trend, relevant domestic institutions have been established in line with the productive outcomes of FTAs, while more business associations have been formed to provide better technical information, aiming to enhance the business environment and support future FTAs (Postigo 2016). This is classically illustrated by the emergence of FTZs and Free Trade Ports in China (Schneider 2010; Postigo 2016).

In summing up the differences from other regions' FTA cooperation, Dent (2004) identified two characteristics specific to East Asia. Firstly, there is strongly evident government willingness, called 'embedded mercantilism', not only in that the goal of regional geopolitical strategy should be involved in the individual FTA strategy choices of developmental states, but in that the government is supposed to cope with distraction from domestic interest groups with vested interests which may possibly be damaged from FTA cooperation. This can be categorised as part of a 'top-down' FTA strategy specification. For example, in the early phase of promoting an FTA and FTZ in Shanghai, many objections were raised from relevant departments about sensitive issues such as financial opening and foreign investment management during the consultation phase of the proposal. Li Keqiang, the premier at the time, still pushed for the implementation of the first FTZ in China and refined its application by ensuring regular monitoring by government and improving relevant service facilities and institutions (e.g., an integrated law enforcement platform for the FTZ) to relieve early worries (State Council of the People's Republic of China 2016). Similarly,

joining RCEP was not only driven by domestic economic needs, but because it provided the evidence Japan and Korea were attempting to seek for a strategic competition and balance between the US and China by emphasising and elevating rule-based regional order, with the purpose of deepening associations with Southeast Asia, an area which had previously received abundant investment (Oba 2022). Secondly, the concept and form of the FTA itself in East Asia aligns with the DS model. Apart from market-focused products, states and governments also collaborate in other areas under FTAs—such as the innovation and development of artificial intelligence, information technology, intellectual property rights, and e-commerce—which fosters domestic growth. Additionally, these agreements outline the extent of liberalisation and establish pathways for dispute settlement. For instance, in the RCEP agreement, new provisions provide exceptions for traditional goods and services, and the agreement also contains provisions related to investment, intellectual property, e-commerce, technical innovation, and cooperation, while its Chapter 14 helps member state governments to nurture SMEs (see Section 6.2.3).

Developmental states in East Asia are more powerful and globalised today (Dittmer 2007). Former Japanese Prime Minister, Naoto Kan, announced after the 2000s his intention to deepen the connections between government and business sectors, and other states expressed their intentions to make FTAs their priority for trade policy (Kan 2010). Hence, bilateral FTAs initially became the main strategy for economic growth and security considerations for developmental states in East Asia after the Asian Financial Crisis, and government interventionism briefly spread across the world after the Global Economic Crisis in 2008, driven by the limitations of global economic governance and recovery mechanisms (Stubbs 2009; Lim 2010). Later, multilateral FTAs have also been incorporated as an important part of East Asian states' trade policies. As per Johnson's (1982) formulation, developmental states are responsible for the setting, implementation, and management of strategy to reach their economic goals. They require a forward-looking vision to foresee developmental trends, and must support domestic industry structure optimisation for the purpose of strengthening their position in the international market and improving their global competitiveness. Therefore, states take advantage of FTAs to develop trade and upgrade industries because free trade can increase production efficiency (Edge 2010), and promote economic growth of a certain scale through market openness (Drozd 2011). For China, Japan, and Korea, due to differing geographical conditions and levels of development, the products of these three countries have traditionally been

highly complementary. However, as China's economy has expanded and its industrial structure has evolved, competition has emerged among the three states in industries that were previously complementary, such as machinery and automobiles. Therefore, under the circumstance of increased product competitiveness, the CJK FTA, which has a limited members to save costs, can assist these developmental states to further modify their industrial structures, so that they can optimise the structure of agricultural products through strengthening trilateral cooperation in these products (Yuan and Li 2011).

Although the RCEP forms the basic framework of a regional FTA, some of its provisions are not as advanced as those that had already been signed by China, Japan, and Korea in their bilateral FTAs. In terms of intellectual property, Liu (2021) concluded that in the future the three states need to adhere to the cooperation purpose of narrowing the development gap between members in the management of transnational corporations and fair competition in the technological market, to provide technological support and complete the regional supply chain. Meanwhile, as developmental states, not only should the states' central governments prepare a series of projects for multilateral and bilateral FTAs, but they also need to combine with relevant local governments to formulate mid- and long-term plans and build industry chain distribution, helping local enterprises gain access to transnational business circles (Liu 2021). Therefore, the cooperation under the RCEP framework creates good conditions and 'infrastructure' for the negotiation of the next trilateral trade cooperation, and the CJK FTA is the closest to being finalized (Liu 2021; He and Gu 2021; Xiang 2024). Additionally, the closer personnel exchanges and more frequent economic cooperation brought about by RCEP have allowed domestic enterprises to operate more regionally; as a consequence, these domestic enterprises are urging governments to improve the business environment, and the most effective institutional guarantee is to establish a higher-standard CJK FTA (Ping 2022).

Overall, scholars' reviews suggest that FTAs serve as an essential institution for developmental states to break through trade protectionism and integrate into regional and global economic cooperation. In this process, they also deepen governmental control over domestic economic activities. FTAs reflect government intentions and represent a practical manifestation of government-led policies, and they further enhance communication and collaboration between governments and business entities, while also facilitating the improvement of related domestic infrastructure. Obviously, this aligns well with the theoretical framework discussed in this thesis, particularly the

four principles of the DS model. East Asia provides a prime example of these dynamics, especially through the bilateral and multilateral FTAs involving China, Japan, and Korea. Scholars argue that the three states can achieve certain government objectives within the RCEP framework, thereby laying the groundwork for the future CJK FTA.

However, focusing on the collaboration between developmental states through FTAs, especially in China, Japan, and Korea, no studies to date have explored the detailed benefits the states can get from FTAs; or, in other words, there is a lack of clear and certain evidence that developmental states benefit from FTAs, or that the latter reinforces the quality of the former. Combined with the situation of strengthened DS characteristics in China, Japan, and Korea in the last five years, this thesis fills the following theoretical and empirical gaps: 1) the FTA is an efficient framework that embodies the will of the DS government and helps to realise the government's economic growth and industrial structure optimisation goals, and 2) the RCEP and CJK FTA are necessary for the governments of China, Japan, and Korea to restore and advance their domestic economies.

2.5 Conclusion

This chapter offers a theoretical and empirical explanation of the DS model in Northeast Asia. In the first section, it clarified that Northeast Asia, or the relations between China, Japan, and Korea in the past decades, cannot be depicted as 'no or limited cooperation' in Neorealist terms, or that 'shared identity determines cooperation' from the Constructivist perspective, or that 'external institutions facilitate further cooperation' as Neoliberalism would maintain. In combination with the economic development process of China, Japan, and Korea, the reason why the three states choose to cooperate with each other is their domestic developmental requirements or, more specifically, their need to remain in the position of robust economic entities in a rapidly changing world. Because of this requirement, an effective government-led development model and a goal that prioritises economic development have become the main drivers dominating the choice of cooperation among the three states.

Many scholars have analysed the DS model in the context of the different

characteristics of different states and their developmental processes. The four main DS principles, which Johnson (1982) developed to describe Japanese economic development, can be transferred to explain China and Korea, as presented in Section 2.3. At the same time, DS scholars have also found that the FTA strategy used by developmental states after the Asian Financial Crisis reinforces the characteristic of government dominance. China, Japan, and Korea, as developmental states, have attempted to seek more export opportunities through the RCEP, to address the eagerness for making domestic economic development the top government priority, and they have cooperated with enterprises to achieve this goal. Hence, this thesis bridges the gap by focusing on what detailed benefits governments and industries get through FTAs, rather than how government and enterprises act in institutions. The next chapter moves towards understanding the partial failure of the DS model in China, Japan, and Korea from the 2000s, within an economic sluggish environment and the urgent need of governments for an economic rebound. This situation then led to the possibility of China, Japan, and Korea entering into both the RCEP and CJK FTA.

Chapter 3 The dysfunction of the developmental state model:

Exploring the reasons for domestic economic stagnation

3.1 Introduction

Continuous domestic economic development has always been a priority in every developmental state, especially for the three top economies in East Asia—China, Japan, and Korea—who together make up nearly 70% of economic activity for the whole region. However, stagnant economic growth in Japan and Korea, and two years of economic loss due to the pandemic in China has required governments to find suitable ways to create economic recovery, along with innovation and industrial upgrading. In response to the slowdown of the economy in the 2000s, all three states, and especially Japan and Korea, implemented reforms that included market liberalisation, state-business relations rearrangement, and tax decentralisation. However, complex domestic environments led to some of these reforms being hindered or abandoned. These complex domestic circumstances can be explained by the partial dysfunction of DS principles, and in this regard the three states' situations are not quite the same. Therefore, this chapter illustrates the way partial dysfunction of the DS principles can be seen in China, Japan, and Korea during the 2000s. It then establishes that the three states have a very limited ability to achieve their goal of economic development and industrial structural upgrading through their own strengths, and so cooperation through FTAs among them is very important to achieve these goals. Owing to the spillover effect of the DS model within the industry, transferring from Japan to Korea and China, this chapter analyses the countries in chronological order: Japan, Korea and China, for systematically present and expand upon.

As Chapter 2 detailed, the DS principles enacted by developmental states were helpful in the past to boost economic growth; however, the situation has changed in the last two decades, with domestic issues impeding further economic development. This reflects different current weaknesses in the four principles for the three states. According to the chronological order of domestic developments, firstly for Japan, central-local relations, Diet members, vested interest groups, bureaucracy, and the

opposing government party have been the impediments to economic reform. For example, economic reform by the Koizumi government in 2000 failed, as divergence in the dominant LDP party led to weakening public support and strong opposition (Mulgan 2000). Intricate interests in Japanese domestic circumstances make internal reform difficult, with opposition from vested groups, like manufacturing firms and the small stores which are popular in Japan (Lincoln 2001).

Like and unlike Japan, there are also multiple forces involved in Korea's economic reform, but the Chaebol system is the most scrutinised. After escaping from authoritarianism and working towards democracy in 1978, the key task for several presidents and the central government has been the adjustment of state-business relations with the aim of cutting down the power of Chaebols. But this slowed when Korea began to liberalise its economy. In fact, the power of Chaebols has again strengthened during the 2000s. After the Asian Financial Crisis caused serious economic decline in 1997, bankruptcy, and the reorganisation of the Chaebol system in line with IMF recommendations, there was an opportunity for them to transform into multinational corporations and attract more foreign investment (Eichengreen, Lim, Park and Perkins 2000). The increase in the Chaebols' power, despite the considerable challenges they faced, makes the reforms to this system look nearly impossible.

In contrast, without the impediment of opposing parties or groups, the developmental orientation of China has relied more on local governments following the central government, especially after decentralising tax reform in 1978. This means that the financial resources of local government have come largely from local industry tax and real estate since that time. The excessive dominance of local government power means that the most significant drawbacks in Chinese political system have originated from the dysfunction of vertical management institutions and the lack of coordination mechanisms, which cannot then help to improve coordination and communication between central and local governments. This has caused a state of incomplete cooperation and implementation. Meanwhile, establishing vertical administrative bodies is also a point-to-point process, making it a more challenging task for China's geographically and culturally complex government.

To illustrate the above issues in accordance with the four DS principles, Japan and Korea have been stuck in a dilemma of government-led policies that are not purely for state development, and political-business relations in which business over-influences

government. China has encountered the issue of dysfunctional or absent central and local coordination mechanisms, unable to address all the complex regional differences simultaneously. Hence, this chapter illustrates the shifts in domestic situations of the three states in the last two decades in terms of the four principles, showing the stubborn problems impeding further economic development. Through this, it lays the foundation for discussing the importance of the RCEP and CJK FTA to China, Japan, and Korea in the following chapters. In detail, this chapter addresses the following questions:

- 1) Whether or to what degree are the circumstances in Japan, Korea, and China still relatively in line with the four principles?
- 2) What factors emerged within the period of stagnant economic development?
- 3) What factors played a negative role in the policies or reforms adopted by governments?

These questions are answered in the analysis presented in sections 3.2 to 3.4 under the DS four-principle framework. The chapter concludes with a response to the further question: ‘How do these changes in domestic situations connect with the needs of those states for regional cooperative institutions?’ The answer to this question can help progressing the further study presented in the Chapter 4. Overall, it was the partial dysfunction of DS principles which caused the ineffective economic development in China, Japan, and Korea and which is mitigated in the RCEP and the CJK FTA.

3.2 Japan’s dilemma regarding the four principles of the DS model

Japan’s economy is shaped not only by the market, but also by three key behind-the-scenes forces: central-local relations, vested interest groups, and the bureaucratic interests of political parties. Therefore, this part is divided into four segments in accordance with four main principles of DS, to ascertain circumstances and existing issues over the latest two decades, and how Japan, as a developmental state based on those principles, engaged effectively in FTA negotiation for the purpose of relieving domestic economic stagnation.

3.2.1 First principle: Central government still makes economic growth the priority

As the first developmental state in East Asia, the Japanese government looks upon economic development as the number one priority, and it indeed showed brilliant achievement during the 1970s. The economic function of the Japanese government is to formulate guiding economic plans. It gives preferential treatment to those industries that have strategic significance for economic development, to ensure the upgrading of industrial structure and the improvement of industrial competitiveness.

Entering into the new century, after the Asian Financial Crisis seriously damaged Japan's economic development strategy, the government focused all its attention on economic recovery and further growth. Prime Minister Koizumi was propelled into office by popular enthusiasm for 'economic recovery immediately', even though he did not enjoy strong support from his representative party, the LDP (Koizumi 2007). And during the five years Koizumi was in office, the preference for economic recovery was reflected in comprehensive opening up and vigorous reform. It was a promise that he and his administration devoted most of their energy and time to fulfilling (Uchiyama 2010). For the relatively short-term incumbencies of Yasuo Fukuda (2007–2008), Yukio Hatoyama (2009–2010), Naoto Kan (2010–2011), and Yoshihiko Noda (2011–2012), economic recovery remained an intractable problem not only for them, but also for the LDP and the Democratic parties they represented. Although they all had different economic propositions, the effect was limited. Apart from Koizumi, Shinzo Abe is the other Japanese prime minister who served more than two terms (2006–2007, 2012–2020), and who was known for his 'Abenomics' model. In the initial stage of 'Abenomics', high public approval came from Japan's economic recovery. This good performance on domestic economic growth supported Abe and his cabinet through a seven-year term, in the midst of Japan's first full economic recovery after 2000. Abe also became the longest-serving cabinet minister in Japanese history.

The later stagnation of the economy during the pandemic caused a decline of support for Abe's government, which led to his leaving office; however, subsequent prime ministers still struggled with economic growth. Prime Minister Kishida emphasised that 'economic measures are extremely important at this time', and aimed to 'prioritise new economic stimulus policies under the current political circumstances' (The Yomiuri Shimbun 2023). However, after two years of his 'new capitalism' policy, public support fell below 40%, with abundant criticism emerging

of the low efficiency of the government's economic policy (The Japan Times 2023). The fact that public support is tied to the problem, and the reality that the problem has not been solved, makes economic development a continuing priority for the central government. Later, new prime minister Ishiba also emphasis on the importance of spanning economy during his period to Japan (Government of Japan 2024).

3.2.2 Second principle: Inefficient government-led policy and reforms influenced by multi-interest actors

The second principle of the developmental state is the highly efficient government-led policies that lead to economic development, and which helped Japan complete the industry structure shifts from light to heavy, and then to high-technology, in the 30 years from 1950s. After entering the 2000s, the problems existing in the domestic political structure worsened, along with the stagnation of economic growth (Pempel 1998; Schoppa 2011). As Tiberghien (2011) has noted, oligopolistic networks and close labour-management relationships can serve as powerful barriers to the early implementation of new policies or reforms. In analysing the Japanese situation, the factors that have interfered with the efficiency of policy enactment and implementation are divided into the following two types: a political corruption triangle (industry, bureaucracy, and parliament) and impediments from domestic vested interest groups.

FTA strategy has been the main economic cooperative strategy used by the Japanese government from the start of the 2000s. This is because Japan is eager to expand its foreign market to address economic challenges and to enhance its competitiveness within East Asia. Apart from foreign policy, Japanese prime ministers from 2000 onwards have adopted a series of internal economic policies or reforms to reinvigorate a slumping economy, but with limited effect (Takeda and Watanabe 2024). All the prime ministers during this period—Mori (2000–2001), Fukuda (2007–2008), Aso (2008–2009), Hatoyama (2009–2010), Kan (2010–2011), Noda (2011–2012), Suga (2020–2021), Kishida (2021–2024), and Ishiba (2025 to the present)—have preferred to trial economic policies. These policies have ranged from promoting the development of information technology (Mori), strengthening infrastructure construction (Mori, Aso), improving social welfare (Fukuda, Hatoyama), raising the consumption tax (Kan, Noda), providing support for

enterprises (Aso, Suga), and promoting green energy development and digital transformation (Kan, Suga, Kishida) to advocating a virtuous cycle of income distribution and economic growth (Kishida)⁹. However, Japan's sluggish GDP during this period attests to the limited effectiveness of these policies, owing to their inability to address the core factors of Japan's economic malaise, and the effects of the rapid change of prime ministers and political instability.

Koizumi (2001–2005) and Abe (2006–2007 and 2012–2020) attempted to save the domestic economy through structural reforms. The former had initiated 'mercantilism' of the economy and 'market-oriented' policy for economic growth, but partially failed or achieved only limited outcomes (Koizumi 2007). Later, the long-ruling Abe, who had a strong political background, adopted a 'prime minister office-led decision-making' model, which gave Abe's office the power to appoint administrative bureaucrats, bypass the party's decision-making process, and strengthen the office's administrative groups, increasing the efficiency of policy release and implementation and making good initial progress on economic recovery (Meng and Wu 2020). Together, these reforms indeed temporarily revived the Japanese economy, and also transformed these two prime ministers—Koizumi and Abe—into enduring leaders. However, the primary reasons for Japan's economic slowdown after 2000 lie in the complex political and economic structural impediments influenced by multiple stakeholders, which are difficult to completely reverse through the reforms of one or two leaders (Mulgan 2013). After Abe's resignation and later assassination, Kishida's government was not able to sustain economic recovery and continue along a powerful path of reform, and repeated corruption scandals and cabinet reshuffles have shown the difficulty of achieving structural reforms. Kishida's 'New Capitalism', which aims to raise labour income and develop innovative industries has not, so far, led to an obvious result (East Asia Forum 2025). So, what is the primary issue in Japan's political and economic structure?

Firstly, political corruption in the government network plays a negative role in the efficiency of government-led policy. Theoretically, proportional electoral systems are

⁹ Compiled from official policy statements and public records of Japanese prime ministers from Mori to Kishida. For example, see Abe, Shinzo. 2013. Official Statement of Prime Minister Shinzo Abe Issued by Prime Minister of Japan and His Cabinet. March 15, 2013. Accessed September 7, 2024. https://japan.kantei.go.jp/96_abe/statement/201303/15kaiken_e.html.

designed to maintain the stability of the state's structure by preventing large-scale shifts or radical revisions (Gourevitch and Shinn 2005; Tiberghien 2011); however, this also creates an environment which makes reforms tough to push through. In the Japanese system of selecting the prime minister and government officials, votes from the electorate are the key need for any Diet members who have ambition or who wish to be re-elected to continue their political career. Factional affiliation, the capacity to deliver benefits, and the size and composition of a candidate's Koenkai (a mechanism of canvass) are all key elements of the political salesmanship needed to persuade voters (Cox and Thies 1998). It is also very important for Diet members to strive for the support of local government in or near their own electoral district, especially given the important role they may play as Diet members in capital expenditure from the central government to local governments. This kind of political corruption, called 'pork barrelling', has influenced the Japanese election system and government action profoundly, instead of ideas and willingness for change emerging from objective reality to force government's action (Fukui and Fukai 2020). At the same time, this kind of domestic administrative process in Japan has tended to be mature and stable during the last decade (OECD 2024).

This political corruption reduces the efficiency of government policy, because of squabbling interests among central and local governments, departments in central government delaying decision-making, and policy preferencing some interest groups. It is obvious that the Japanese government chooses policies not from its values, but from lobbying activity between prefecture governments and the bureaucracy through Diet members (Fukui and Fukai 2020). Firstly, proposals from local rice-roots groups (local interest groups and units) have been selected and approved by prefecture governments, and then directly delivered to the relevant central government ministries. As part of this procedure, Diet members from the prefecture and municipality are expected to lobby all relevant ministries, departments, and bureaucrats from the top down, owing to the fierce competition among numerous prefectures, each submitting similar project proposals in the same field to seek ministry attention and secure funding. As the example in Fukui's article showed, a proposal for ports-of-call for a new high-speed railway was delivered by three prefectures, who all had a seacoast advantage, at the same time. The competition not only happened between locals, but between affiliated Diet members (Fukui and Fukai 1996), and this ineffective competition impeded the speed of infrastructure implementation. The same things have also happened in the social welfare field, in green energy, and in the new energy

car industry. For example, the development of green energy was firstly implemented during Kan's period, and later, in 2012, the Japanese government introduced the fixed-price purchase system for renewable energy. However, local power companies paid Diet members to erect technical and administrative barriers to green energy, tilting the central government's policy toward traditional sectors (The Asahi Shimbun 2023).

Secondly, vested interest groups impede relevant policies from being adopted. As connections between government and business sectors, vested interest groups have not performed as a valuable bridge in Japan, but rather have impeded the government from putting its whole focus on economic priority goals, and have resulted in reforms that have barely been successful. In Japan, these groups can be divided into seven main sectors, and the members of these interests groups are cross-affiliated. Each group has its own protections, which means that different reforms are opposed by different groups every time, which is seen as the biggest impediment for reform. Among these groups, the rural farming sector, government workers, and the construction sector have received skewed attention in terms of policies and subsidies by the government at different levels over a long period. In addition, by supporting both small stores and small manufacturing firms, ineffective production and economic activity at a small scale promote the slow movement of domestic economic development. The government's policy preferences means those relevant interest groups that have benefited for many years are unable to bear the possible huge losses that might result from policy changes or reforms. This kind of psychology means that the above vested interest groups strongly oppose any relevant action of government (Lincoln 2001).

Agriculture is the most sensitive sector in Japan, and it has become a major barrier in the negotiation of FTAs between Japan and its trading partners. As mentioned above, the Japanese government has regarded the FTA strategy as one of its pillar strategies for economic development from the beginning of the 2000s. However, the protection of sensitive agricultural products, required by the rural farming sector, has created contradictions in the negotiation of the Trans-Pacific Partnership (hereafter TPP), RCEP, and Economic Partnership Agreement (EPA), and slowed the pace of these agreements (Buerk 2011). In contemporary Japan, fewer and fewer families in rural sectors fully devote themselves to agricultural production but have extra income from other industries; this is fuelling the strong desire for protection from the agricultural interest group. Similarly, uncompetitive small-scale domestic

manufacturers are family-owned, and may provide financial and electoral support to politicians; their situation generates empathy from politicians and thus they get the benefits of skewed policy arrangements (Lincoln 2001). These sensitive sectors have a very weak ability to resist the negative impacts from foreign trade brought about by FTAs, and hence the relevant vested interest groups oppose or block FTA negotiations.

Vested interest groups also play a negative role in national reforms. These groups include government workers, workers in the construction sector, and employees who have permanent contracts. They oppose economic policy change because it may lead to a reduction in the number of direct or indirect government workers, changes in preferential government policy towards domestic building materials companies, and a reduction in permanent contracts. The adverse voice of these groups to the government reforms appears very fierce and strong. For instance, Koizumi became prime minister after his grandiloquence about reforming Japan's struggling economy and his plan for recovery won strong mass support, but he nevertheless faced impediments from complex interest groups. Taiju no Kai (one organisation in the postal sector, which is made up mainly of retired postmasters in both rural and municipal areas) strongly opposed the privatisation of the post, arguing for the benefits of keeping the contract with government (Koizumi 2007). Those postmasters in remote areas generally engage in other occupations, like retail services, as their main career, and are able to accumulate a large number of votes and substantial finance to support LDP's election candidates and bureaucrats in the Ministry of Post and Telecommunication. It was not until 2007, four years after Koizumi's reform and one year after the end of his term as prime minister that the privatisation of the postal system started to progress; it was completed in 2017 (Kim 2019).

Japan's economy still largely follows a government-led model, relying on policy interventions that have shown limited effectiveness. Koizumi and Abe attempted to reform the domestic political and economic structure for the purpose of reinvigorating the economy, but failed. In Japan, bureaucrats and politicians, along with vested interest groups, sometimes negatively influence policies and reforms of real value, and this impedes, to some extent, the negotiation of FTAs. Therefore, if internal reforms alone cannot shake up entrenched, structural interest groups to achieve economic growth, it is important for the Japanese government to emphasise the FTA strategy. In fact, conquering these barriers in FTAs under foreign conditions is often easier than addressing them entirely within domestic contexts. For instance, Abe

overcame the opposition of LDP parties and interest groups, successfully allowing Japan to complete all the negotiations for CPTPP and RCEP, and this resulted in the performance of domestic GDP being better than ever. At the same time, although negotiations for the CJK FTA have not yet finished, the Japanese government is willing to enhance the level of trade and investment liberalisation beyond the provisions of RCEP, illustrating the effectiveness of the government's use of the FTA strategy (see Section 4.4.4).

3.2.3 Third principle: The overreach of bureaucrats in the relationship between government and business in Japan

In some situations, bureaucratic delegation is a choice for political entrepreneurs to defeat competitors, and those political entrepreneurs will become bureaucratic if they find like-minded partners (Tiberghien 2011). In Japan, big enterprises (Keiretsu) play a major role in domestic economic growth, and some channels have been available for bureaucrats to communicate their demands to Keiretsu. Although the effect of Keiretsu on government action has decreased over time, it still occupies a position. For example, Japan's defence industry and security policymaking have been deeply influenced by the benefits of incorporating military enterprises, which were favoured by bureaucrats in the defence ministry and by relevant Diet members during Abe's second period in office. By providing political funds, lobbying the government, and giving corporate jobs to bureaucrats, the Japanese government was persuaded to increase the defence budget, expand military production, and promote arms exports, and this was also stimulated by their regional 'top-leader' strategy.

On the other side, while the circumstances described above make it difficult to support SMEs, these businesses there also faced challenges in accessing bank loans, a process which is influenced by the Basel Accord on Finance (Yoshino and Taghizadeh-Hesary 2015). The Basel 1 rules require banks to have a capital adequacy ratio of 8 percent, regardless of economic circumstances. To avoid a capital shortage, Japanese banks began cutting back on lending, triggering a credit crunch that has made it difficult for SMEs to borrow from banks. This has impeded innovation and prevented the growth of Japanese industries and new firms (Yoshino and Hirano 2011). Obviously, over the past two decades, Japan's domestic business circumstance has traditionally favored big enterprises aligned with bureaucrats, rather than

supporting emerging companies.

At the same time, Japan's bureaucracy is also loose and decentralised, which allows interest groups to flourish, and this situation is often hardly controlled or managed by executive leaders (Huber and McCarty 2004; Tiberghien 2011). Interest groups in Japan, therefore, take advantage of the relevant bureaucracy, identifying different ministries from which to obtain benefits. For instance, prefecture and municipal politicians want the central government to spend more money in rural areas to gain votes, and most fiscal expenditure has been on public infrastructure investment like roads, despite the fact that this is unnecessary because of heavy population loss and a severely aging population in those areas. This unreasonable fiscal expenditure results in insufficient investment in Japan's technological innovation and education (Yoshino and Taghizadeh-Hesary 2016), while routine economic activities and policies are often influenced by the interests of politicians aligned with local governments.

Overall, the overreach of bureaucrats in Japan's economy has led to several outcomes. Firstly, the correlation between bureaucrats and big enterprises has restricted the development of SMEs, generating market rigidity. Secondly, innovative industries cannot be nurtured adequately by governments, because of the protection of traditional sectors. Finally, administrative guidance (or intervention) from bureaucrats gives rise to the waste of funds and resources. For Japan, reforming this situation poses significant challenges. The implementation of executive measures must be undertaken by bureaucrats, and bureaucrats also hold their own political and rhetorical power, independent from their minister, and which they can use in the process of policymaking and implementation (Mulgan 2013). Japanese Prime Minister Koizumi found it very hard to keep bureaucrats focused on his administration's agendas and instructions; on the contrary, bureaucrats control their own agendas, because all departments' ministers need to receive the 'training' from bureaucrats before each public speech they make (Kozumi 2007). In other words, during the development, decision-making, formulation, and execution of a government policy, bureaucrats tend to evaluate and judge the policy based on their technical expertise, their ability to draft legal texts, their assessment of the policy's design and its implementation, and their management of administrative regulations. At the same time, in order to play a crucial role in policymaking, bureaucrats actively cultivate various networks of influence within the decision-making process. Under the long-term dominance of the LDP, the bureaucracy's preferred strategy has been to skilfully open and maintain channels of communication and coordination—engaging in extensive

behind-the-scenes work—to facilitate the passage of legislation and secure budgetary allocations (Qin 1991).

Some Japanese scholars argue that the greatest weakness of the bureaucracy lies in its inability to make swift, unified decisions due to the decentralisation of power. According to Seio (1995), an urgent priority was to decisively strengthen the authority and scope of the prime minister's power, thereby enabling the government to assert control over the individual influence of bureaucrats. During the Hashimoto and Koizumi administrations, some reforms aimed at diluting the role of bureaucrats in political decision-making were adopted to marginalise the political status of bureaucrats. Instead of the top-down decision-making model of 'government comes from the bureaucracy', the decision-making model of 'government comes from the prime minister and his residence' was introduced (Zhao 2008). These reforms achieved positive results to some extent, but were still unable to remove bureaucratic power in the Japanese political and economic system. In his second term of office, the Abe cabinet led the plenary session of the Japanese Upper House of Parliament to pass the 'Revision Law on the Establishment of the Defence Ministry', which abolished the civilian leadership system long practised in Japan after WWII. This reform greatly weakened the position and role of civil bureaucrats in Japanese national politics, and strengthened the authoritative position and role of politicians in national politics (Katsuhiko 2015). However, it did not mean that the influence of bureaucrats on policymaking and administrative implementation has been erased; bureaucrats still get some benefits through channels like Keiretsu groups or through pork barrelling in the election system, as discussed above.

Japanese business circles include conglomerates such as Keidanren, Nikkei, and the Japanese Chamber of Commerce and Industry, which act as the bridge between the government, bureaucrats, and business sectors, and these conglomerates are responsible for providing or generating ideas for development in their internal meetings (Sun 2015). In Japan's FTA negotiations, companies indirectly participate in the rule-making for FTA/EPA economic and trade agreements, and this is permitted by the Japanese government (Cabinet Secretariat of Japan 2021). METI has set up a Rule Formation Strategy Office to study how to create rules that are favourable to companies and expand their profits. The ministry also works with the business community to explain how companies can get more practical benefits from FTAs and thus help Japan maintain economic growth in this way. Under this kind of tight cooperation of government-business arrangement, companies and business

associations frequently play a role in FTA negotiations. The China-Japan-Korea business summit has been affiliated with CJK FTA negotiations and with the CJK leaders' summit, as a symbol for linking government and business in FTA negotiations (Keidanren 2024).

In the past seven business summits, since 2009, government leaders, business associations, and companies from China, Japan, and Korea have achieved consensus on trade cooperation as well as on foreign investment and environmental protection. For example, in the sixth summit, the entrepreneurs also held a signing ceremony for 12 important cooperation projects, including the third-generation semiconductor material industrialisation project, the Penang Jacoda semiconductor equipment manufacturing project, and a new energy vehicle intelligent control parts project, with a total investment of about 1.2 billion dollars (Shaoxing Municipal Bureau of Commerce 2023). Along with continuous achievements from the CJK business summit, the CJK Industry Expo has the role of exhibiting mutual industrial innovative achievements and promoting understanding through communication. This event is held by the Association for the Promotion of International Trade of Japan. Through this type of government-business joint participation in the FTA negotiation process, the Japanese government began to positively push the CJK FTA negotiation process based on the deepened mutual understanding that had been created. At the leaders' summit and the business summit, the Abe government repeatedly stressed the importance of accelerating the FTA process (Shanghai Observer 2023). The same attitude was adopted by Kishida in 2024¹⁰.

FTAs clearly help Japan's government to promote the development of innovative industries and SMEs (for more detail, see Section 6.2), despite the domestic circumstances that contribute to the rigidity of these processes. This is because the high competition in the regional and global market requires Japan to focus on keeping its upstream position in the industrial chain. This requirement makes it imperative for Japan to emphasise economic and industrial development. So, although the correlation between government and business in Japan has not been strong enough to push economic growth, and it is very hard to implement reforms, FTA strategy can turn this situation around. This argument is further developed in Chapter 6.

¹⁰ Suga Yoshihide (2020–2021) did not explicitly mention the CJK FTA during his tenure as Prime Minister but was actively involved in the negotiation of the RCEP after Abe and before Kishida.

3.2.4 Fourth principle: A Complete Set of Institutions

In Section 2.3.3, Japan's domestic support institutions were elaborated on in detail, and this element is not part of the Japanese partial dysfunction of the DS model. Given this, these institutions' role in Japan's FTA strategy are briefly described here without an analysis of dysfunction.

In Japanese trade policies and FTA strategy, METI plays a major role in deciding the priority of industries, in collaboration with other states, and in investigating the consistency of trade policies and measures, and fixing issues that arise in cooperation (Ministry of Economy, Trade and Industry of Japan 2023). Therefore, METI participates in the negotiation of all FTAs/EPAs. In addition, METI needs to recognise the geopolitical dimensions of each FTA and strategically select agreements that align with Japan's national interests, ensuring the state's leadership and influence in East Asia. METI has annually published 'Report on Compliance by Major Trading Partners with Trade Agreement' since 1992, and monitors trade policies and rule-inconsistent measures from other significant trade partners to keep Japan's trade running smoothly. At the same time, the Ministry of Foreign Affairs (MOFA), MOF, and MAFE all tend to incorporate their particular preferences into specific decisions, and the BOJ and other business banks support cross-border business companies by providing finance, stabilising exchange rates, and developing payment systems. There have always been conflicts between METI and MAFE over sensitive agricultural issues, with partner choice—based on regional strategy and industry development—shared between MOFA and METI (Fu 2011). Who finally wins in this combat between these bureaucracies is determined by the lobby power of relevant interest groups.

In the introduction of this chapter, I posed three questions. From Japan's perspective, the three questions can be answered as follows:

- 1) The second and third DS principles, which relate to government-led policy and government-business relations, are dysfunctional, and this impedes Japanese domestic economic development.
- 2) Specifically, the two dysfunctional principles relate to the issues of political corruption among governments, bureaucrats, and Diet members, and the impediments posed by vested interest groups to several industrial shifts, create serious barriers for government policy and leaders' reforms aimed at further economic growth. At the

same time, the excessive influence of bureaucrats somewhat hinders the development of new enterprises.

3) Japan's intricate political structure—characterised by a bureaucrat-led administrative system and entrenched interest groups—has fostered an institutional inertia that hampers effective policymaking. This configuration not only undermines policy efficiency but also frequently obstructs meaningful reform. However, as covered in the last part of each subsection, the Japanese government can achieve its goals, such as economic development and fostering SMEs, through its FTA strategy, due to the ability of FTAs to function as instruments for 'bypassing reform', allowing governments to circumvent domestic institutional constraints in some way.

3.3 Korea's dilemma regarding the four principles of the DS model

In the latest few years, the Korean government has gradually chosen to develop an 'innovation-driven growth' model, but it is still stuck with the dilemma of the excessive expansion of the Chaebols' power. This has eventually led to a contradictory relationship between government and business and, to a certain extent, state institutions and policies that serve the Chaebols (Kang 2002). This section provides detailed analysis of the current status of the four DS principles in Korea over the last two decades, but also describes the nature of the Chaebol problem, and its effect on Korea's FTA strategy.

3.3.1 First principle: The state has been keen to continue economic growth via industrial transition

The Korean government set up an import and export-oriented economic growth strategy from the 1960s, and until now this strategy has been the main pillar of GDP. From 2000 to 2022, foreign trade as percentage of GDP has been between 69.3% (the lowest point in 2000) and 110% (the highest point in 2011) (Jobst 2025). These rates indicate that Korea's foreign trade has been strongly supported by government, rather than relying entirely on market liberalisation, in order to maintain domestic economic security and stable growth.

After the Asian Financial Crisis at the end of the last century, then president Kim Dae-jung entered politics with the mission of economic recovery and success. However, to make economic growth a priority, he supported the existing Chaebols to progress internal industry reform; after this industrial reorganisation, the Chaebol system has developed more rapidly, partly because of the integration of a wide range of industries: light to heavy, and high-tech (Tan, Liu and Zhang 2008). During the Roh Moo-hyun period, the Public Opinion Reform Law was finalised, which restricted the control and monopoly of the press, with the goal of completely separating government discourse from the Chaebol conglomerates (Lee 2005). However, because domestic economic development was ignored, Korea experienced heavy inflation and high house prices, and these became the weapon the public employed to make Rho finally step down. It is obvious that a president's ability to lead economic growth has become one of the most important criteria to determine the length of his or her term in office. At the same time, if the performance of presidential candidates on economic policies does not meet public expectations, if they do not mention their outline for changing the economic system at all, even if they talk about employment and innovation, they will be seen only as superficial and will not win the support of voters (Park 2017).

After Moon Jae-in's period, and under current President Yoon Suk-yeol, the government has transferred its attention to 'innovation-driven growth', which it is hoped will lead the fourth industrial revolution (Kim and Choi 2019). The government has also announced that more funds will be put into innovative sectors, like the individual data economy, artificial intelligence (AI), and the hydrogen economy (Thurbon 2016; Kim and Choi 2019). In the early stages of Yoon's time, the main mission for Yoon and his government was how to deal with inflation, rising house prices, and recession in the wake of the COVID-19 pandemic.

As an export-oriented economy, Korea has relied heavily on foreign trade to maintain its GDP, and its FTA strategy was developed and enlarged from the late 1990s, earlier than Japan. In fact, the government set up the first FTA in the 1970s, which illustrates the significance of FTAs for Korea. In addition, the upgrading of industry structure has been accompanied by an FTA strategy for enhancing Korea's competitiveness in the foreign market. The technology policy of the 1980s led to the Korean FTZs implementing the strategy of upgrading the industrial structure, and further supported industry moving from labour-intensive to technology-intensive. In the 2003 'FTA Strategic Roadmap', the Korean government emphasised the

development of emerging industries such as intelligent robotics, bio-science, and information engineering (Kim 2010). In the last few years, the Korean government has realised that the decline of free trade is leading to a decrease in trade volume and global economic stagnation, causing significant disruption to Korea, a state that has greatly benefited from free trade. Therefore, multilateral FTAs are another viable choice for Korea to grow its outside markets in addition to traditional bilateral FTAs. Thus RCEP and CJK FTA have become reliable pathways for Korea to maintain its own economic interests (KBS News 2019).

3.3.2 Second and third principles: Government-business relations and Chaebol

interests hinder effective economic development

As the influence of Chaebols on the Korean government and its policies has been powerful, this subsection combines the second and the third principles, which relate to: 1) the government-led policies, and 2) the connections between government and business. This discussion will illustrate the role of Chaebols with the Korean government network in the context of economic development. In contrast to the Chaebols' power in Korea's economic development, bureaucrats in Korea are under the centralised control of the president, which is different from Japan's situation. Hence this subsection focuses on the role of Chaebols to highlight the specific circumstances of Korea.

As economic theory suggests, a state is able to stimulate the restructuring process by directly providing political protection to large enterprises or by reorganizing them when they obstruct market signals (Fitch 2001; Sinclair 2005). However, reform in a presidential system is dependent on whether there is a powerful president with a strong ability to establish an agenda, or a weak and scattered structure behind the president (Tiberghien 2011). In the process of Chaebol development, the Korean government separately illustrates two different roles: that is, both supporting the Chaebol system and unsuccessfully attempting to curb it when it begins to overshadow presidents. Government policies closely tied to the interests of Chaebols have a long-standing history (see Section 2.3.3). During the periods of Park, Chun, and Roh in the last century, Chaebols played a major role in national economic development and industrial structural shifts under government-led policies. The Asian Financial Crisis in 1997 forced big business groups to recombine and reorganise, and

some top Chaebols went bankrupt (e.g., Daewoo, which was previously one of the top three Chaebols) and the remaining Chaebols were close to dying (Johnson 1998; Chang 2001). This was indeed the best chance for the Korean government to permanently settle the issue of state-business relations and Chaebols. IMF-backed reforms did weaken the Chaebols' control over the Korean economy, boosting financing and market access for firms, and strengthening productivity growth. Post-crisis Chaebols were no different than non-Chaebols in terms of access to credit, with credit flowing to more efficient companies (Borensztein and Lee 2002). Since the 2000s, the remaining surviving Chaebols, depending on the damage they sustained due to the financial crisis, were no longer reliant on government. They hence decreased their debt ratio, and conversely become multinationals, and showed even deeper interest in domestic politics (Eichengreen 2015; Lim and Park 2015). The then President Kim Dae-jung delivered a good chance for Chaebols to develop after the 2000s. Kim centralised financial regulation authority, prompting the Chaebols to implement reform. However, after the industrial reorganisation, the Chaebols have developed more rapidly and attracted a lot of foreign capital, because of the integration of industry (Tan, Liu and Zhang 2008).

When subsequent presidents, such as Roh Moo-hyun and Park Geun-hye, attempted to reform Chaebols and support SMEs, it was already too late. The failure to reform the Chaebol system in the past is more related to the loss of national economic development, and the same goes for Roh Moo-hyun's reform. Under Roh's leadership, the Public Opinion Reform Law was finalised, which restricted the control and monopoly of the press, with the goal of completely separating the state-opinion-discourse from the Chaebol conglomerates (Lee 2005). However, because domestic economic development was ignored, Korea experienced heavy inflation and high house prices, and these became the weapon the public employed to force Rho to step down. Similarly, Park Geun-hye was also embroiled in bribery and corruption scandals brought on by the people around her, and planned reforms for supporting SMEs were hindered by Chaebols.

Later, President [Lee Myung-bak](#), who was the former president of the Hyundai construction group that represented Chaebol interests, fully focused on the growth of the economy and maintained the position and influence of Chaebols. As a result, the operating income of the top ten Chaebol groups in Korea accounts for 70% of the total national income, and the top five Chaebols account for two-thirds of the total GDP (Yoon 2024). Overall, if the failure to reform the Chaebols before [Lee](#)

[Myung-bak](#) was most likely due to the requirements for economic recovery and growth, afterwards there three main factors can be identified to explain why Chaebols have not been removed or weakened in Korea. These are the economic growth rate, Korea's competitive economic position in international society, and the stimulation of tech-innovation development.

Apart from impeding the development of SMEs in Korea, Chaebols may have entrenched interests in fossil fuels rather than in the growth of green energy and the innovation of cutting-edge technology supported by the Korean government. For example, KEPCO is deeply engaged in traditional energy sources such as fossil fuels, and invested directly in a coal thermal power generation project in Southeast Asia in 2020, which was contrary to the '2050 carbon neutrality goal' announced by the Korean government in 2020 (Lo 2020). In addition, SK, HHI Group, and Hanwha still retain a certain percentage of traditional fossil fuel projects, such as the Korea Energy Terminal project commenced by SK in 2024. From the innovative technology perspective, some conservative Chaebols like Hanwha and Lotte prefer to concentrate on expanding traditional sectors, including food, chemicals, and construction, rather than developing technology. Hanwha's solar division was quickly overtaken by Chinese solar manufacturers in the last five years (Wood Mackenzie 2024).

In terms of state-business relations, money politics—or corruption—has been a very prominent issue in the past several decades, and this has led to successive presidents being sentenced to jail. One reason for this is that presidential willpower has often been tied to the party or institutions they are affiliated with, and leaders have frequently switched parties at will, bringing their followers with them. Rather than being responsible to party or principles, position and political willingness have been the top two priorities for these presidents (Kong and Whitehead 2000). This 'deep trust' of individual power comes from a form of honourable meritocracy, which has arisen from Korea's escape from autocracy in the 1980s, and has gradually resulted in respect from the public for seniority, inheritance and merit. Another reason is that no united power could inhibit the strong combined force from business and society after the downfall of the military government. If the state has a powerful and centralised government, with the existence of schismatic business sectors, the government is able to robustly control every aspect of domestic affairs and the political elite can make use of business sectors to achieve their political blueprint. Conversely, if the state has a centralised and strong business sector but lacks a powerful government, and elites are more energetic than the government, interest groups will seek all kinds of

pathways to impact on government determinations and leaders' minds, to achieve their own purposes (Kang 2002).

In the case of Korean democracy, the president has robust power, and the pressure from the party and society is relatively small, while the Chaebol system has a great influence on society (Tan 2017; Dostal 2023). Putting pressure on the government through a variety of methods can easily constitute political and business collusion and corruption between the president with his or her cronies and the Chaebols. Beyond presidential corruption, the prosecution system has also served as a protective umbrella for the Chaebols. The Korean prosecution system was initially influenced by the United States after liberation and was designed in part to limit authoritarian dominance—especially presidential overreach—within the emerging political system. However, over time, the prosecution system has increasingly been seen as serving the interests of Chaebols, rather than acting as a neutral enforcer of the rule of law (Kim 2006; Dostal 2023). The prosecution system in Korea remains independent from the executive and legislative systems, and prosecutors have the right to initiate public prosecution in all cases, as well as the power to supervise courts, police, and lawyers (Zhu 2021). This kind of independence and rights domination can easily create opportunities for corruption. For example, in 2012, Kim Kwang-jun, a senior prosecutor, was caught on suspicion of accepting huge bribes from pyramid schemes, and Kim Kyung-joon, another senior prosecutor, was indicted by Korean prosecutors in 2016 on charges of taking hundreds of millions of won in bribes and of engaging in insider trading of stocks. This situation improved during Moon's administration due to his reform of the prosecutor system, but the effect of this was short-term and very limited. In the middle period of Moon's reform, he lost focus on this issue due to the needs of the domestic economy and industrial growth in the context of the reform of Chaebols. Hence, some situations emerged which revealed that the intensity of the reform had weakened, such as Samsung Vice Chairman Lee Jae-yong released after just seven months in jail, with Moon's explanation of this release supporting normal economic and industrial development.

It is difficult for Korean presidents and governments to decrease Chaebols' power in Korea's political economy by reform, because the Chaebol system is very closely tied to economic development and industrial structure upgrading, from the past to the present. However, this function of Chaebols for the Korean government has already been weakened in a way recently. With the failure of the reform of Chaebols, Moon Jae-in transferred his attention, as noted earlier, to 'innovation-driven growth', which

it is hoped will lead the fourth industrial revolution (Kim and Choi 2019). The Innovation Platform Program (hereafter IPP) is the result of the government's economic policy change, and demonstrates the willingness of Korea to become a global digital centre for information and communications technology (ICT) (Ministry of Science and ICT of the Republic of Korea 2023). The government announced that more funds would be put into the three sectors of the individual data economy, AI, and the hydrogen economy, while improving the employment rate through the innovation of human resources (Thurbon 2023). In the AI sector, the government plans to set up a quantum computer, with AI-involved algorithms and intelligent semiconductors as key features, and further invest in 4,000 smart factories focusing on 5G technology and on smart manufacturing software and hardware technology packages in big data (Korean Government 2018). At the same time, hydrogen will be used as the main resource for future industries such as car manufacturing, and the new energy market will be further expanded.

According to the government and the Ministry of Economy and Finance (hereafter MOEF), this innovation of economic policy, compared with the past three strategies of 'main industrial development', 'increasing the share of global market' and 'growing innovation industries', is more focused on the issue of the gap between high and middle to low incomes, and creating fair competition in the market. This problem of income inequality also stems from the suppression and acquisition of SMEs by Chaebols, resulting in inefficient resource allocation and weakened capacity for innovation (Kim S.S. 2017). In addition, the political intention of Moon's government was to achieve economic liberalisation and restrict Chaebols' action through the Korean Competition Act and the Monopoly Regulation and Fair Trade Act (Kim and Choi 2019). However, some issues have emerged in the process of implementing this new economic policy, such as how to balance the two conflicting elements: the desire to increase the minimum income and the dynamic efficiency of enhancing innovation. These conflicts are problematic because Chaebols are reluctant to hire more workers if minimum wages increase and will transfer funds needed for this from innovation technology development. The contradiction between Chaebols and the Korean government thus still exists and impedes Korea's economic policy implementation.

Although this unbalanced relationship between government and business has become a barrier to government-led domestic economic policies to some extent, Chaebols actually contribute positively to FTA policies and foreign trade. The Korean government's emphasis on the significance of FTAs to its domestic economic

development is well known, and it has set up a series of supporting facilities like Free Economic Zones (hereafter FEZs) to provide tax and rent relief services for enterprises, with the function of freeing up manufacturing, logistics, and trade activities in FEZs. This demonstrates the government's determination and confidence in promoting FTA strategy (Invest Korea 2024). After establishing a sequence of FTAs on traditional trade, the Korean government decided to further expand its 'FTA strategy roadmap' to more emerging economies like Ecuador, Guatemala, and other states in the Middle East and Latin America, and to explore more cooperation in new industries like supply chain, digital, technology transfer, and others (Lee 2023). At the same time, cash subsidies for foreign investment in cutting-edge strategic technologies will be expanded from the current 40 percent to 50 percent, ensuring the effective development of high-tech innovative industries.

Hence, tight government-business relations have continued to emerge during the development of FTAs from 1970s until the present. Samsung, LG, and other big enterprises have taken advantage of FEZs like the Incheon FEZ to improve logistics efficiency and reduce costs, and have also further upgraded the level of openness and cooperation in service, trade, and investment with China and other partner states (Ministry of Commerce of the People's Republic of China 2022). At the same time, Chaebols have shown their interest in the CJK FTA. In the CJK business summit, which is attached to the negotiation process for the CJK FTA, the Korean government and the Korean business association (Federation of Korean Industries) decided that Korea should expand cooperation between the three states in new energy technologies, deepen cooperation in the environmental field, and strengthen cooperation in the field of high and new technologies¹¹. The chief executives from the Korea Chamber of Commerce and Industry, Samsung, Hyundai, SK Innovation, and LG have all attended these summits and (in the last summit held before 2020) called for Korea to formally sign the RCEP agreement at an early date, pushed for substantive progress in the negotiations on the CJK FTA as soon as possible, and jointly agreed to safeguard free trade.

In general, although the complex relations between the Korean government and Chaebols have impeded domestic structural reform and the growth of SMEs, nevertheless, as Tiberghien (2011) noted, Korea's Chaebols have always joined in globalisation in their own way—that is, maintaining and protecting their voice and

¹¹ See the joint statements of the fourth through seventh CJK business summits for reference.

right to participate in politics based on the current system, while favouring economic liberalisation at the same time. The current FTA strategy led by government is suitable for their own interests in exploring a bigger foreign market and also meets the expectations of the Chaebols' own 70% foreign shareholders.

3.3.3 Fourth principle: Functional institutions to help government

This discussion, similar to Japan's situation (see section 2.3.3), is not related to the partial dysfunction of DS principles in Korea. In the previous chapter, Section 2.3.3 detailed Korean institutions. This subsection will further illustrate the roles of these institutions within the context of Korea's FTA strategy, clarifying their functions in regional cooperation.

The Ministry of Trade, Industry and Energy (hereafter MOTIE) is the government department in charge of trade in Korea and is chiefly responsible for Korea's industry, energy resources, trade and investment policies, and trade negotiations. In the FTA negotiations, the minister is generally directly involved at key points and finally signs the agreement with confirmation of the text (Ministry of Commerce of the People's Republic of China 2022). Internally, MOTIE assists local governments in building local FEZs, providing supporting infrastructure, including by developing relevant law and policies, so as to achieve a complete, functional free trade service system¹². In the past CJK FTA negotiations, MOTIE attended all the talks on behalf of the Korean government and companies. The Ministry of Foreign Affairs also take parts in the aspects of FTA negotiation, and is responsible for aligning agreements with Korea's foreign policy. In addition, the Ministry of Economy and Finance, the Ministry of Agriculture, Food and Rural Affairs, the Ministry of SMEs and Startups, and the Korea Customs Service are, respectively, in charge of fiscal management, agricultural interests, the development of SMEs, and the management of customs policies in FTA agreements and practice.

At the end of this section on Korea, the three main questions of the introduction still need to be answered. For Korea, these answers are as follows:

1) Similar to Japan, the second and the third DS principles in Korea are dysfunctional,

¹² See the Ministry of Trade, Industry and Energy (MOTIE) official website for more information.

leading to inefficiencies in government-led economic policies and reforms because of the distorted government-Chaebol relationship.

2) As previously mentioned, the monopolistic power of Chaebols extends not only over the domestic market but also into government networks, which in turn undermines economic policies and reforms, such as efforts to nurture SMEs.

3) This answer is the same as those for the first and second questions: the dislocated government-business relations impede government-led policies and reforms, although the Korean government has a robust willingness to achieve economic recovery. However, it is clear that these issues are partly fixed by the FTA strategy, such as RCEP's emphasis on the importance and necessity of developing members' domestic SMEs with a genuinely supportive hand (see Section 6.2.3).

3.4 China's dilemma regarding the four principles of the DS model

A decentralised tax system makes provincial and municipal governments in China more concerned about their own growth, depending on their geographic and resource advantages. The relations between central and local governments in China is that the national government determines the orientation of macroeconomic regulation. It requires the local government to achieve some goals, and does this by means of rewarding or punishing the local government leaders in regard to promotions, and the local government is required to implement the guiding principles of the central government (落实中央精神), adapting them to the local conditions (因地制宜). Under this model, owing to the difficulty of governance brought about by various complexities associated with differences in geographical environments and culture, the dysfunction of vertical management, and the lack of coordination mechanisms, the central government is scarcely able to implement policies effectively. This section focuses on the issues of incomplete institutions on the basis of a general analysis of the four DS principles, and the performance of this dysfunction in FTA developing process.

3.4.1 First principle: Continuously focusing on economic growth

China joined the WTO in 2001 and accelerated trade relations under globalisation. Later, it internally set the goal of achieving a moderately prosperous society by 2020 (Hu 2012), and China's trade also plays an important role in world economic growth (Liang 2011). In combination, this has made economic growth become the central point of government policy. In the general reports of the 16th to the 19th CCP national congresses, all reviews of the government's work over the previous five years begin with the state of the economy. In recent years, under the goal of maintaining economic growth, the government has shifted its focus to strengthening economic efficiency. Premier Li Keqiang said at an achievement exhibition marking the 70th anniversary of the founding of the PRC in 2019 that 'we must continue to focus on economic development, implement the new development philosophy, accelerate the development of new drivers, ensure economic operation within a reasonable range and promote high-quality development.' At the same time, Xi Jinping, at the Central Economic Work Conference, has repeatedly stressed the need to improve the quality of development and carry out structural reform (Xi 2020). Furthermore, the Chinese government has shifted the industrial structure from heavy sectors to innovative technological sectors, like the digital economy and high-tech manufacturing (State Council of the People's Republic of China 2022), and private firms have begun to play the main role in Chinese exports (see Section 6.2.3).

The Chinese government commenced its FTA strategy in 2002, and in 2015 the first strategic and comprehensive document, 'Several Opinions on Accelerating the Implementation of the FTA Strategy', was released, for the purpose of nurturing a high-standard FTA network and embracing the regional and global market (Sun 2023; Liang 2011; Liang and Nakagawa 2017). This document emphasises that accelerating the implementation of the FTA strategy is an important part of China's new round of opening to the outside world, and also notes that 'it is an inevitable choice for comprehensively deepening reform and building a new system of open economy' (State Council of the People's Republic of China 2015). Over several later years, in order to better develop FTA strategy, the Ministry of Commerce and individual FTZs published a sequence of opinions on supporting further innovative development, especially focusing on fulfilling current policies, completing infrastructure, and expanding cooperation in the digital economy, e-commerce, AI, clean energy innovations, and financial technology (Beijing Investment Promotion Agency 2023).

Focusing on the CJK FTA and RCEP, the Chinese government holds a positive attitude towards further cooperation and integration with Japan and Korea via the two FTAs, and towards the achievement of its goal to occupy middle-high sectors of the supply chain in East Asia. The Ministry of Commerce has repeatedly said that the establishment of the CJK FTA can promote the deep integration of the value chain within the region and vigorously promote the prosperity and integration of the regional economy. The three states have agreed to further improve the level of liberalisation and rules and standards around trade in goods, trade in services, and investment, and build a 'RCEP+' FTA, with the aim of expanding the field of cooperation on the basis of the outcomes of the RCEP (Ministry of Commerce of the People's Republic of China 2022). China is now moving in the direction of opening up its market and strengthening intellectual property rights protection. Some measures to support the reform and development of private enterprises and the adjustment of import tariffs on some commodities have, to some extent, created a good atmosphere for the negotiation and construction of the CJK FTA (Ministry of Commerce of the People's Republic of China 2019).

3.4.2 Second principle: Efficient government-led policy

As with the first principle, this section does not relate to the issue of the partial dysfunction of the DS principles in China. Instead, the primary government-led policies since the 2000s are presented below.

Within the globalisation of the 2000s, the decline of heavy industry in the Western states and its subsequent transfer to the East created an opportunity for China, which had just joined the WTO, to accelerate its development. Between 1998 and 2008, the rate of heavy industry in China once again started to go up, especially for telecommunications equipment, computers and electronics, non-metallic mineral products, and metal smelting and processing. But even though, at this time, the development of heavy industry performed remarkably well, demand-type industry products represented the majority of this manufacturing, rather than technological industry products.

Joining WTO in 2001 led to China become the manufacturer of most international industries by its use of low-cost material and labour; China's exports (consumer

goods) and imports (intermediate goods) also increased significantly. During this period, there was substantial employment and ingredient transfer from agriculture to secondary and tertiary industries, but these industries were still characterised by high pollution, high consumption, and low technology. In the last decade, the Chinese government has attempted to transform its industry structure to high-tech industries with low pollution and consumption, such as new energy cars. However, it was confronted with many difficulties. These included, firstly, a poor ability for independent innovation, and problems with improving product quality, which lags seriously behind the change of the demand structure of Chinese consumers towards high-level products (Zhang 2016).

Secondly, an unsuitable financial system has impeded the transformation development, including the negative effect of over-supervision from government towards industry development, such as the reality that newly emerged industries' development largely depends on government and policy support, instead of market and consumer needs, and excessive effort is directed towards engaging with relevant parties, which decreases efficiency. Thirdly, the impact of backward capital subsidies and the false boom in real estate created further difficulties, as these both required substantial capital and resources. During this period, although confronted with some difficulties, the high-tech manufacturing and equipment manufacturing industries have continued to develop to a certain extent, and overcapacity has been alleviated through policy adjustment (Zhang 2019). In addition, the digital economy has contributed to a prosperous service industry, especially for e-commerce and internet service, which employ large numbers of people and promote the flow of the economy, especially after the emergence of Alibaba, which is the largest Chinese online retailer. Therefore, the proportion of added value of the service industry in GDP has exceeded that of secondary industries and has been the largest industry since 2012 (Lin 2019). Then, the service industry has maintained rapid growth and the proportion of added value of the service industry has been continuously increasing. Moreover, renewable energy industries have gradually become the China's main force in expanding overseas business. For example, China accounted for approximately 60% of the global market share for new energy vehicles in 2023 (International Energy Agency 2024), while Europe saw an increase in market penetration from 20.1% in 2022 to 21.7% in 2023 (European Automobile Manufacturers Association 2024).

As with Korea's FEZs, 22 Chinese FTZs were established from 2013 until now, which are evenly distributed across the north, south, east, and west of China. Based on

the different characteristics of these FTZs, individual development strategies for each FTZ have been explored by central and local governments. For example, the Zhejiang Pilot FTZ in the Ningbo area has introduced innovative regulatory models, including a one-stop containerized export warehouse for new energy vehicles, cross-border e-commerce services, and a ‘inspect-first, ship-later’ approach; Fujian took the lead in implementing the ‘three-in-one’ of industrial and commercial business licence, organisation code certification, and tax registration certification in a pilot FTZ, which was later introduced nationwide (Fujian Provincial People’s Government Office 2015). These FTZs attempt to find their own way to gradually improve the convenience of investment and trade, and also demonstrate experiments with reform for other FTZs. In the initial stages, the central government and the state council help new FTZs in defining their strategic positioning and developmental objectives, and ensuring their regional location is based on distributed functions.

In addition to establishing good circumstances and supporting policies, the government builds an industrial system with open characteristics, and promotes the transformation and upgrading of the manufacturing industry on the basis of maintaining traditionally advantageous industries, such as helping the Xinjiang FTZ transform from traditional agriculture to manufacturing, aviation, and pharmaceutical industries (State Council of the People’s Republic of China 2023). Shanghai FTZ, Guangdong FTZ, and Hainan FTZ, whose scale and capability are strong, have been responsible for the development of the renewable energy products like new energy vehicles and solar panels. In the process of FTA negotiation, government regularly and openly solicit opinions and suggestions from relevant domestic departments, localities, business associations, enterprises, and Chinese citizens on issues encountered in the course of trade, investment, and economic and technological cooperation with the negotiating states¹³. After an FTA comes into effect, the government will publish relevant opinion guides to support relevant local enterprises and industries by training them how to better understand and use FTA strategy. An example is the ‘Guidelines on the High-Quality Implementation of RCEP’, issued by six central government departments (Sun 2023).

During negotiations for the CJK FTA, the central government and the Ministry of Commerce have shared their opinions and discussed specific schemes about the tariff-cut scope of trade products. Local governments actively respond to the National

¹³ Refer to the official website of ‘China Free Trade Zone Service’

People's Congress deputy regarding advice about accelerating CJK FTA establishment, and determining the direction and specific measures for cooperation with Japan and Korea based on their own industrial advantages, like Shandong province hoping for increasing communication and cooperation in intelligent green farming (Shandong Provincial Government 2021) and Liaoning province preferring to broaden cooperation in car manufacturing and finance (Liaoning Provincial Government 2019). It is obvious, therefore, that government can be regarded as playing the main role in pushing for the process of the development and implementation of China's FTA strategy.

3.4.3 Third principle: State-owned-enterprises and other business sectors cooperate with the government

Generally, the implementation efficiency of SOEs in China is relatively higher than that of the business sectors in Japan and Korea, largely due to the robust centralised authority of the Chinese government, which directly controls and manages these enterprises (Reilly 2013). Before the 2000s, SOEs in China played the role of implementing macroeconomic policy and being responsible for economic development. Within the reforms to gradually decrease government control of goods prices and market progression, the Chinese government announced its decision to establish a socialist market economy, then private, foreign-funded, and other types of enterprises are allowed to operate in the market alongside SOEs, with SOEs taking the lead in key areas. At the same time, a series of markets, such as the commodity market, the financial market, the labour market, and the technological market also started to develop because of the lessening of government control. With China's accession to the WTO in 2001, there have been dramatic changes in tariffs, FDI, SOEs, and private enterprises, and stepping into the WTO also opened China's import and export markets. As the conditions for attracting foreign investment gradually improved, after the abolition of designated operations and the expansion of the right to trade, SOEs were modernised and reformed, a large number of foreign-funded enterprises and private enterprises sprang up, and the volume of foreign trade also increased year by year.

In recent years, focusing on the existing issues of SOEs like low production, inefficiency, and corruption, major reform has been carried out in the management

system of state assets, separating government administration from enterprise management, separating government management from capital, and separating management from ownership. The issues existing in local SOEs relate to local governments choosing to be in debt by means of attracting investment via those enterprises, which causes low productivity, with new debt not emerging to create a virtuous cycle (Zhang and Zhang 2023). Focusing on this, the 14th Five-Year Plan clearly states that ‘prudently resolving hidden local government debt’ should be the key goal of preventing and resolving major risks in the next five years. This also shows that the authorities attach great importance to the hidden debt risks of local governments.

In terms of other business actions, the government retains a degree of supervisory control through partial market and financial liberalisation. During the first 15 years of the new century, China’s financial liberalisation resulted in a shifting of focus from capital inflows to capital outflows, a significantly loosening of controls on foreign exchange as a result of restricting RMB appreciation, and a series of relevant policies, such as implementing an undifferentiated foreign exchange policy, transferring from export-oriented to high-tech preferences, expanding the flexibility of the exchange rate regime, and weakening or eliminating export-oriented financing policies. These all reflect a move to a relatively comprehensive policy instead of the previous singular export-oriented policy. A report to the 19th National Congress of the Communist Party of China in 2017, mentioned the need to ‘modernise the system’ and ‘promote the formation of a new pattern of all-round opening up’, which included the requirement to complete the financial liberalisation process, with outstanding actions including lifting of the quota limit for qualified foreign institutional investors and removal of the limit on the shareholding ratio of financial institutions. These actions have made a beneficial contribution to the internationalisation of the RMB. However, unlike Japan and Korea, where complete financial liberalisation was driven by opportunities arising from economic crises, the relationships between the government, industry, and banking system in China remain difficult to clearly delineate. In addition, due to concerns about the strong influence of the United States’ financial system regarding its control over global capital flows, the Chinese government remains cautious about fully opening its capital market to foreign entities, fearing potential financial destabilisation (Qiang 2021). Therefore, all business sectors and actions in China are under strict supervision and administration.

Gradually providing complete infrastructure support and policies provides excellent

conditions for SOEs and business enterprises in China to progress their trade and investment. The practical significance of FTZs is their transformation from traditional trade and tariffs to a wider scope in areas such services, the digital economy, industrial development, SOEs, and labour protection, increasing the possibility for more business entities to enter into free trade with global partners. At the same time, this kind of new scope for cooperation imposes higher requirements on the government to negotiate in FTAs with members. For example, the leaders of China, Japan, and Korea have claimed that the new type of trilateral cooperation in the next negotiation would be likely to shift from total traditional trade to digital, technological transfer, service trade, intellectual property, and other new emerging industries (Ministry of Commerce of the People's Republic of China 2019). Meanwhile, Chinese international business associations and provincial trade promoting associations hope for more connection and communication with Japanese and Korean business associations and enterprises related to topics around the supply chain, the digital economy, and advanced technology in the industries highlighted as strengths at the latest CJK business summit (TCS Asia 2023).

It is necessary to mention the importance of FTZs connecting government and enterprises under the FTA strategy. The establishment of FTZs has attracted more enterprises into them in order to benefit from tariff cuts, which in turn helps government negotiate with more states with a greater number of FTA choices based on FTZs of a certain scale. After growing as a market union integrating customers, logistics, and other services, FTZs have sufficiently demonstrated their advantages both in pushing dual circulation domestically and internationally, and in breaking departmental information barriers and enhancing joint effort of different departments like the Commerce Commission, the Health Commission, the Market Supervision Bureau, and other agencies (Ji 2023). This kind of development in FTZs also helps government to complete industry structural shifts and to innovate. Therefore, the Chinese government can better cope with FTA negotiation when it is based on the FTZ strategy. Certainly, attempts by other states to decouple China's economy in recent years have led to some foreign companies leaving the FTZs; however, due to the Chinese government's increased support and institutional innovation, the amount of foreign investment has been almost flat over this period (Ministry of Commerce of the People's Republic of China 2024).

3.4.4 Fourth principle: The absence of strong, functional institutions hinders the effective implementation of top-down policies aimed at addressing regional development imbalances

The absence of robust and functional institutions creates challenges in implementing top-down policies effectively in regions with uneven development. In contrast to Japan and Korea, the partial dysfunction of DS principles in China is present for this fourth principle.

Last century, the central government adopted the strategy of delegating power and transferring profits to mobilise the enthusiasm of local governments as an important direction of reform (Xiao 2019). In the first period, the central government transferred a large part of economic management rights to local governments, including the rights to fiscal management, human resources management, project approval, and basic infrastructure. In particular, tax reforms were implemented which changed the previous system of SOEs turning over profits to government to the system of paying corporate income tax. This became an important part of regulating production, distribution, and consumption, and progressing towards better macroeconomic adjustment (State Administration of Taxation of the People's Republic of China 2019). Apart from this, establishing economic special zones by using comparative advantages in different cities also helped local governments to obtain more independent management power and form export-oriented industry systems (Wu 2018). Indeed, this kind of reform has had a positive effect on domestic economic development; however, some issues emerged in the 1990s.

The revenue of central government had been reduced to such an extent that its fiscal base was damaged. In addition, due to the uneven resources in different regions, protectionism in some places became serious, which was revealed in the way that local government was not able to implement central government policies completely, but instead relied more on their own local interests. Therefore, the tax sharing system—under which budgetary revenue at all levels of government are mainly divided by taxation, with transfer payments from the central government to local governments to address regional development disparities—has favoured the central government in reclaiming certain powers and expanding its authority through strengthened oversight (Ministry of Finance of the People's Republic of China 2014). Owing to ambiguous rights falling between central and local governments, and a lack

of complete institutions to manage this issue, it has been hard for central government to impose top-down policies. This has meant that the economic development has been cut down by half for China.

Apart from the conflicts among central and local governments, the big gap between different regions or provinces in terms of environment and culture expand the difficulties of setting up a unified, powerful coordinating mechanism to cope with the conflicts between these governments. From the perspective of industry structure, the development between the south and the central west parts of China has been unequal since the opening-up reform of the 1980s. Being close to oceans and ports can help enterprises decrease costs and make it more convenient to make contact with trade partners. This encourages business groups to move to east and southeast provinces, bringing about fast growth in those provinces but reducing opportunities for inland provinces. In Jiangsu, Zhejiang, Shanghai, Guangdong, and other southeast provinces, the scientific and technology equipment industry is the main industry, the heavy chemical industry is the auxiliary industry, and foreign trade light industry is also fairly prominent. In contrast, the industrial structure of north China and northeast China is still highly dependent on the heavy chemical industry, and even shows a trend of this strengthening. The scientific and technology equipment industry is mainly dominated by automobile manufacturing, while the equipment manufacturing industry is relatively weak. Industry in northwest China is highly dependent on mining and the heavy chemical industry, and the proportion represented by the scientific and technology equipment industry is very low. Sichuan-Chongqing and the central region have balanced development of high-tech manufacturing and the heavy chemical industry, with southwest region having a higher proportion of industry in the scientific and technological equipment sector, including computers, electronics, automobiles, and other industries (Zhang and Guo 2021).

In other words, the export trade industry, heavy and chemical industry, and the technological equipment industry are the better-developing sectors in eastern and southern coastal areas, the electronic industry and equipment industry are growing in central and southwest areas, and resources-oriented industry is still the pillar sector in the west and northwest areas. The performance of GDP growth in different areas and provinces verifies, and almost matches, the distribution of industry. Southeast provinces have remained in a middle level of growth from the past to the present, reflecting its strong and solid industry base; the northwestern area has become a rising star by means of the emerging scientific and technology equipment field and through

national policy support; northwest areas, however, still suffer from weak economic performance and continuing decline, due to their lack of the other major supporting industries except for resources exploitation (Zhang and Guo and Lu 2021). After the release of the 'New Ten Articles' in 2022 which marked a significant shift away from China's strict zero-COVID policy, the central government emphasized the urgency of economic recovery and the need to stimulate domestic consumption, and each region has developed its own measures. For example, Guangdong and Chongqing have put more emphasis on the high-quality manufacturing industry and have comprehensively upgraded and developed their industrial system, whereas Yunnan province and Guangxi province have focused on high-speed railways and railway building. Shanghai, Shaanxi, and Fujian have made increasing consumption their top priority, especially in relation to automobiles, household appliances, and other bulk consumption in Fujian, and housekeeping, consignment, and other services consumption in Shaanxi (Tsinghua University School of Economics and Management 2024). It is apparent that the differences in economic capacity, pillar industries, and geopolitical characteristics in the provinces of China cause complexity for the central government in its efforts to achieve unified management and to focus only on the goal of economic development.

Due to complexity of central-local separation of rights and the wide variations in the features of local situations, an obvious issue has emerged due to the drawbacks associated with the absence of vertically integrated management institutions. These have been in charge of some local departments relevant to macroeconomic adjustment, like customs, and their dysfunction relates to unclear responsibilities, power disputes, and fragmentation with local governments, lead to their work having low efficiency (Zhao 2020). It would seem that a series of laws and regulations along with intermediate coordination mechanisms for maintaining these institutions' rights are necessary. In addition, corruption between management institutions and local governments could be avoided by means of setting relevant supervisory mechanisms or publishing shared information on international platforms (Sun 2010). However, the large gap in development between the east and west of China means that the national government continues to try and balance out this inequality, but it is not widely acknowledged that the enormous environmental and cultural differences increase the burden for government in its efforts to build mechanisms based on individual situations, and to harmonise laws and regulations to suit the characteristics of each place (Reilly 2013). This is a tough road for China to go down.

Compared with the gap between central and local governments on the management of local affairs, there are different management characteristics associated with ‘delegating control and services’ from the central government to individual FTZs. At the same time, the ‘one industry, one licence’ reform integrates multiple licences involved in gaining industry access into a ‘comprehensive industry licence’, which significantly reduces the cost of industry access and helps solve the issue of conflicts between departments in local government (Ji 2023). In terms of negotiating with foreign partners in FTAs, the Ministry of Commerce represents the government when discussing details of tariff-cut products, as well as soliciting advice internally from relevant industrial sectors and individual enterprises, while the Ministry of Foreign Affairs, Ministry of Finance, National Development and Reform Commission, Ministry of Agriculture and Rural Affairs, Ministry of Industry and Information Technology, and the General Administration of Customs are separately in charge of diplomatic coordination, fiscal policies, the impact of economic policy on the national economy, agricultural products, industries and manufacturing, and the implementation of tariff reductions related to FTAs. These departments play a key role in China’s FTA strategy. At the same time, websites established for the China FTA Network (CIECC), China Council for the Promotion of International Trade FTA Service (CCPIT), and relevant services provided by local governments aim at providing the public with information on the construction of FTAs and FTZs. These websites allow domestic and foreign enterprises and consumers to understand and enquire about various trade and investment preferences and conveniences brought about by the development of FTAs and FTZs, promote the understanding and participation of all sectors of society in FTA negotiations, and promote and publicise the implementation of relevant FTAs and FTZs (Ministry of Commerce of the People’s Republic of China 2023).

In contrast to Japan and Korea, China’s situation has the following characteristics in regard to the DS principles:

- 1) China’s situation reflects a divergence primarily in the fourth DS principle. Specifically, China has not had a complete and efficient set of domestic institutions throughout its economic development, in contrast to its adherence to the second and third DS principles.
- 2) This deficiency is evident in the relatively loose relationship between central and local governments, as well as the lack of a unified and powerful coordinating

mechanism—largely due to the geographic diversity across the vast territory of the state.

3) As a result of this deficiency, central government policies are often not fully implemented at the local level, as local governments prioritise their own interests. The absence of a strong vertical management institution has led to rights disputes and weakened policy enforcement, ultimately limiting the effectiveness of national strategies. However, the FTZs directly support their participating enterprises with a ‘one-stop’ service from the central government based on a unified standard, avoiding the difficulties brought about by the local governments and geographic effects, as the mentioned in the previous paragraph.

3.5 Conclusion

This chapter illustrates the partial dysfunction of DS principles based on the empirical analysis of the three states’ domestic situations, which impede reform, policy settings, policy implementation, and rapid economic development. However, the analysis demonstrates that these failures have been mitigated in the FTA strategies of the three states. In other word, the complexity of the national situation has posed significant challenges to internal government reforms, while the demands for economic development are pressing. However, in the FTA strategy, the obstructive effects of these dysfunctional principles have not prevented the state and the government from achieving normal profits and developing the economy.

For Japan, as a classical developmental state, the issue of corruption in government networks, and the role of vested interest groups in protecting the sensitive agricultural industry, have played a negative role in Japanese reform, and foreign trade (the second and third principles). For Korea, as the follower of Japan’s development, the stubborn position of Chaebols in the domestic economy and industry, as well as their strong influence on the government and policies, make it impossible for Korea to reform the monopoly of these Chaebols, and the unsustainable development of SMEs has resulted in adverse effects on industrial innovation and the vitality of the market economy in Korea (the second and third principles). For China, the problem in economic development lies in the blurred division of authority between central and local governments regarding economic and industrial development. This often results

in policy implementation with limited effects at the local level, compounded by significant regional disparities. So, the absence of a vertically unified powerful coordinating mechanism is the key issue (the fourth principle). In comparison, the rest of the DS principles present positively in the governmental policies and actions of the three states during the 2000s, and the dysfunctional principles have not impeded the progress of the FTA strategy, which has become one of the most important policies for national economic development in China, Japan, and Korea. Hence, we still can regard the three states as developmental states, and this is also verified again in Chapter 6.

The next chapter discusses the restricted impact of the regional economic institutions in East Asia on the three states' economic development and cooperation. This is followed by an analysis of the RCEP in terms of its functions and limitations, as the first trade agreement among China, Japan, and Korea, and the cooperative space for the three states, based on the RCEP, for the CJK FTA.

Chapter 4 Understanding the limited function of East Asia's primary institutions in China-Japan-Korea trade cooperation and the significance of the establishment of the RCEP

4.1 Introduction

In the previous chapter, the impediments to domestic economic development in China, Japan, and Korea were presented as a partial dysfunction of the DS principles, and the chapter highlighted how the CJK FTA and RCEP can assist China, Japan, and Korea as developmental states in achieving their objectives. To explain the significance of a trilateral FTA given the creation of RCEP, this chapter examines the limited impact of most regional economic institutions in East Asia for the economic development and cooperation of the three states. It then emphasises the role of RCEP and the prospects of a future CJK FTA. To set the stage, it is important to first explore, in this introduction, the development of economic institutions in East Asia.

East Asia has become the centre of international economic relations as a result of its rapid, remarkable economic growth, called the 'East Asia Miracle', and the complexity of its geopolitical characteristics. States in this region seek to avoid another financial crisis and wish to solve existing problems through institution-building and leaders' meetings, particularly since the Asian Financial Crisis in 1997. In the 2000s, East Asian states attempted to progress regional economic integration, such as the objective of the establishment of the ASEAN Economic Community (AEC) in 2009, aiming for regional economic integration by 2025. Owing to the length and depth of historical issues, territorial disputes, culture clashes, and political differences in the region, different kinds of institutions have emerged, primarily around economic liberalisation, security cooperation, and financial regulation (Wang 2013). However, nested, overlapping regional institutions and regulations add further complexity to East Asia, and the establishment of numerous multilateral and bilateral institutions has failed to deliver a functional

framework for promoting East Asian integration. Instead, it highlights the contradictions and disagreements among member states (Yeo 2016), particularly, the rivalry between China and Japan, as well as the influence of the United States, which further exacerbates these contradictions and hampers the progress of East Asian integration.

In the late 1980s, East Asia started to incubate and explore regional cooperation models, embarking on the building of APEC (Nesadurai 2007). Later, a flashpoint of regional institutional cooperation occurred after the Asian Financial Crisis, with states seeking regional financial stability and multilateral and bilateral economic liberalisation (Yoshimatsu 2014). These institutions included APT, the Chiang Mai Initiative, and the East Asia Summit (hereafter EAS), which demonstrated that East Asia recognised the importance of building up regional joint action and feedback mechanisms. From 1997 to 2008, cooperation progressed very slowly owing to several factors: 1) the different proposals between China and Japan towards regional economic cooperation (Dent 2008; Oike 2006); 2) Japan's reluctance to join the regional economic institutions owing to its wish to protect sensitive agricultural industries (Yoshimasu 2014); 3) Japan's efforts to expand its regional influence (Hale 2008); 4) ASEAN's willingness to serve as the regional centre which contrasts with the intentions of others (Dent 2010); 5) Korea's focus being on global instead of regional cooperation (Yoshimasu 2014); and 6) the United States continuous 'benign neglect' approach to the region (Aggarwal and Lee 2011). In terms of regional security mechanisms, there are several significant platforms, including the Shanghai Cooperation Organization, focusing on combating terrorism in Asia from 2001, the ASEAN Regional Forum, addressing security in the Asia-Pacific from 1994, and the Six-Party Talks, aimed at denuclearisation on the Korean peninsula from 2003. However, these forums are often influenced by China or ASEAN, and the first of those listed only includes China and Central Asian states without Japan and Korea. In addition, these security mechanisms generally reflect a loose and informal cooperative model rather than a tightly structured framework, and they have only a limited effect on promoting regional integration (Kuik 2015; Jones and Jenne 2015).

The Global Financial Crisis in 2008 further facilitated the development of regional cooperation, and East Asian states have gradually developed strong interests in economic liberalisation and more forms of economic cooperation. The number of bilateral agreements, FTAs, or Regional Trade Agreements had reached 45 in 2010 from only three before 2000, and afterwards reached 103 in 2023 (WTO RTA

database n.d.). Among these FTAs, RCEP is the biggest East Asian regional FTA, including 16 states. Negotiations were initiated in 2012 and concluded in 2019; it finally came into force in 2022. Later, China, Japan, and Korea planned and attempted to build a framework called ‘RCEP+’ under the CJK FTA, aimed at strengthening the cooperation following RCEP. At the same time, the Trans-Pacific Partnership (hereafter TPP, and later CPTPP led by Japan) began, which was dominated by the United States. China also initiated the BRI, as a significant outlet for Chinese products, investment, and services. This began to exert influence on bilateral cooperation between China and 65 states and to promote the link between Asia and the Western world, but it was powerless to influence global governance and is limited in its function (Carrai and Defraigne and Wouters 2020; Yoshimasu 2014).

From APEC, established in the 1980s, to APT in the 1990s, to the BRI, CPTPP, and RCEP during 2010s and 2020s, economic institutions in East Asia have gradually become more precise and specialised. However, only RCEP is an effective FTA that includes China, Japan, and Korea. RCEP, as a multilateral FTA, achieves the goal of tariff reductions to varying degrees for nearly two-thirds of products traded between the three states, but as I argue in following chapters still has scope to improve, including making further tariff cuts for included products and expanding the range of products subject to tariff cuts. Examining how the RCEP compares with a prospective CJK FTA will show how FTAs can help developmental states achieve their goals.

This chapter argues for the significance of the RCEP as a regional trade agreement for China, Japan, and Korea, compared with other economic institutions, before discussing the space for further in-depth trade cooperation via the CJK FTA. Therefore, it is necessary to firstly identify the performance of the three states in their regional strategies from 2000 until now, and on their engagement with regional economic institutions. The year 2000 is chosen as the beginning of this regional strategy study because China, Japan, and Korea gradually began to determine their FTA strategy after the Asian Financial Crisis. Given the focus of this thesis on economic development and free trade, the subsequent sections compare the following institutions: APEC, APT, and the TPP/CPTPP.

4.2 China, Japan, and Korea's regional cooperative strategy since 2000

This section illustrates the development of strategy by China, Japan, and Korea towards regional economic institutions. To study the shift of strategy according to different situations over time, the reason why China, Japan, and Korea did not have an economic cooperative framework before the RCEP is discussed, and the flaws of past institutions are covered in the section 4.2.2, as well as the stuttering process of negotiating the CJK FTA.

4.2.1 Consistently maintaining enthusiasm for regional cooperation in China

The Chinese government has been enthusiastic about regional cooperation from the 1990s, but the form of participation has shifted due to its own development requirements and changes in the external environment. This has included active participation in and promotion of existing institutions like APEC, as well as leveraging APEC's platforms to establish bilateral FTAs with partner states. After gaining experience, China began to influence the process of promoting multilateral FTAs, such as the RCEP (He 2008; Dent 2008; Liang and Nakagawa 2017). Under its stable general regional strategy, the role of China in regional economic cooperation has transferred from being a member to gradually becoming a leader, such as in the BRI. China has adopted an increasingly positive and ambitious approach to regional cooperation for expanding exports (Liu 2023; Ma 2024), which has led it to become the most important promoter of the CJK FTA.

Since the opening-up reform in 1978, the Chinese government has been engaged in exploring more economic opportunities with neighbouring states (Zhang 2013). This is because East Asian fast economic growth and shifts in domestic working directions gave China hopes for a process of economic diplomacy during that period, which would help finish the construction of socialist modernisation. Later, the Chinese government recognised that it is very important to have peaceful foreign circumstances and equal treatment of all states, leading to the pursuit of a policy of independent non-alignment and attaching importance to regional cooperation (Wang 2008). This kind of policy guideline prompted China to find and join regional institutions, and APEC in 1991 was the only choice (Klintworth 1995).

This enthusiasm towards regional cooperation has been maintained by the Chinese government until today. Since 2000, the Chinese government has several times emphasised the significance of extensive regional cooperation, especially economic regionalism. At the 16th National Congress of the Communist Party of China in 2002, then President Jiang formally raised 'regional cooperation' to strategic significance, which was the first time that 'regional cooperation' was included in the official documents of the National Congress of the Communist Party of China (Jiang 2002). Then, Hu Jintao proposed that China's regional cooperation policy from 2003 to 2012 in the new century should be 'good neighbour, safe neighbour and rich neighbour', which meant establishing a reliable bilateral relationship of mutual trust, strengthening security cooperation, and promoting the economic development of neighbouring states (State Council of the People's Republic of China 2005). In 2013, President Xi express at the Boao Forum for Asia that China will speed up the construction of interconnection with surrounding areas, actively explore the construction of a regional financing platform, promote regional economic integration, improve regional competitiveness, actively participate in the process of regional cooperation in Asia, and persist in promoting regional and sub-regional cooperation with other regions, at the same time as facilitating financial cooperation (Ministry of Foreign Affairs of the People's Republic of China 2013).

Under the guidance of this general principle, the Chinese government initially showed great interest in APEC as the first and only regional cooperation institutions before the 2000s, and positively supported the development of APEC, such as proposing the establishment of a network of science and technology industrial parks to further promote the integration of science and technology and the economy, and a willingness to provide an environmental protection centre with advanced equipment in Beijing (CCTV 2001). However, the effect of APEC on economic growth for members was limited (Ravenhill 2001). The Chinese government then signed FTA agreements with ASEAN, Pakistan, New Zealand, Singapore, Chile, Peru, and other states under the APEC umbrella (Zhao 2011). Since 2000, more effective regional cooperative opportunities started to emerge, and the situation for China became more complex.

At this stage, China not only started to regard regional cooperation as an important means of peaceful development, but several new institutions or mechanisms gave China the chance for connection within East Asia. This was because of the recognition, after the Asian Financial Crisis, of the importance of expanding

cooperation with more East Asian states especially Southeast Asian states so as to avoid a future crisis. China changed its attitude from merely trying to join in regional affairs to comprehensively participating in, influencing, and leading the process of regional cooperation. For example, China has taken an increasingly proactive approach in some platforms, such as the ASEAN-China FTA (ACFTA) in 2010 and the RCEP in 2022; in addition, the BRI from 2013 exemplifies China's ambition to lead regional infrastructure development and economic connectivity, primarily financed by the Asian Infrastructure Investment Bank established by China in 2015.

However, this regional cooperative strategy has not always been smooth for China. For instance, the Chiang Mai Initiative (hereafter CMI), which is a regional financial institution for ASEAN, China, Japan, and Korea, aimed at providing liquidity support and enhancing financial stability for members through a network of currency swap agreements and a multilateral reserve pool, led to China and Japan being stuck in a contradiction about contribution quotas and relative gains before 2009 (Yoshimatsu 2014). This competition between China and Japan has endured throughout China's rise, and has become a struggle for regional leadership (Dent 2003; Terada 2018). After 2009, when the United States focused its strategy on the Asia-Pacific and strengthening relations with allies, partners, and multilateral institutions, the TPP (replaced by the CPTPP) had a high standard of liberalisation that did not align well with China's circumstances. Led first by United States and then Japan, Beijing experienced a lot of pressure about this partnership as the TPP symbolized the possibility that China could be excluded from the emerging trade agreement. In the meantime, the United States strengthened intervention in the South China Sea dispute and deepened the alliance with Japan and Korea (Zhang 2012). Hence, the whole period from 2009 to 2012 was disordered for China, which was trying to balance politics and economic growth. The Chinese government was seeking more dialogue opportunities with the United States and wishing to calm down the disputes with Japan and Southeast Asian states, and also wanted to increase the possibility for active participation and leadership in regional institutions, in order to avoid further dilemmas (Chen 2012). In these circumstances, on the one hand China wanted to 'jointly create peace and stability, equality, mutual trust, and win-win cooperation in the environment' (State Council of the People's Republic of China 2012), while on the other hand it sought to promote RCEP over the TPP/CPTPP negotiations and attempt to develop its BRI.

In recent years, China has concentrated primarily on the BRI, RCEP, and the CJK

FTA, due to its wish to increase its economic influence and integrate into the regional supply chain (State Council of the People's Republic of China 2022). The BRI has been partly successful in helping China cooperate with states in Central and Southeast Asia, not only through closer trade links, but also helping to solve the issue of domestic overcapacity through projects like the China-Europe train project, the Mombasa port in Kenya, and a gas pipeline project (as well as The Master Plan on ASEAN Connectivity 2025) (People's Daily 2018). Overall, the BRI will bring deeper, more comprehensive cooperation in agriculture, forestry, animal husbandry and fishery, agricultural machinery, and some trade sectors like coal, oil, and gas, and will optimise the industrial chain¹⁴. Thus it represents one of China's significant attempts to lead regional economic cooperation. As well as this, China's performance in progressing further and long-term economic cooperation is also demonstrated in its multilateral and bilateral FTA strategy, and the proportion of international trade volume with FTA partners as part of China's total foreign trade reaches or exceeds the level of most developed states and emerging economies (Ministry of Commerce of the People's Republic of China 2024). In the long term, it can use the FTA strategy to achieve regional trade and investment liberalisation. Therefore, the RCEP has become one of the top priorities for Chinese government to advance (State Council of the People's Republic of China 2021). At the same time, the CJK FTA, aimed at creating an 'RCEP+' in North East Asia, is still under negotiation between China, Japan, and Korea (see Section 4.4.4 for further detail). Overall, this rising enthusiasm towards multilateral FTAs over the past decade has led China, as the developmental states, to actively promote the negotiations of the RCEP and the CJK FTA in order to secure benefits and achieve goals through these agreements.

4.2.2 Japan's flexible choice due to its inability to reconcile regional leadership goals with domestic economic development

Entering into 2000s, there are two main differences in Japan's regional strategy compared with the past. One notable shift is the Japanese government's enthusiasm for pursuing bilateral FTAs. Another is its aspiration to become East Asia's leader, particularly in the economic sphere, as demonstrated by Japan's proposal of the 'East

¹⁴ Through the collation of the 2015 vision and action statement.

Asian Community' concept in 2002. It is obvious that China, as the rising star, became the barrier for Japan to achieve its leadership goal. Before the onset of the pandemic in 2020, initiatives such as the TPP/CPTPP, ASEAN+6 (APT+Australia, New Zealand, India), and increased foreign investment in Southeast Asia were seen as effective tools to counterbalance the influence of the BRI and ACFTA. However, after the United States withdrew from the TPP and the pandemic severely impacted Japan's domestic economy, the feasibility and strategic importance of RCEP gained prominence (see Section 4.4.3).

Japan's GDP performance since 2000 has clearly reflected the stagnation of its domestic economy. Its regional cooperation strategy stopped in the 1990s as its real estate bubble burst, its share prices fell, and social consumption declined sharply, leading to a declining economy. The Asian Financial Crisis in 1997 further increased the burden on Japan's economy, causing Japan to fall into its worst recession since World War II (Lijima 1997). Faced with this serious situation, Japan saw bilateral FTAs as a path to cooperation. In 1999, a proposal for 'actively promoting the signing of FTAs' was submitted to Japan's government, claiming that the establishment of FTAs between Japan and other states would be beneficial for building global FTAs and new investment principles through the WTO. While the FTA trend spread throughout the whole world, since 2002 Japan has now signed 18 individual FTAs (Ministry of Foreign Affairs of Japan 2023).

In the first few years after 2000, Japan's government put effort into analysing its FTA strategy (Liang and Nakagawa 2017). It fully affirmed the significance of Japan establishing an FTA in East Asia in the 'White Book on Trade' of 2000, and afterwards Japan's cabinet organised meetings to promote FTA and EPA agreements, formulated corresponding policies, and required all departments and prefectures to formulate relevant policies and plans. Apart from focusing on bilateral FTA, Japan also emphasised the development of multilateral agreements. It has proposed that APEC evolve into an open regional economic union, a model that does not rely on binding rules, but rather on coordination and mutual understanding. Due to Japan's fragile economy following the Asian Financial Crisis, the government adopted a cautious approach in its early liberalisation plans, which slowed the pace of progress and indirectly weakened APEC's influence by undermining its role as a driving force for regional economic integration. In Japan's APEC strategy, the government attempted to become the leader in the Asia-Pacific, and to be tightly connected with Southeast Asia (Jeong 1997), but it largely lost interest, shifting its enthusiasm to

bilateral FTAs.

Previously, Japan's foreign policy involved seeking 'political power.' It strove to play a leading role through the Japan-United States alliance and promoting economic cooperation in East Asia in the 1980s. However, in the context of its own weak economy and the failure of its first-promoted multilateral institution to be more than a loose dialogue forum, Japan's mentality and foreign policy changed accordingly. The successful performance of China since 2000 also played a vital role in changing Japan's foreign strategy (Yuichi 2011). Hence, from 2002, Koizumi several times called for the concept, process, and goal of an East Asia Community, attempting to grab the leadership of such a body, which aroused China's suspicions. At a special Japan-ASEAN summit, Prime Minister Koizumi claimed the intention of building an open East Asia summit with an understanding of Asian traditions and values (China News Service 2003), based on the relations between Japan and ASEAN, and attracting Australia and New Zealand under the ASEAN+3 framework, with the objective of gaining the regional leadership (China News Service 2003). But at this time there were two difficult domestic voices on how to achieve Japan's political goal: one supported the 'community' with Japan's East Asian neighbours, while the other favoured strengthening the alliance with the United States to centralise freedom and democracy instead of only regional economic cooperation (Yuichi 2011).

After Abe came to office in 2006, Japan attempted to balance the different voices and consolidate a balanced grand strategy, all aimed at becoming a political power through assuming international responsibility, with the excuse that this was needed for Japan's own 'safety, independence and survival' (Nishimura 2006). Although the comprehensive power of Japan has not been equal to its status in the last century, Japan's intention of being a political power and leading East Asia has not changed. However, the pathway for achieving this has shifted from economic leadership to focusing on the value of 'freedom' and 'democracy'; restricting China's rise also forms an important part of the whole strategy of Japan. The start of the ACFTA negotiation had a negative effect on Japan's confidence in leading East Asian regionalism because China competes with Japan over relations with ASEAN . Therefore, the East Asia Community project and ASEAN+6, which align with an expansion of East Asian integration from the economy to political security, have become the first priority for Japan's regional cooperation strategy. Based on this, Japan proposed the Comprehensive Economic Partnership (hereafter CEPEA), which was similar to the East Asia Free Trade Agreement (hereafter EAFTA) proposed by

China (both of these are predecessors of the RCEP proposed by ASEAN). It tried to use the expanding regional cooperation strategy only from ASEAN+6 to the Asia-Pacific to restrict China's rise and achieve Japan's own intention of regional leadership.

In the 2010s, frequent conflicts with China over territory, the surpassing of Japan's GDP by China's, and the later establishment of the BRI, increased Japan's concerns about its general economic development. Therefore, Japan's enthusiasm for promoting the TPP, which included 12 Pacific Rim states, showed an unprecedented upsurge, while the CJK FTA had only progressed slowly through several rounds of negotiation (more details about the TPP/CPTPP is provided in Section 4.4.4), partly due to waning enthusiasm for cooperating with China. Then Prime Minister Abe repeatedly expressed his determination to join and promote the TPP at the Japan-US summit, and even overcame the consistent foreign cooperation policy of protecting domestic agriculture and other vulnerable industries (Abe 2015). With vigorous promotion by various states, the first round of negotiations for the TPP was held in 2010 and a further 18 rounds of negotiations proceeded very quickly from 2010 to 2016, with high levels of free trade, compared with the reluctant progress in negotiations for the CJK FTA (Zhang 2016). While the pace of the TPP advancement was faster than others had imagined, domestic opposition voices from member states increased. Over the course of negotiations during 2015, over 1,000 Japanese, including some members of the Japanese Diet, opposed the TPP, believing it would damage the sensitive domestic food, agricultural, and medical industries, and arguing that the opacity of negotiations damaged citizens' right to know according to law (Xinhua News Agency 2015) (see Section 3.2.3). Japan invested significant time and effort in the TPP negotiations, strongly supporting the Asia-Pacific rebalancing strategy. This commitment was driven by a strategic objective to counter China's rapid rise and its growing regional influence in economic and trade affairs, while also seeking to prevent China from establishing its own dominant regional trade system (Auslin 2012).

After the United States withdrew from the TPP in 2016 due to domestic political opposition and concerns over job losses and sovereignty (Fergusson 2016), 11 states signed the agreement in March 2018 under the Japan-led, renamed 'CPTPP'. This new version of framework had some differences from the TPP text, especially in the shelving or weakening of the conditions for the agreement to come into effect, including investment and intellectual property rights, labour and environmental

standards, high-standard market access, and digital trade and e-commerce (Ciuriak 2018). The modification of the conditions highlights the strong intentions of the 11 states to start the operation of the CPTPP, but these modifications represent a significant shift away from the TPP's original principles of a highly liberalised trade and strict regulatory alignment, making the CPTPP more pragmatic but less ambitious in scope and enforcement (see Section 4.3.2).

During the worst period of the pandemic between 2020 and 2022, the Japanese GDP contracted by 4.5%, which was the most serious slowdown since 2010. For the survival of the domestic economy, Prime Minister Kishida emphasised the significance of the RCEP and the CJK FTA in his speeches several times, saying, for example, in the 8th JCK Business Summit in 2024, that 'Japan, China, and Korea had candid discussions on creating an RCEP+ agreement, as well as a future-oriented JCK FTA with high-standard rules', returning back to a cooperative economic attitude towards China and Korea. In March 2025, the trade and economic authorities of the three states in the 'CJK Economics and Trade Ministers' meeting agreed to strengthen cooperation under the RCEP, and to engage in discussions on accelerating negotiations for the CJK FTA (Ministry of Commerce of the People's Republic of China 2025) (see Section 6.1)

4.2.3 The required FTA strategy based on Korea's export-oriented economy and its role as a mediator

In contrast to China and Japan, Korea has emerged as a mediator in Northeast Asia without major ambitions for leadership because of its limited state size compared with the other two. As an export-oriented economy, the Korean government emphasises expanding the scope of FTA partnerships for the sake of maintaining benefits from exporting and resources from importing. This purpose has been constant throughout almost two decades of regional economic policy. The Korean government, meanwhile, sees itself as a 'balancer', not only in seizing control in the Korean peninsula, but also in maintaining the prosperity and development of Northeast Asia (Moon and Chun 2005). Due to its lack of significant ambition for regional leadership, nearly all of Korea's regional strategies focus on how to use multilateral or bilateral FTAs to develop its economy, retaining a desire to keep tariffs for sensitive industries like agricultural products.

Similar to Japan, Korea had experienced a period of economic boom between the 1960s and 1990s, and the government has carried out its export-oriented strategy from then until now. Meanwhile, Korea, which was then becoming a newly industrialised state, has adjusted its industrial structure and economic policies based on its needs as part of international system (Mo and Weingast 2001). At the end of the 1990s, Korea started to shift its trade policy from multi-track to bilateral FTAs; this stemmed from the failure of the WTO Ministerial Conference in 1999, following Korea's recovery from its financial crisis, coupled with the slow pace of regional multilateral economic institutions, such as APEC. One of the defining characteristics of Korea's FTA strategy is its global orientation, driven by the state's relatively limited domestic market and resources. Korea has concluded or is in the process of negotiating FTAs with 57 states and regions, including ASEAN, Singapore, and India in Asia; the United States, Chile, Canada, Peru, Colombia, and Mexico in the Americas; New Zealand and Australia in Oceania; and the EU. At the same time, Korea's trade has entered a transitional phase, marked by a decline in overall volume and a shift in its export structure from agricultural and textile products to electrical and mechanical products. Additionally, the state's reliance on the Japanese and the United States markets has decreased while dependence on the Chinese market has increased.

After the Asian Financial Crisis, due to the significant setbacks in its domestic economy and the limitations of its narrow domestic market for driving recovery, Korea has turned to various economic institutions, such as APEC and APT. Korea actively engaged in these institutions to present proposals aimed at fostering economic recovery and development across the region, and hoped to enhance its strength and reputation in the international economy (Hundt 2019). Through these institutions, Korea leveraged multilateral frameworks to promote regional trade liberalisation, and strengthen cooperation on key issues such as technology transfer, infrastructure development, and financial stability. By doing so, it positioned itself as a key player in shaping regional economic policies and fostering collaboration among member states. Then President Kim Dae-jung claimed that Korea hoped to attract abundant investment from other states all over the world, by positively organising an APEC exhibition. At the same time, Kim Dae-jung also actively promoted cooperation in Northeast Asia, advocating for the establishment of East Asia economic cooperation with China and Japan, which is the predecessor of the CJK FTA, and putting forward the proposal to establish the ASEAN+3 FTA, which later became the EAFTA proposed by China.

During the period of Roh Moo-hyun's administration, between 2003 and 2008, the government further promoted a balanced foreign policy in order to realise regional peace and prosperity, and focus on domestic economic recovery and development through international trade. On the one hand, the Korean government strongly promoted the upgrading of relations with China to a comprehensive partnership, and facilitated the increase of trade and investment with China. On the other hand, it sought dialogue and joint research with Japan on outstanding historical issues to seek stability in bilateral relations. In 2004, Korea and ASEAN signed the '2004 Joint Declaration on Comprehensive Cooperation Partnership between the Association of Southeast Asian Nations and the Republic of Korea', which related to the issues of FTAs, political security, culture exchange, solving regional problems, and trying to achieve East Asian integration (Ministry of Foreign Affairs, Republic of Korea n.d.).

Korea has also continued to emphasise a bilateral FTA strategy, while beginning to explore a trilateral framework with China and Japan. These efforts reflect a broader ambition to promote trade liberalisation in Northeast Asia, building upon the CK FTA, the potential conclusion of a CJK FTA, and further forming the EAFTA, but progress was limited. At the same time, Korea's government recognised that the signing of the ASEAN-Korea FTA (hereafter AKFTA) would have a big impact on Korea's economic development, and also finished signing FTAs with Singapore and India separately at the same time.

The complex situation in Northeast Asia has mainly arisen between China and Japan, but Korea also has conflicts with Japan about historical issues and unstable relations with North Korea. Given this, Lee Myung-bak's government not only focused on Northeast Asia's regional integration, but also the whole of Asia's regional cooperation. Before 2009, Lee Myung-bak adopted the concept of 'practical diplomacy' which refers to depending on the United States for security and cooperation with China, the US, and Japan economically. After the Global Financial Crisis, Lee Myung-bak announced the concept of 'new Asian diplomacy', which expanded the focus from Northeast Asia to Southeast Asia, Central Asia, South Asia and the South Pacific region, to make Korea play one of leading roles in Asia (Shen 2010).

However, after Park Geun-hye came to power, there were frequent conflicts between Korea and China, and Korea and Japan, even though at that time promoting security issues in Northeast Asia and easing relations with North Korea were the main

foreign policies (Guo 2019). At this stage, compared with its past focus on Northeast Asia, Korea realised its powerlessness to control the progress of this sub-region's cooperation, and began to prefer to play the role of Northeast Asia's balancer, especially after Moon Jae-in came to power (Yeo 2023). From the perspective of economic trade, Korea has also vigorously promoted the signing of FTAs. As of the beginning of 2017, 15 agreements had been signed, and six agreements were still under negotiation (Shen and Li 2017). Apparently, compared with China and Japan, FTA strategy is more important for Korea, which is also reflected in Korea's flexible and strategically designed FTA policy, with its efforts to improve the utilisation rate of FTAs.

Korea has a positive view of bilateral and multilateral FTAs, but it has been hesitant to join the TPP and then CPTPP due to the latter's high standard on trade liberalisation which may generate robust opposition from domestic agricultural businesses (Chen and Park and Zhu 2023). In turn, the Korean government has preferred to join the RCEP, in which the rules are looser (Kim and Yeo 2024). This is because the RCEP can allow Korea to strengthen ties with Southeast Asia while still considering the feelings and position of China, which is Korea's largest trading partner, and secure its own economic interests. Moon Jae-in's 'New North Policy' and 'New South Policy' also started to strengthen cooperation with Southeast Asian states, with Moon not only frequently making official visits to ASEAN states, but progressing new cooperation in some new fields, like digital networks.

4.3 The limitations of existing institutions for China, Japan, and Korea: APEC, APT, and TPP

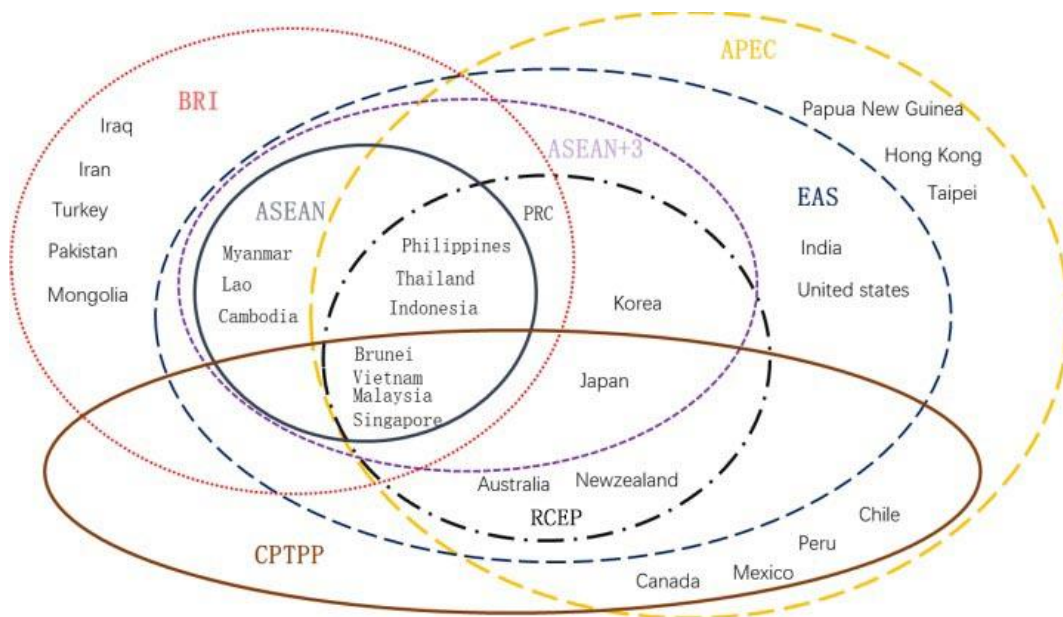
Regional economic cooperation has clearly been significant for China, Japan, and Korea after 2000, as evidenced by their respective regional strategies described in Section 4.2. Despite challenges (for example, the territorial conflicts between China and Japan) which have temporarily hindered progress in areas such as the negotiation of the CJK FTA, these states have continuously explored possibilities for deeper cooperation through existing and emerging institutions. Broadly speaking, Asianist bodies tend to be limited to Asian countries and emphasise intra-regional cooperation within East and Southeast Asia. By contrast, Pacifist bodies—such as the TPP (CPTPP)—incorporate external partners like the United States, Australia, Canada, and

New Zealand. Obviously, Asianist arrangements prioritise regional autonomy and ASEAN-centred institutionalism, whereas Pacific-oriented frameworks promote wider economic integration across the Asia-Pacific and often adopt higher-standard. However, until the establishment of RCEP, China, Japan, and Korea lacked an effective and inclusive trade agreement. This section examines this issue by comparing key economic frameworks in East Asia and Asia-Pacific such as APEC, APT, and the TPP/CPTPP. The analysis aims to underscore the significance of the RCEP, and also explores the reasons behind the stalled negotiations of the CJK FTA in the past, and highlights the potential opportunities for future progress building on RCEP's foundation.

4.3.1 Chronology of East Asian economic institutions

To date, institutional frameworks in East Asia and Asia-Pacific resemble a 'spaghetti bowl' (or 'noodle bowl'), with overlapping memberships, involving nearly 30 states across seven major institutions, as Figure 1 shows. Many states participate in multiple frameworks, with some, such as Brunei, Vietnam, Malaysia, and Singapore, being members of all seven. In Northeast Asia, China, Japan, and Korea are members of APT, EAS, APEC, and RCEP although the latter is the only comprehensive trade agreement. Only China is involved in the BRI, while Japan has taken a leading role in advancing the CPTPP.

Figure 1 East Asia/Asia-Pacific primary institutions as a 'spaghetti bowl'



Source: WTO Regional Trade Agreements Database (<https://rtais.wto.org>)

The following table (Table 7) briefly summarises the situation of three selected economic institutions for China, Japan, and Korea.

Table 7 East Asia/Asia-Pacific economic institutions

	Cooperative Type	Includes CJK states?	Past Goal	Effectiveness
APEC	Economic Cooperative Forum	Yes	Trade and investment liberalisation (1994 Bogor Declaration)	Very limited
APT	Leadership Summit	Yes	Strengthen the communication between ASEAN and CJK states	More on issues affecting non-traditional cooperative challenges
CPTPP	Free Trade Agreement	No	The level of free trade is highest and the scope is wider than ever	Does not include China and Korea

Source: Created by the author.

4.3.2 Limitations of APEC, APT, and TPP/CPTPP

As Table 7 shows, APEC, APT, and the TPP/CPTPP have their limitations for deepening trade cooperation between China, Japan, and Korea. This subsection briefly introduces these institutions and their specific drawbacks for supporting trade cooperation among the three states.

Firstly, APEC's overall effectiveness remains limited. APEC was the first institution with comprehensive functions and including a broad membership from East Asia, the Americas, and Oceania after 1989. It had the purpose of promoting economic interdependence among members and strengthening the open multilateral trading system. In the 1990s, APEC focused on the expansion of free trade and investment via open regionalism (Ravenhill 2002). However, member states have embraced this institution with different attitudes, which has resulted in APEC acting more like a consultative body rather than producing effective and substantive outcomes, and its development has been slow (Ravenhill 2002; Yamakage 1997; Liang and Blanchard 2014). For example, Malaysia and Thailand were not interested in APEC when others in ASEAN were interested. In the same period, Japan sought leadership in APEC but has had conflicts with the United States regarding the form of APEC, with Japan hoping to establish APEC as a loose forum but the US holding the opposite view; in terms of investment liberalisation, the two sides also had a collision of interests and bilateral trade conflicts (Rapkin 2001). Apart from the varying attitudes of members, the huge diversity in cultures, languages, economic structures, objectives, individual interests, and geographic location of member states has also made it difficult for a variety of issues to reach a substantial agreement, and the tug of war over the control of APEC also means the institution lacks internal cohesion (Yamakage 1997; Aggarwal 1998; Ravenhill 2001).

The huge differences among member states could not be harmonised in APEC, and then the Asian Financial Crisis further showed that this loose forum was powerless due to its lack of coping mechanisms and mandatory policies (Beeson 2002; Drysdale and Elek 1999). Since 2000, China, Japan, and Korea have increasingly pursued bilateral FTAs, further highlighting the declining influence of APEC. Although APEC tried to drop the overall average tariff of member states from 10.7% in 1996 to 7.7% in 2005 (Guo and Huang 2014), this is still below the average tariff reduction achieved by FTAs; for example, the RCEP will remove all tariffs on 90% of products after a 20-year transferal period among member states. Meanwhile, APEC's openness

to non-members possibly causes free-rider behaviour, and the decrease in tariffs has developed very slowly. Compared to the RCEP and a potential CJK FTA, APEC lacks binding policies and a clearly defined framework, making it less effective in fostering trade cooperation among China, Japan, and Korea. These three states, which have underlying conflicts, require explicit and enforceable regulations to strengthen their economic ties. After 2010, APEC member states— including China, Japan, and Korea—started to explore new development pathways and to progress from merely ‘slogans’, but their attention was distracted by bilateral FTAs, the BRI, TPP, and RCEP (for details on China, Japan, and Korea see Section 4.2)

Secondly, the topics addressed by APT are comprehensive and go beyond economic cooperation. APT is a regional cooperation framework comprising the ASEAN member states along with China, Japan, and Korea, aimed at fostering economic, political, and socio-cultural collaboration in East Asia. This institution has been built on the relationships between ASEAN and China, Japan, and Korea. Recognition of the importance of combining Southeast Asia with Northeast Asia has increased since the Asian Financial Crisis. However, this institution is not only restricted to economic matters, but extends to a comprehensive range of affairs. This is shown by its subsidiary mechanisms, which mainly take the roles of providing a platform, or supervising possible risk, instead of trade agreements on tariff cuts or expanding the list of traded goods. For example, one affiliate mechanism is the East Asia Vision Group 1 (EAVG 1), established under the title of ‘East Asia community of peace, prosperity and progress’ (East Asia Vision Group 2001). Another is the ASEAN Committee on Science and Technology plus Three (COST+3), a technology mechanism which has also been involved in the process of pushing regional science development. There have also been the APT Ministerial Meeting on Transnational Crime (AMMTC+3) and the APT Senior Officials’ Meeting on Transnational Crime (SOMTC+3), which are responsible for solving problems like terrorism and drug smuggling.

In recent years, APT has increasingly emphasised comprehensive cooperation for health, environmental protection and gender equality, despite variation in economic development among members. Especially during the severe pandemic period between 2020 and 2022, the APT held several leaders’ meetings about conflicts over the spread and containment of COVID-19 and afterwards about economic recovery, and to ensure that future plans are in place for making cooperation over pandemic prevention and control one of APT’s primary aims.

Apparently, APT is not an appropriate institution for leading China, Japan, and Korea towards tangible benefits or boosting their trade cooperation, because this institution cannot focus purely on trade, and it does not have the specific measures and regulations in place to promote the degree and scope of cooperation needed. However, APT touches on the economic development field. For example, the ASEAN+3 Macroeconomic Research Office (AMRO), as a subsidiary mechanism of APT, is responsible for monitoring and analysing the regional economic situation to support early warning of financial crisis, timely implementation of relief measures, and effective decision-making under the multilateral Chiang Mai Initiative (AMRO n.d.). But APT is more like an institution that provides security for the economic activities of the member states, rather than directly leading economic activities and increasing benefits itself. For instance, with the new version of the APT Cooperation Work Plan (2018–2022), presented at the 20th APT Commemorative Summit in 2017, APT planned to support the ASEAN+1 FTAs (namely ACFTA, AJFTA, and AKFTA) as well as RCEP. On the other hand, cooperation within the APT framework among China, Japan, and Korea remains unstable because this institution also encompasses political and security issues, which are more likely to expose and amplify conflicts among the three states compared to a purely economic cooperative institution like an FTA (Yeo 2012; Zhang 2022). Hence, APT is not adequate for China, Japan, and Korea to expand their trade cooperation.

Thirdly, the high threshold and Japan's dominance make it difficult for China to join the TPP/CPTPP. Although the TPP/CPTPP is an Asia-Pacific FTA related to cutting tariffs on goods and addressing other new issues like technology transfer, place of origin, and sanitary issues, its requirement for trade liberalisation is higher than for a standard FTA. Initially, the TPP was promoted by the United States as the first-mover for opening up fast-growing Asia-Pacific markets for American goods and services and to provide a counterbalance to China (Elms 2014; Wilson 2015), and the US government took the lead in expanding and shaping the scope of the agreement (Lim and Elms and Low 2012). In the beginning stages of negotiation, then president of the United States Barack Obama in 2009 claimed that the TPP for the United States represented the 'high standard worthy of a 21st central trade agreement', and that it would 'shape a platform with the scope, coverage, and standards to successfully integrate the Asia-Pacific economies.' (Lim and Elms and Low 2012). Reflecting this, the TPP includes a wider scope of topics in addition to the traditional trade and services areas; these other topics are investment protection, intellectual property,

e-commerce, SOE regulations, environmental standards, and labour rights.

Among these topics, regulations for SOEs, intellectual property, labour rights, and data flows in e-commerce caused difficulties for China's participation for several reasons. Firstly, the TPP does not allow SOEs to accept government's subsidies, and this is not possible to comply with as Chinese SOEs are mainly supported by the government. Secondly, the state of intellectual property and labour rights in China has been criticised by the United States, Japan, and others, and it is hard for China to meet the TPP standard in the short run. Thirdly, there is a contradiction between Chinese law related to data protection and the TPP's requirements about the free flow of data among member states (Su 2019). Even though the later CPTPP has dropped some specific conditions, the regulations for SOEs, labour rights, intellectual property, and data flow have not essentially changed, and are still at a higher standard than China's situation. Beyond questions over high-standards, the United States and Japan, as the original first-movers of the TPP/CPTPP who can set the rules of the agreement in ways that favor one's own economic and strategic interests, including standards for trade, investment, and intellectual property, were reluctant to advance China's participation, due to doubts towards China's aims and the conditions it would require. This is because of doubts regarding China's broader strategic aims and specific conditions China might demand to participate (see e.g. Yamashita 2021).

After US President Trump announced the withdrawal of the United States from the TPP, 11 states signed the agreement in March 2018 under the Japanese-led, renamed 'CPTPP'. Later, Japanese Prime Minister Kishida visited US President Biden several times to try to change his mind about the US leaving the TPP/CPTPP, but did not get a clear response (Reuters 2022). The reasons for Japan leading the CPTPP and attempting to cooperate with the United States relate to the former's domestic economic development and wish to cope with the rising regional influence of China (Chang 2018; Mendis and Wang 2020; Mori 2020). As discussed in Section 4.2.1 and 4.2.2, there has been competition between China and Japan in terms of regional leadership, and it has been hard for Japan as the leader in the later CPTPP to embrace China. On the other side, China still faces the challenge of the high CPTPP standards and Japanese caution if it wants to join the CPTPP (Guo 2024).

4.4 The first regional FTA for China, Japan, and Korea: RCEP leaves space for a CJK FTA

Obviously, the existing economic institutions in East Asia are not appropriate for China, Japan, and Korea to deepen trade ties with each other. And it is also clear from Section 4.2 that China and Korea have been passionate about regional cooperation and an FTA strategy for enhancing trade volume, and that Japan has also sought to sign multilateral and bilateral FTAs but is wary of China due to the Japan's goal to achieve regional leadership. No institution could meet the needs of China, Japan, and Korea, until RCEP, in 2022, led by ASEAN, became the first suitable trade agreement for the three states to participate in. RCEP, strictly speaking, is an Economic Partnership Agreement (EPA) which includes trade, investment, intellectual property rights, government procurement, and competition policy, whose scope goes beyond that of a traditional FTA that only focuses on trade tariff and rule of origin, encompasses all the functions of a traditional FTA. It covers not only trade and investment, but also aims at achieving comprehensive economic integration in the East Asia region. Because of this broader objective, RCEP was designed with relatively flexible accession conditions and adopted the principle of carve-outs for many sensitive sectors, for example, Japan's five most sensitive industries (rice, dairy products, barley, meat, and sweet crops) were excluded from the RCEP tariff elimination schedule (see section 4.4.2). As a result, it became the first tangible economic and trade cooperation framework in the East Asian region. Apart from its flexibility and phased implementation, the conclusion of the RCEP negotiations and the establishment of RCEP also stemmed from ASEAN's role as a balancing force in East Asia, acting as the driving force and mediator and helping to build trust among China, Japan, and Korea (Armstrong and Drysdale 2022; Kim 2025). Meanwhile, ASEAN can leverage this regional agreement to mitigate the risks arising from geopolitical tensions in East Asia (Magno 2023). In addition, some scholars argue that the successful conclusion of RCEP negotiations was rooted in the strong foundation of pre-existing economic agreements and integration in East Asia (Zhang, Han, Zheng, and Chen 2025). In any case, RCEP entered into force at the end of 2021.

However, China, Japan, and Korea, both before and after the establishment of RCEP, continue to face economic sluggishness. Moreover, since 2022 Japan and Korea have made efforts to reduce their economic interdependence with China. This section begins with an empirical and computational analysis of the reasons why China,

Japan, and Korea still require mutual trade, with the aim of demonstrating the significance of the CJK FTA. It then examines the scope and degree of tariff reductions on trade goods outlined in the RCEP agreement among the three states, to reveal the effectiveness of RCEP in trade cooperation among China, Japan, and Korea. Next, it discusses the impact of RCEP on the states and on enterprises following its enforcement in 2022. Finally, through exploring the past negotiations of the CJK FTA, it analyses the room RCEP provides for the governments to continue negotiations on the CJK FTA.

4.4.1 Interdependent and irreplaceable: The current economic situation between China, Japan, and Korea

Before RCEP, there was no FTA that included China, Japan, and Korea, meaning that tariffs on trade remained in place between these states—particularly between China and Japan, and Japan and Korea. Despite this, economic interdependence among the three has long been significant. Although Japan and Korea have recently shown signs of seeking economic decoupling from China, such efforts are difficult to implement in practice. This reality is evident from three main perspectives: the high degree of economic interdependence, a shared interest in China’s economic recovery, and China’s irreplaceable role as both a market and a production base. Given these deep interconnections, the establishment of a CJK FTA is crucial—especially for Japan and Korea—to achieve these states’ long-term economic development goals.

Firstly, Japan and Korea are still highly dependent on the Chinese market. At present, China is still the largest trade partner of Japan, and Japan is the second trade partner of China, following the United States (Ministry of Foreign Affairs of Japan 2024). Korea kept a stable position as the fourth ranking trade partner of Japan during 2022 to 2023, and Japan is also Korea’s fourth-largest trade state (Observatory of Economic Complexity n.d.). China, which has gradually become the largest trade partner in both imports and exports for two decades, is playing a very important role in Korea’s economy (Observatory of Economic Complexity n.d.). These data show that today the three states are still closely integrated in trade, despite the four years in which the Japanese and Korean governments have attempted to decouple from China in economic terms.

Although there has been some turbulence in exports and imports among the three states during the period of pandemic control in China (2020–2022), the fluctuation of trade volume has not been large (see Table 8).

Table 8 China-Japan-Korea trade overview from 2021 to 2023

Unit: US billion dollars	2021 Imp	2021 Exp	Total	2022 Imp	2022 Exp	Total	2023 Imp	2023 Exp	Total
China to Japan	179.9	165.8	345.7	173	162.48	335.48	160.5	157.5	318
China to Korea	213.4	148.8	352.2	187.99	152.03	339.73	161.7	148.9	316
Japan to Korea	29.9	54.5	84.4	33.58	54.04	87.6	30.2	46.8	77

Data source: Japan External Trade Organization (JETRO), <https://www.jetro.go.jp>; Ministry of Commerce of The People’s Republic of China(MOFCOM), <http://yzs.mofcom.gov.cn>; UN Comtrade database, <https://comtradeplus.un.org/TradeFlow>

After the economic growth brought about by RCEP, trade contacts in 2023 have a slightly decreasing trend; this is owing to the slow recovery of the world economy after the pandemic. According to the IMF, the basic increasing rate of global economic development is estimated to have fallen from 3.5% in 2022 to 3.0% in 2023 (International Monetary Fund 2023). Meanwhile, the specific causes of economic slowdown in China, Japan, and Korea are different. From the perspective of China, the real estate sector, as one of China’s economic pillars, showed a weak trend during the year of 2023 (State Council of the People’s Republic of China 2024). Evergrande Group, once one of the top real estate enterprises in China, was liquidated by a Hong Kong court in late 2023 after filing for bankruptcy protection for its overseas assets in the United States, following two years of debt crisis in China. In addition, influenced by the radioactive water released into the sea by Japan in 2023, China suspended the import of all Japanese aquatic products, which represented 22.5% of Japanese export products to China (General Administration of Customs of the People’s Republic of China n.d.). Japan and Korea have experienced a high and increasing rate of inflation, 3.2% and 3.58% respectively, which caused Japan to fall behind Germany and to lose its third-largest economic position in the global market (OECD 2023). Especially for Korea, after the sharp decrease of its GDP growth rate from 4.3% previously to 2.6% in 2022, the economic recovery in 2023 still suffered from the negative effects of the past year, and progress was slow.

Even though there was a slight downward trend of trade during these years owing to the global situation, states’ relations, and states’ own capacity, there has also been a very high degree of trade integration between China, Japan, and Korea, especially

between China and the other two states. The trade intensity index (TII) provides a general way of measuring the interdependence of two states in terms of trade; it specifically refers to a state's exports to a designated trading partner as a proportion of the state's total exports, and that trade partner's total imports as a proportion of the world's total imports. The higher the result, the stronger the trade relationship between the two states. The TII formula is presented as the (4-1):

$$TII_{ij} = \left(\frac{X_{ij}}{X_i} \right) / \left(\frac{M_j}{M_w} \right) \quad (4-1)$$

This index can verify the importance of China, Japan, and Korea to each other in trade, and the high degree of economic interdependence the index shows reminds us of the difficulty faced by the three states in attempting to decouple from each other. Specifically, TII_{ij} represents the trade integration degree of state a to state b, X_{ij} represents the export volume of state a to state b, and X_i represents the total export volume of state a. M_b represents the total import volume of state b; M_w stands for total world imports. If $TII_{ij} > 1$, this indicates that the two states a and b are closely related in trade; if $TII_{ij} < 1$, this indicates that the two states a and b are loosely related in trade.

To calculate the TII, I use the trade volume data from my Table 8, the UN Comtrade database, and WTO statistics (UN Comtrade 2024). In order to better compare the changes in the index, I have extended the analysis years from the original two years (2022–2023) to four years (2020–2023). Through calculation, the outcomes shown in Table 9 were produced.

Table 9 China-Japan-Korea trade intensity index (TII)

Year		2020	2021	2022	2023
TIIj	TIIcj	1.81	1.55	1.446	1.503
	TIIjc	1.9	1.82	1.8321	2.12
	TIIck	1.66	1.62	1.53	1.66
	TIIkc	2.23	2.13	2.755	2.24
	TIIjk	2.66	2.55	2.71	2.46
	TIIkj	1.38	1.46	1.40	1.425

Data source: UN Comtrade database; WTO statistics.

As Table 9 shows, the trade relations between China, Japan, and Korea reveal a very tight mutual interdependence, with index values that are all greater than 1 and up to 2.5. In detail, Japan's imports and exports are more dependent on the Chinese and Korean markets, with index values both over 2 in 2023. China and Korea perform relatively worse; however, it is noteworthy that the average dependence index remains around 1.5. Compared with the Japanese market, Korea's imports and exports rely relatively heavily on the Chinese market. Across all years, the index is above 2, and even approaches 3 in 2022. Overall, from the perspective of the composite index alone, the dependence of Japan and Korea on the Chinese market is at least twice the standard level of significance, while the relative dependence of China on Japan and Korea is only about 1.5 times the significance. China's dependence on the Japanese market has weakened in the past four years, and the other relationships remains basically unchanged. At the same time, it can also be seen from the table that the trade volume between China and Korea in 2023 decreased compared with that in 2022, but the level of trade exchanges in 2023 is the same as that in 2020 and 2021. In reality, over the past decades, the three states have complemented each other in both global and regional supply chains. China has remained in the low-to-mid-end of production, handling assembly and exporting large-scale finished goods; Japan has provided critical components and high-precision technology, and Korea has supplied semiconductors and key displays. Together, they have formed an efficient,

interdependent production networks (Obashi and Kimura 2016; Li 2023).

Secondly, China's economy has started to recover after 2022, in line with Japan and Korea's expectation. Before 2022, China's economy was stuck in stagnation during the pandemic because of its strict border policy, while its economic recovery in 2022, after this policy relaxed, was still slow. Under the global economic slowdown, even though China's economic growth rate reached 5.2% in 2023, this was lower than before the pandemic (World Bank n.d.). The annual industrial output, retail sales, and manufacturing Purchasing Managers' Index (hereafter PMI) were also weak and showed insufficient rebound (Yang 2024), meaning that aspects of production, consumption, and manufacturing were still weak. In the meantime, Japan and Korea expressed concerns that China's economic stagnation could influence their own domestic economic development after the pandemic. From 2022, Japan and Korea have experienced 'bad inflation', causing a rise in prices of all daily-use products and industrial raw materials. The Japanese inflation rate has sharply increased from 0.5% to 2.5% in 2022, peaking at 4.3% in 2023, and remaining stable at 2.6% in 2024 (YCharts n.d.). Meanwhile, Korea's inflation rate has also rapidly surged from 2.5% in 2021 to 5.09% in 2022, slightly decreasing to 3.59% in 2023, and staying at 2.52% in 2024. The two states' similar trends of inflation growth, especially for the year 2022, illustrate that it has been difficult for the Japanese and Korean governments to achieve the goal of economic recovery, partly because China, as their largest trading partner, was unable to guarantee supply chains and provide markets under the strict control of customs during the pandemic (State Council of the People's Republic of China n.d.).

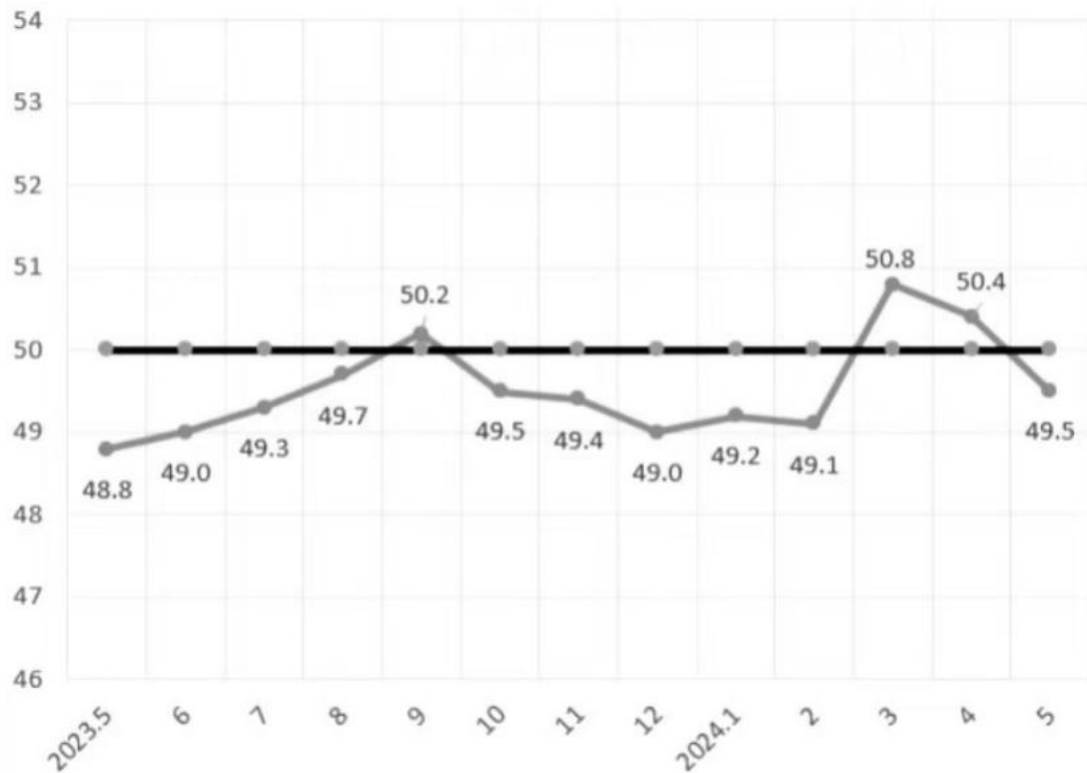
The weak of economy in Japan and Korea reminds the governments of their heavy dependence on China's economy, so they have attempted to decouple from China economically to decrease their risks by transferring their industrial base to Southeast Asia (Ministry of Economy, Trade and Industry of Japan 2023). However, this action has not led to improvement in the economy of either of these two states, which reveals the soft domestic demand later. Domestic private consumption in Japan continued declining by 0.3% in the fourth quarter of 2023 than the prior quarter (CNBC 2024), and Korea has gradually increased household saving, which reached a peak rate, at 33.4%, in the last quarter of 2023, compared with 42.7% as the overall highest rate in 1988 (Kang 2022). Generally speaking, private consumption makes up 60% of total GDP for any state (Bank of Japan n.d.), and the Japanese and Korean governments have implemented a series of policies like cash handouts, travel and dining subsidies,

incentives for online shopping, wage increases, and excise tax waivers to stimulate private consumption, for the purpose of boosting the sector. However, the consumer markets remains weak, individually 53.4% for 2023 and 53.6% for 2022 in Japan (with an average of 54.5%, see CEIC) and 48.1% for 2022 and 2023 for Korea (with an average of 54%, see CEIC). The expectation of the Japanese and Korean governments for economic recovery brought about by personal consumption has failed.

Hence, Japan and Korea together highlight the importance of Chinese economic development. At the G7 Hiroshima summit in 2023, the Japanese government identified that healthy development of the Chinese economy, and sustainable economic relations with China, adhere to both global and states' interests (G7 2023). Under the heading of 'Japan-China Economic Relationship' on the MOFE website, Japan depicts China as a close trade and investment partner, which shares common interests with Japan in both traditional and emerging sectors, like the green economy (Ministry of Foreign Affairs of Japan 2024). Comparatively, Korean exports are more reliant on the Chinese market than Japan according to the TII index. In the OECD semi-annual economic reports from 2022 to 2023, Chinese economic recovery is identified as one of the most significant factors for Korean foreign trade and real GDP, and is mentioned clearly several times (OECD 2023), emphasising that an increasingly strong Chinese economy and easing geopolitical tensions could improve the overall current economic situation of Korea (OECD 2023). After deficits and losses during the whole of 2023, Korean Foreign Minister Cho Tae-yul visited China, for the first time in six and a half years, and stressed the importance of continuing to strengthen economic cooperation and maintain continuous communication between the two states, as well as enhancing the safety of the business and investment environment for Korean companies in China (OECD 2023).

Reflecting the efforts of government policies and enterprises, China's economy in the first quarter of 2024 had an improved trend through macroeconomic regulation and microeconomic measures. According a World Bank report, GDP growth in 2024 was expected to be 4.8%, 0.3% higher than the previous expectation in December 2023. This upward change comes from robust exports and policy control over real estate (World Bank 2024). Meanwhile, with strong government support for the property sector, Chinese manufacturing and infrastructure investment continue to show further significant improvement. As illustrate in Figure 2, the PMI, which reflects economic trends, indicates a resilient and sustained expansion.

Figure 2 China's PMI Index



Data source: Chinese National Bureau of Statistics.

After 2023, China's PMI fluctuated within a 1% range up and down from a baseline of 50%, and had a clear rise in 2024. This suggests that economic conditions in the manufacturing sector are relatively steady, with neither strong growth nor significant decline, and supply and demand are fairly matched. This is owing to Chinese macroeconomic policy, like monetary and fiscal policy, which are tightly held by central government, and stronger and more effective than other states (Reserve Bank of Australia 2013) (see section 6.2.2).

Thirdly, China as an industrial base cannot be completely replaced by Southeast Asia on a comprehensive level. China has the biggest production base for Japan and Korea, even though some Japanese and Korean enterprises have partly transferred their base to Southeast Asia over the last decade, because of their fear of becoming too dependent on China. On the other hand, owing to the Sino-US tensions after 2018, Japan and Korea, for individual purposes, have sought to intensify their relations with the United States in relation to political security. But, for several reasons, China is still the irreplaceable option for Japan and Korea, and this can be verified by trade estimation and examination of the current situation in Southeast Asia.

The complete decoupling of trade for Japan and Korea from China will cause severe economic loss in the first two states. To illustrate this, in Section 5.4 the top 10 exports from Japan and Korea to China are selected and the Foreign Trade Dependence (hereafter FTD) formula is used to measure how much of the GDP in Japan and Korea is occupied by the top 10 products exported to China. So, if the two states take away their exports from the Chinese market, their real-time economic loss is clear. Owing to the need for data integrity, the years of 2021 and 2022 are used as the latest years. The FTD formula is presented in the equation (4-2):

$$\frac{TOP10EXP}{GDP} \times 100\% \quad (4-2)$$

Table 10 shows the outcomes.

Table 10 FTD from Japan and Korea to China

The top 10 products exported to China as a percentage of their national GDP	2021	2022	Average
Japan	2.57%	2.62%	2.595%
Korea	7.92%	8.22%	8.07%

Source: Calculated by the author.

This table 10 shows that if Japan and Korea attempt to remove their core exporting industries from the Chinese market immediately, it would likely to cause a decline of GDP of 2.60% and 8.07% respectively, for Japan and Korea. As a reference, the average GDP growth rates of Japan and Korea in the past 10 years are 0.6% (World Bank 2024) and 2.48% (World Bank 2024), so the direct transfer would cause negative GDP growth rates of -2.0% and -5.59% respectively, compared with a standard of approximately a 3.4% GDP decrease for developed states during the Global Financial Crisis in 2008 (World Bank 2019). This is convincing evidence that there would be a severe, unbearable economic loss for Japan and Korea from instant, immediate, and complete decoupling. However, governments generally choose the approach of gradually swinging their production chain and chosen market, instead of sharply removing the whole arrangement. Therefore, slightly different from the

estimated outcome shown in Table 10, the reality would be a more smooth and subtle effect.

However, Southeast Asia is not a fully appropriate substitution for accepting all transfers from China. Although Japan and Korea during the last decade have gradually transferred parts of their production chains to ASEAN states, and Vietnam and Indonesia have emerged as the top two recipients at the lower end of the supply chain (ASEAN Briefing 2024), these Southeast Asian states cannot, unlike China, undertake the middle-to-high end production processes due to various shortcomings, including limited market size, smaller populations, unstable conditions, and insufficient educational qualifications of the workforce (see, for example, Wang and Zhu and Ji 2023; Zhang and Li 2023; Yoshioka 2016).

Most states in Southeast Asia do not have sufficient infrastructure or qualified workers to undertake middle-to-high end production (Wang and Yu and Ji 2022). For example, Vietnam is one of the biggest transfer destinations for Japan and Korea but it cannot take the responsibility for mid-range technology industries, such as chemical product manufacturing, and machinery and equipment manufacturing, because of lacking the heavy industry base (Wang and Yu and Ji 2022). Meanwhile, the labour force in Southeast Asia is not as strong as in China. There were 45 million people from Southeast Asia working in manufacturing in 2024 who contributed, on average, 20.82% to states' GDP (ASEAN Briefing 2024), as opposed to 378 million people in China in 2023 (a number that has already been falling for several years) who make up 29.1% of GDP (Statista 2023). This also illustrates that the Southeast Asian market is limited in size, and the demand from domestic markets is necessary for industrial development and upgrading. The lack of sufficient education and research institutions also weakens support for industrial development in Southeast Asia. Except for Singapore, outstanding research institutes and universities ranking among the world's top institutions are scarce among ASEAN members, which means that the reserve of talent is not enough for supporting further industrial development.

Apart from the states' weak conditions, ASEAN members (excluding Singapore) have, in various ways, difficult domestic political circumstance. Indonesia, Thailand, the Philippines, and Malaysia are struggling with partisanship, while Vietnam and Cambodia have issues with corruption and central-local power struggles. Examples include 'frog politics', with Malaysian politicians frequently switching parties, leading to a proliferation of different parties and extreme instability (Zhang and Li

2023); the upward trend of populism and religious influence on parties in Indonesia (Xia 2021); the emergence of more far-left parties in Thailand that are at odds with the royal family and the centre-left (Zhou 2023); and the Philippines' political ecology of family clientelism bringing about serious political corruption (Lin 2022). Different political issues in these Southeast Asian states affect support for rapid development of economies and industries. At the same time, the varying languages and multi-faceted environments also increase the difficulty for foreign investors, such as those from Japan and Korea, to conduct assessment, leading to a lack of trust in these states, to some extent from the beginning of the 2000s until now (Yoshioka 2016).

Overall, China, as an irreplaceable economic partner, is very important to Japan and Korea, while cooperation with these two states is also in line with China's regional policies and interests. These three states are economically interdependent, thriving and suffering together. Currently, their economies are improving, and their cooperation is also deepening via RCEP.

4.4.2 First step for China-Japan-Korea cooperation: RCEP tariff reduction review

As noted in Section 1.1.4, the RCEP is the first regional multilateral FTA for East Asia which included China, Japan, Korea, ASEAN members, Australia, and New Zealand. This FTA is also the first one that allows China, Japan, and Korea to cooperate in trade. The RCEP has four main parts, these are: zero tariffs for 90% of goods traded among members; unified rules of origin; widened access to trade in service and transnational investment; and convenient e-commerce (Ma 2020; Liang and Blanchard 2022). For China, Japan, and Korea, the proposed agreement is for 86% of Chinese products and 88% of Japanese products to have tariffs removed for each other, with nearly the same situation between China and Korea, while the tariffs on 92% of products between Japan and Korea will be eliminated. Specifically, 57% of Chinese exports to Japan are immediately exempted from tariffs, accounting for 65% of the total. In the future, 75% of goods within 11 years, 87% within 16 years, and 88% within 21 years will be exempt from tariffs (Ma and Li 2022). Before 2020, zero tariffs by China on Japanese imports had applied to just 19% of products, but this could reach 86% of all products after a 21-year transition period. Within this agreement, 25% of products have zero tariffs immediately, accounting for 35% of the

total. For Japan and Korea, nearly 83% of products on the list have been removed from tariff protection, with 41.6% of products in the tariff-cut list having a 10-year transition period.

The biggest tariff concessions Japan has promised to China are in textiles and chemical products. Under the RCEP, the proportion of zero-tariff items in these categories has increased significantly, from 4.5% and 36.9% before RCEP to 99.2% and 99.1%, respectively. Additionally, the proportion of items with immediate zero tariffs has risen by 29.2% and 39.6%, respectively. From China's perspective, within the category of high-quality machinery products—including medical equipment, transport equipment, and general machinery—from Japan, tariffs will be eliminated on 58.9% to 93.4% of these products. The most significant achievement of RCEP for Korea and Japan is the substantial elimination of tariffs on chemical products, which previously ranked as the top traded goods between the two states; approximately 90% of these items will have their tariffs removed.

Two points from the discussion above are important to highlight, for better understanding the potential for cooperation through China-Japan-Korea since RCEP came into effect.

To begin with, China and Japan have demonstrated their sincerity in eliminating tariffs on sensitive goods for each other and Korea. The brightest light in RCEP is the first-time cooperation under an FTA framework between China and Japan, and between Japan and Korea; both states have made significant concessions on tariff preferences, especially in sensitive sectors. Agriculture in Japan traditionally has been regarded as a protected sensitive sector, as it faces challenges owing to the small size of farming land and insufficient labour resources (Dong 2020). However, apart from the five most sensitive industries (rice, dairy products, barley, meat, and sweet crops), the remaining agricultural products have had tariffs either reduced or removed for China and Korea, as shown in Table 11 and Table 12.

Table 11 Tariff reductions on agricultural imports from China under the RCEP

Product Name	Content of Tariff Removal
Highly sensitive goods (rice, barley, meat, dairy products, sweet crops)	Excluded from tariff reduction and elimination.
Vegetable&fruit trees	Producers plan to recover domestic products for processing and business use, many of the items that are desired are excluded from tariff reduction or elimination. Domestic products cannot meet the needs of the domestic market to ensuring the elimination of tariffs.
Forest products	Half of the items are excluded from tariff reduction or elimination. Tariff reduction and elimination is for goods that have no or minimal import history.
Aquatic products	Producers plan to recover domestic products for processing and business use. Many of the items that are desired are excluded from tariff reduction or elimination. Domestic products cannot meet the needs of the domestic market to ensure the elimination of tariffs.

Source: Data consolidated from ‘RCEP における日本の輸入の関税削減効果’ (Tariff Reduction Effects on Japan’s Imports under RCEP).

Table 12 Tariff reductions on agricultural imports from Korea under the RCEP

Product Name	Content of Tariff Removal
Highly sensitive goods (rice, barley, meat, dairy products, sweet crops)	Excluded from tariff reduction and elimination.
Vegetable&fruit trees	Vegetables are largely exempt from tariff cuts or repeals. Goods subject to reductions in China are excluded from tariff reductions and repeals.
Forest products	About a third of goods are exempted from tariff reduction or elimination. Tariff reduction and elimination is limited to items with zero or minimal import history.
Aquatic products	Goods receiving tariff reductions in China are not eligible for further tariff cuts and repeals.

Source: Data consolidated from ‘RCEP における日本の輸入の関税削減効果’ (Tariff Reduction Effects on Japan’s Imports under RCEP).

Data reveals that approximately 56% of agricultural products imported from China to Japan have had cuts on tariffs, with nearly 49% of products from Korea subject to tariff cuts, compared with 61% of products from ASEAN. The preference gap between China and Korea in the agriculture sectors are in live trees (HS 06), vegetables (HS 07), and fruit (HS 08), as the lists in Tables 11 and 12 show. In other words, most agricultural products from China and Korea save costs in tariffs in Japan’s market after 2022.

Some machinery products are considered sensitive items in the Chinese market. Generally, Japanese products tend to be slightly more popular than Korean ones in China. Under RCEP, the high base rate products (tariffs occupying over 10% of the price) from Japan and Korea will gradually have tariffs eliminated to zero. For instance, popular products (HS 84-92) of this sort that are in the list include solar water heaters (HS 8419.19), dry-cleaning machines (HS 8451.10), microwave ovens (HS 8516.50), and other ovens and cookers (HS 8516.60). However, for the sake of protecting similar domestic articles—those which are the most commonly purchased by customers—some products like shavers (HS 8510), robotic machinery (HS

8515.21), coffee or tea makers (HS 8516.71), and various kinds of televisions (HS 8528.72) do not receive any tariff cut.

Compared with the sincerity China and Japan have shown about their sensitive products, Korea has taken a relatively conservative attitude; this is because Korea's industries are more vulnerable. In detail, the Korean government is determined to protect domestic motor vehicles, machinery, and other competition-sensitive products that are weaker than those of Japan by means of temporarily having no tariff cuts for these products, keeping tariffs at the base rate of 8%¹⁵. Half of Korea's sensitive agricultural imported products, such as peppers, onions, garlic, and apples, are also excluded. It is worth mentioning that the original tariffs on sensitive agricultural products are very high without any reduction; for example, nearly 95% of dairy products (HS 04) have maintained their original high tariffs of 8% to 176%, edible vegetables (HS 07) have tariffs from 18% to 887%, and tariffs on coffee products (HS 09) and cereal products (HS 10) without preferential treatment range from 21% to 114% and from 8% to 513%, respectively.

Next, the progress between China and Korea under RCEP based on the CK FTA is limited. The China-Korea FTA (CK FTA) has been in force since 2015 and has covered over 90% of non-tariff export products such as machinery equipment, electronics, chemical products, agricultural products, and metal products. After the CK FTA and RCEP, 86% of products imported from China to Korea will ultimately achieve tariff cuts to zero, and the immediate tariff-removal rate is up to 50.4% (China Council for the Promotion of International Trade 2022). In RCEP, the Korean government explicitly agreed to further eliminate the tariffs on deer antlers, dextrin, modified starch, and other products beyond what was committed to under the CK FTA (Ministry of Commerce of the People's Republic of China 2022). Compared to the CK FTA text, tariffs on these additional products were reduced to zero following a transition period.

For sensitive industries, Korea has retained its original tariffs on certain products, maintaining protection for key sectors. Compared with the CK FTA, agricultural products in RCEP have been subject to further concessions, like the reduction of live fish (HS 02) tariffs from a 12% to 25% base rate to a 10% to 20% rate in the CK FTA, and to 0% over a transition of 10 to 20 years in RCEP. The same situation applies to fish and crustaceans (HS 03), but this progress is very restricted. Most of the

¹⁵ Based on the Korean RCEP text.

remaining agricultural tariffs have stayed at the same level as in the CK FTA; for example, dairy products between HS 0401 and HS 0404 in RCEP have remained the same as under the CK FTA. Apart from those products in the reduction list, sensitive agricultural products have still not had tariffs cut or removed, as the data in Table 13 show.

Table 13 Non-tariff cut agricultural products imported from China to Korea

HS	Product Description	Items	Base Rate Average
1	Live animals	16	22.63%
2	Meat and edible meat offal	74	23.70%
3	Fish and crustaceans	127	15.01%
4	Dairy, eggs, honey	58	57.08%
5	Products of animal organ	4	17.50%
6	Live trees & other plants	30	14.80%
7	Edible vegetables	106	142.43%
8	Fruits and nuts	57	43.87%
9	Coffee, tea, maté & spices	14	187.20%
10	Cereals	32	515.13%
11	Milling industry products	40	372.64%
12	Oil seeds	50	245.54%
13	Lac, gums, resins	17	142.52%
14	Animal/Vegetable fats, oil, wax	13	18.66%
15	ED. prep. of meat, fish, crustaceans	46	25.28%
16	Sugars & sugar confectionery	18	29.44%
17	Cocoa	6	28.50%
18	Preps. of cereals, flour, starch or milk	18	20.92%
19	Preps of veg., fruits, nuts	52	37.77%
20	Edible preparations	16	119.17%
21	Beverage, spirits & vinegar	7	53.85%
22	Residues from food industries	4	34%
23	Tobacco	16	32.05%

Data source: Calculated by the author from RCEP text.

On account of the good foundation laid by the CK FTA (nearly 50% of the products were subject to immediate tariff elimination, while approximately 30% and 15% of the products were scheduled for tariff removal after 5-year and 10-year transition periods, respectively, see Ministry of Commerce of the People's Republic

of China), most manufacture goods (HS 83-97) imported from Korea have been reduced from higher tariffs to zero. And some Korean items popular in the Chinese market have continued to have their tariffs reduced; for example, motorcycle (HS 8711) tariffs have been reduced from 45% to 20%, and are planned to reach zero in RCEP. At the same time, most textile products from China have had tariffs decreased from a middle-level base rate to zero. But like the treatment of Japan's machinery products, some strongly competitive Korean chemical (HS 33-48) and machinery products (HS code like above), including makeup (HS 3304), shaving cream, aftershave (HS 3307), laundry-type machinery (HS 8450), shavers (HS 8510), and transport vehicles (HS 87), which occupied a large proportion of the Chinese market, have kept their old tariffs in both the CK FTA and RCEP.

On the whole, the reduction of tariffs on exports between China and Korea is primarily based on the CK FTA, with only minor improvements under RCEP. This leaves significant room for further tariff reductions in future cooperation in the CJK FTA from the merely economic perspective, and a deeper degree of free trade can further enhance GDP performance in both countries by promoting trade efficiency, attracting investment, and fostering economic diversification, which is particularly attractive to Korea, as it is experiencing a more pronounced economic slowdown than China. Moreover, deeper trade integration can strengthen mutual trust by encouraging sustained cooperation, policy coordination, and long-term economic interdependence.

From a developmental perspective, the signing of the CK FTA in 2015 has achieved the goals of expanding existing economic cooperation projects and exploring new initiatives outlines in the *China-ROK Joint Statement for the Future (2013)*. As noted above, trade volume between the two countries has increased significantly, with imports and exports of electronic components, clothing, agricultural products, semiconductors, computers, and precision chemical materials growing under the CK FTA framework. Following this, the second-stage negotiations of the CK FTA, focused on expanding investment and trade in services, have been ongoing since the end of 2017.

These developments have strengthened economic ties between China and Korea, contributing to the economic growth of both countries and, to some extent, maintaining peace and stability in Northeast Asia (Cheng, 2022). Meanwhile, the Weihai-Incheon Local Economic Cooperation Demonstration Zone, as a dedicated institution, has improved administrative efficiency and optimized cross-border

governance mechanisms.

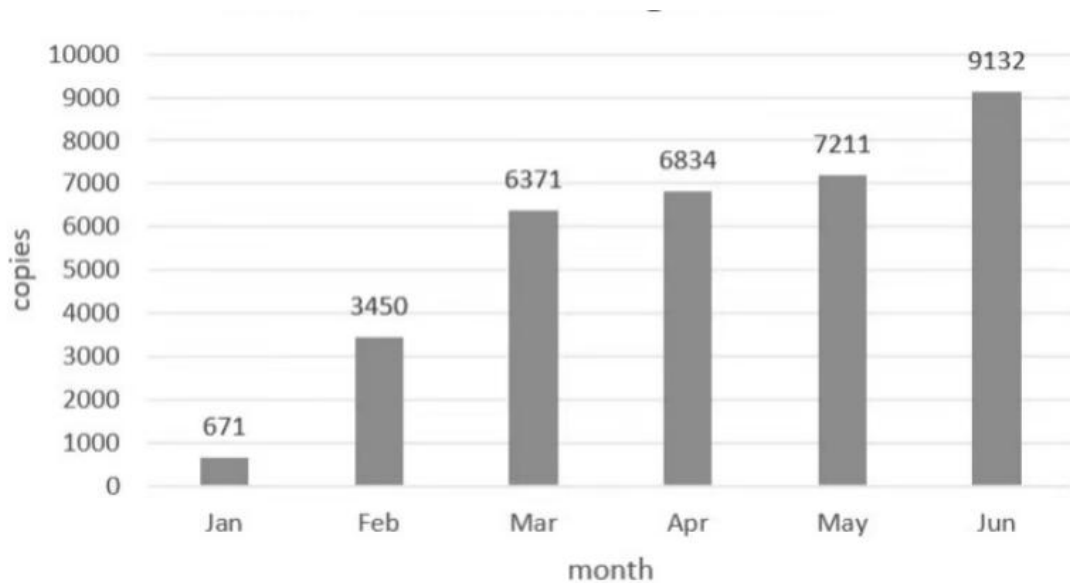
In terms of industrial advantages, Japan maintains a competitive edge over Korea in sectors such as precision machine tools, industrial robots, and automation equipment. At the same time, China's industrial structure has gradually shifted from low- to medium-end products toward sectors where Korea has strengths, including mechanical equipment and electronic products. Therefore, the CJK FTA based on CK FTA and RCEP could further enhance trade cooperation and economic development among the three countries, while also redefining the model of industrial cooperation within the region.

4.4.3 Tangible benefits to enterprises and markets increasing under the RCEP

To verify the importance of the RCEP for China, Japan, and Korea, it is necessary to go into more detail about the performance of governments and enterprises under this FTA. According to a report from the Institute for International Trade and Investment (ITI) in 2023, compared with the case without RCEP coordination, Japan's real GDP was expected to increase by about 2.7% after a long adjustment period, compared with 1.5% under the CPTPP, and 1% under EPAs, which can help relieve Japan's economic stagnation. Over the course of one year (2022) after RCEP came into effect, the issuance of certificates of origin far exceeded that of other FTAs, reaching around 90,000 copies, and this mainly relates to China and Korea, partly due to relaxed and uniform rules of origin in RCEP (Ishikawa 2023).

Figure 3 shows the strong upward trend of certificates of origin released to Japanese enterprises in half a year from only around 700 copies in January to around 9,000 copies in June, which reflects the upsurge in enthusiasm of those enterprises towards participating in RCEP after it came into force. As a reference, approximately 60% of Japanese enterprises take advantage of FTAs/EPAs, with 80% of exporting enterprises and 64.2% of importing enterprises choosing RCEP (China-Japan Chamber of Commerce and Industry 2023).

Figure 3 Growth rate of RCEP certificates of origin issued in Japan in 2022

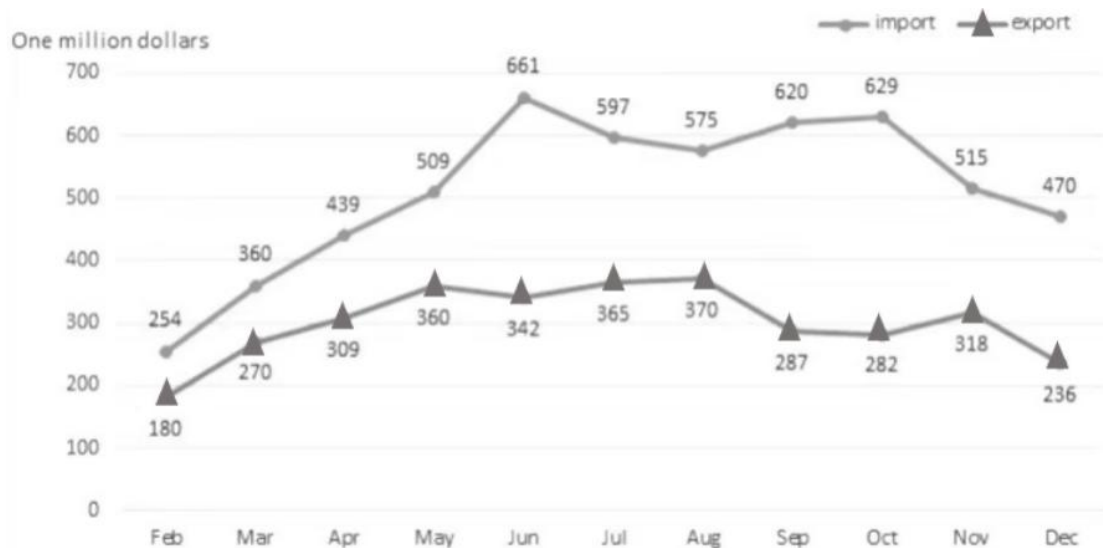


Data source: Kazushi Shimizu, *'RCEP great impact on Japan and East Asian Economies'*.

Similarly, RCEP is expected to increase GDP, export volume, and import volume by respectively 0.86%, 18.3%, and 9.63% for China by 2035, which is an effective way for promoting its economic development (Ministry of Commerce of the People's Republic of China 2021). In the first half year after RCEP came into effect, China augmented its trade volume with partners by 5.6%, and issued 26,600 certificates of origin, with Japan and Korea being the top two countries in terms of export and import trade volume with China (Ministry of Commerce of the People's Republic of China 2022). In regard to enterprises in China, RCEP brings about benefits through tariff cuts. For example, the total import and export value of Tianjin enterprises to RCEP trading partners increased by 18.2%, and Liaoning's import and export value to RCEP trading partners increased by 5% in the first half-year of 2022 (Ministry of Commerce of the People's Republic of China 2022).

For Korea, GDP is expected to increase by 0.51% from RCEP, and real income should be 1% higher than it would have been without RCEP (Petri and Michael 2020). During the first year, the total trade value of Korean enterprises in exports and imports under the RCEP agreement will reach 3.3 billion dollars and 5.6 billion dollars, respectively, as Figure 4 shows.

Figure 4 Korean monthly import and export performance in 2022 under RCEP



Data source: <https://www.newspim.com/news/view/20230201000993>.

RCEP-based exports reached USD 3.3 billion and imports USD 5.6 billion – Top beneficiary item: battery.

Among all members, Korean enterprises take the most advantage of RCEP exporting to Japan and China, at 67.3% and 27.7% respectively, representing the top two positions, and Korean imports from Japan and China sit at 48.3% and 38.7%, respectively (Newspim 2023).

Examining the performance of China, Japan, and Korea after the RCEP came into force, it can be seen that Japanese export enterprises rely more heavily on RCEP, while Chinese and Korean export enterprises primarily seize this significant chance to expand trade among China, Japan, and Korea. Meanwhile, as analyzed by Liang and Blanchard (2022) regarding digital trade and e-commerce, China, Japan, and Korea are among the primary beneficiaries of the RCEP. As mentioned in the Chapter 1, China, Japan, and Korea are each other's most important trading partners, so RCEP has played a considerable role in the economic development of the three states. Conversely, China, Japan, and Korea, as developmental states, also take advantage of RCEP to accomplish their objectives of pursuing economic development, nurturing SMEs, and industrial upgrading (for more detail, see Section 6.2.3).

4.4.4 Next step for CJK cooperation: The space for the CJK FTA

The CJK FTA was first suggested at the ASEAN+3 summit in 1999, and then

officially raised in the CJK leaders' informal summit in 2002 (Ministry of Commerce of the People's Republic of China 2011). Then, between 2003 and 2009, China's Development Research Center of The State Council (DRC), the Korea Institute for International Economic Policy (KIEP), and Japan's Comprehensive Development Research Organization (NIRA) decided to jointly study the issue. A comprehensive and in-depth analysis was conducted on issues such as promoting trade and investment in the region and the macroeconomic impact of the establishment of a trilateral FTA. In 2008, the Global Financial Crisis made states realise that the establishment of the FTA would be conducive to withstanding the impact of the financial storm on the national economies, and the CJK FTA was once again put on the agenda. At the first Trilateral Summit Meeting held on 13 December 2008, the CJK FTA was first proposed, and the research institutes of the three states agreed to conduct the next round of research (people's Daily Online 2010). After a series of preparations, on 20 November 2012, during the 21st ASEAN Summit and its series of summits in Cambodia, the leaders of China, Japan, and Korea announced the start of formal negotiations on the CJK FTA. Over the past decade, China, Japan, and Korea have consistently emphasized the importance of advancing the CJK FTA, noting its potential to promote economic development, respond to shifts in the regional geo-economic landscape, and strengthen regional cooperation (Srinivasa 2013). The China-Japan-Korea Joint Statement by the Trilateral Business Community (2019) highlighted the importance of creating a more open and convenient trade environment for businesses, facilitating cross-border operations among the three states under the framework of the CJK FTA, and indicate its importance in innovation-driven cooperation in areas such as 5G, AI, cloud computing, and smart cities to support economic growth, which are conducive to achieving the development objective of structure upgrading across the three states (Central People's Government of the People's Republic of China 2019). After the long-term stagnation because of pandemic, the China-Japan-Korea Joint Statement released in March 2025 stressed again the significance of the CJK FTA in supply chain stability, business environment, digital economy, and green economy. At the same time, China's Ministry of Commerce emphasized the meeting as a demonstration of commitment to regional economic cooperation amid global economic uncertainty and rising protectionism (Ministry of Commerce of the People's Republic of China 2025).

As discussed in Section 1.1.4, sensitive sectors, historical issues, and geopolitical issues have often led to the interruption of 16 rounds of negotiation, hence the

intervals between each meeting are not balanced. The details of meetings are shown in Table 14.

Table 14 The 16 rounds of CJK FTA negotiation

Round	Date	Negotiation Content
1st	2013.3	Scope and manner of negotiation.
2nd	2013.8	Trade in goods, trade in services, rules of origin, customs procedures and facilitation, intellectual property, e-commerce.
3rd	2013.11	Part of the agreement. Trade in goods, trade in services, the mode of opening up investment, intellectual property, scope and area of negotiation.
4th	2014.3	The mode of tax reduction for trade in goods, the mode of opening up for trade in services and investment, and the scope and areas of the agreement.
5th	2014.9	The mode of tax reduction for trade in goods, trade in service, the mode of opening up investment.
6th	2015.1	Not much progress. The mode of tax reduction for trade in goods, trade in service, the mode of opening up investment.
7th	2015.4	Trade in goods, trade in services, investment, competition policy, intellectual property.
8th	2015.7	Trade in goods, trade in services, investment, the scope and areas of the agreement.
9th	2016.1	Trade in goods, trade in services, investment, the scope and areas of the agreement.
10th	2016.3	Trade in goods, trade in services, investment, the scope and areas of the agreement.
11th	2017.1	Core issues such as tariffs, rules of origin, guidelines for trade in goods, and ways to liberalise trade in services, as well as detailed implementation plans. Consultations on finance, communications and other areas have been officially launched.
12th	2017.4	In addition to content from the 12th round, telegraphy, financial service, immigration, and e-commerce are in the scope of discussion.
13th	2018.3	Same as for the 12 th round.
14th	2018.12	Trade in goods, trade in services, investment. Explore how to further enhance the level of trade and investment liberalisation on the basis of the results already achieved in the RCEP, and will resume the working group meeting from the next round of negotiations.
15th	2019.4	Positive consensus, building RCEP+ free trade agreement. Discussing the trade in goods, trade in services, investment in the meetings of chief negotiators, directorate-level consultations and breakout sessions on 13 specific topics.
16th	2019.11	Reach consensus and speed up the negotiation process. Held consultations at the bureau level and 11 working group meetings on trade in goods, trade in services, investment, competition, e-commerce, intellectual property rights, government procurement and rules of origin.

Data sources: Ministry of Commerce of the People's Republic of China; Japanese Ministry of Foreign Affairs; Korean Ministry of Commerce.

As indicated in Table 14, the first round of negotiations for the CJK FTA started in 2012, following a long-term comprehensive analysis conducted since 2003 by the Development Research Center of the State Council of China (DRC), the National Institute for Research Advancement of Japan (NIRA), and the Korea Institute for International Economic Policy (KIEP). Between 2012 and 2014, the three countries held three rounds of negotiations in Seoul, Shanghai, and Tokyo, during which the

agenda was gradually refined from the initial arrangements on mechanisms, negotiation areas, and negotiation methods to issues such as trade in goods and trade in services (see table 14). However, due to the involvement of sensitive sectors and industries in the three countries, no substantial progress has been achieved. In particular, there are significant differences among the three parties in the areas of investment and trade in services. Further more, the intensified territorial dispute in Diaoyu/Senkaku Islands after Japan unilaterally announced the nationalization of it impeded the progress of negotiations from the 1st round to the 5th round. In November 2015, all three parties agreed that the FTA negotiations needed to be accelerated. Since the CK FTA negotiations had progressed very smoothly, Japan's role became particularly important in these trilateral negotiations. However, at this stage, Japan overprotected its sensitive sectors such as agriculture, amid ongoing territorial disputes with China over the Diaoyu/Senkaku Island, and historical issues, such as the comfort women controversy, involving both China and Korea. During the 11th round of negotiations in 2017, the FTA talks finally made some progress, with the three parties formally initiating negotiations on sectors such as finance and telecommunications. Between 2017 and 2019, as negotiations on the RCEP progressed, China, Japan, and Korea sought to advance trilateral cooperation through the framework of the CJK FTA. While the discussions primarily focused on traditional goods and services, the three countries also explored the possibility of expanding cooperation into emerging areas such as the digital economy. Although references to the green economy appeared in broader regional policy dialogues, there is limited evidence that it was formally incorporated as a negotiation agenda in the CJK FTA during this period.

From Table 14, it is clear that the later-round negotiations of the CJK FTA were not constrained to trade in goods and services, but extended to finance and communications, especially after the 12th round in 2017. Meanwhile, CJK leaders in 2019 were committed to connecting the CJK FTA with RCEP, aiming to build an 'RCEP+ FTA'. Even though the negotiations for the CJK FTA temporarily stopped in 2019, the governments still emphasised the significance of the CJK FTA to the economic development of the three states, and called for a return to negotiations as soon as possible (see Section 1.1.4 and 6.1). A CJK FTA that builds upon RCEP is the optimal choice for future economic and trade cooperation among China, Japan, and Korea. Even though the negotiations have continued over a long time, the process is more than half complete, and also indicates that the CJK FTA is advancing faster

than a new FTA for China, Japan, and Korea.

So, how much room for improvement does RCEP leave for the CJK FTA? In the first place, there is still room to explore and expand the scope of goods subject to tariff relief in the CJK FTA. In RCEP, the tariff reductions granted among China, Japan, and Korea are relatively small compared to those given to other member states, which are in the region of 88%–90% to ASEAN members from China-Japan-Korea, but 81%–86% to each other. Obviously, this is a form of double standards in tariff-cut lists, and the reductions are also generally lower than the 95% rate in the CPTPP. To provide a specific example, Japan's tariff elimination rate on Chinese goods in RCEP is higher than that on Korean goods, and 56% of agricultural products from China are included in Japan's tariff-cut list, compared to 49% for Korea. The tariff elimination rate reaches 98% for China and 93% for Korea in the chemical and mineral sectors. However, these rates remain lower than those granted to other members, such as ASEAN, Australia, and New Zealand, where 61% of agricultural products and 99.1% of mineral products benefit from tariff elimination. The situation is the same for China and Korea. The final non-tariff elimination ratio for ASEAN and Australia-New Zealand on Chinese goods exceeds 90% compared to 86% for Japan and Korea. Additionally, the immediate non-tariff elimination ratio for Japan and Korea is lower than that of other members, standing at 25% for Japan, 38% for Korea, and over 60% for others. Meanwhile, the proportion of products in Japan's elimination list from Korea stands at 83%, which is notably lower than that for ASEAN (94.5%) as well as China, Australia, and New Zealand (average of 91%). As is clearly seen, no matter whether China, Japan, or Korea is examined, mutually preferential tariff ratios are on average lower than those given to other RCEP members; this is especially the case between Japan and Korea, which have a highly coincidence rate of competing products.

Therefore, there are two places for negotiation in the CJK FTA. One is moving towards a higher zero-tariff ratio of products, or focusing on an immediate zero-tariff ratio and broadening the scope of negotiable goods, increasing these to the level of other members in RCEP or the overall level of the CPTPP. In addition, attention should be paid to the transition period of products in the tariff-cutting list in the next round of negotiations. The current periods are 10 years, 15 years, and 20 years, and whether these time limits can be shortened is also a core issue of CJK FTA cooperation.

In the second place, the sensitive items for China, Japan, and Korea that remain under the old tariff structure in RCEP are among the key targets for negotiation in the CJK FTA. In RCEP, the three states have made major concessions on traditionally sensitive industries, but they still maintain high tariffs on some core products. In China, direct-to-consumer commercially available products, such as makeup products and televisions, are still subject to tariffs due to strong market consumption driven by the state's large population. For Korea, agricultural products represent a highly vulnerable industry, with tariff rates reaching up to 800%, as Table 11 and 12 showed. For Japan, there are no broad categories of sensitive products, but the government still keeps a tight guard on some small categories, such as cereals. These sensitive products, in fact, have big consumer markets in the three states, like the trend for fashion and beauty in China and the major need for making salted and preserved vegetables in Korea and Japan.

Hence, sensitive items that are in high demand among consumers in the other two states present strong opportunities for negotiation of the CJK FTA. Besides, the CJK FTA can also be extended to cooperation in emerging industries. As Masakashi Toyoda, Chairman and CEO of the Japan Foundation for International Economic Exchange said, in addition to manufacturing, the three states are also looking forward to more cooperation in services, such as tourism and IT, and to promoting digital economy, which is subject to the next phrase of negotiating cooperation.

It is evident that RCEP has not only laid a strong foundation for cooperation among China, Japan, and Korea but has also left room for further advancement in the CJK FTA. This means China, Japan, and Korea, as developmental states, can take advantage of the CJK FTA based on RCEP to further develop their economies and advance their industrial structures by expanding and deepening their trade cooperation.

From the political benefits perspective, the establishment of the CJK FTA has the potential to mitigate longstanding tensions arising from territorial disputes, historical grievance, and clashes of political interests, especially between China and Japan. By providing a structured framework for economic cooperation, the FTA can serve as a platform to build mutual trust and facilitate dialogue, reducing the likelihood of bilateral or regional conflicts (see section 1.1.3) (Xiang 2024). Moreover, the mechanisms embedded within the CJK FTA, such as trade integration, coordinated policy-making, and regularly scheduled leaders' summits, offer

opportunities for sustained engagement at both governmental and business levels. These forums not only enhance transparency in decision-making but also create predictable channels for negotiation, enabling the resolution of contentious issues through diplomatic and economic collaboration rather than unilateral action. Over time, such structured cooperation can foster a more stable political environment in East Asia, strengthening regional security and encouraging constructive multilateral relationships among the three countries (Xiang 2023 and 2024).

4.5 Conclusion

In Chapter 3, I discussed China, Japan, and Korea as developmental states undertaking an FTA strategy as a resolution for relieving their economic stagnation, and addressing their current domestic dilemmas, which compare unfavourably with their past economic trajectories. Through government-led business cooperation and supporting institutions, China, Japan, and Korea have promoted the signing and implementation of numbers of bilateral and multilateral FTAs, which benefit them in terms of domestic issues. This chapter illustrated the individual regional strategies led by governments after the year 2000, which is the point of time when they chose an FTA strategy after experiencing an economic turning point, such as Japan and Korea beginning to experience economic downturns, and China experiencing a rise after joining the WTO. This was followed by an analysis about the necessity of further economic cooperation between the three states, given their high rates of interdependence, the real hope for China's economic recovery, and the irreplaceable role of China as a market and production base. After that, and combined with a consideration of the issues of existing regional institutions and the effectiveness of RCEP, the chapter clarified why China, Japan, and Korea can benefit from economic cooperation in RCEP. In terms of regional strategy, China and Korea have maintained their enthusiasm for regional cooperation, and China has embarked on building its own leading institution, while Korea has focused more on being a mediator more than a leader. Japan is wary of China's actions because of its own ambition to seize East Asia's leadership; on the other hand, it needs cooperative institutions to relieve domestic economic stagnation.

Therefore, RCEP, as a regional multilateral FTA led by ASEAN, is a better choice for the three states than the CPTPP, which has the highest barriers to entry, APEC,

given its ineffectiveness as a forum, and APT, which is not suited to trade cooperation. The text of the RCEP tariff reduction clearly demonstrates the sincerity of cooperation between China, Japan, and Korea, especially Japan and China, and the performance of domestic enterprises in each state two years after RCEP's entry into force is enough to illustrate its effect. But from the analysis of the scope of cooperation, conditions of cooperation, and industrial developmental direction in RCEP, it is clear that there is still plenty of room for cooperation in a future trilateral FTA. The next chapter takes advantage of quantitative analysis (the gravity model) to estimate the benefits of the CJK FTA for increasing trade volume and promoting the development of separate industries, further addressing the question of what benefits developmental states achieve in the scope of FTA cooperation.

Chapter 5 The estimated economic benefits of the CJK FTA

5.1 Introduction

Chapter 4 demonstrated the economic significance of both RCEP and the proposed CJK FTA as the only viable multilateral trade agreements capable of generating mutual benefits for China, Japan, and Korea within East Asia. Of these two frameworks, RCEP has proven particularly consequential as it has already yielded measurable economic gains through trilateral cooperation—an outcome that remains unmatched by other regional economic institutions. Building upon the foundation established by RCEP, the CJK FTA has emerged as a strategically complementary agreement that could potentially advance economic integration among the three states to an even greater depth. However, it must be noted that since the CJK FTA currently remains in the negotiation phase without having been formally implemented, empirical data quantifying its actual economic impacts are presently unavailable. It is precisely this critical knowledge gap that this chapter seeks to address through its use of sophisticated quantitative estimation methods designed to project the potential economic benefits that might accrue to the three signatory states upon the agreement's implementation.

The analytical framework specifically addresses three fundamental research questions that guide the investigation. First, it examines what modifications to existing trade flows the CJK FTA would likely induce among the three participating states and their global trading partners. Second, it investigates to what quantitative degree the CJK FTA might enhance bilateral trade values between China, Japan, and Korea when compared to the existing RCEP framework. Third, it analyses how the CJK FTA would likely affect sensitive and strategically important export sectors within the three economies, particularly those subject to various forms of protectionist measures. These carefully formulated questions facilitate a comprehensive understanding of whether free trade agreements involving these three advanced East Asian economies can genuinely stimulate meaningful economic growth while properly accounting for their existing protective trade policies, with particular attention to Japan and Korea's well-documented stringent safeguards for sensitive agricultural and industrial commodities.

The methodological approach employs the well-established trade gravity model, a robust theoretical framework specifically designed for analysing the key determinants of bilateral trade flows, with foundational work by Tinbergen (1962) and subsequently refined by Anderson (1979) and Bergstrand (1985). This analytical approach innovatively conceptualises various trade-influencing factors as gravitational forces, with the CJK FTA's proposed policy intervention serving as the primary variable of interest. As meticulously detailed in Sections 1.5 and 7.3, the analysis deliberately utilises partial equilibrium counterfactual methodology rather than the more comprehensive full-endowment general equilibrium analysis due to current research constraints involving data availability and computational limitations. Consequently, while the estimates generated provide valuable preliminary insights into potential outcomes, researchers should note they may diverge from actual realised outcomes following implementation. All statistical estimations were rigorously conducted using STATA software, with full recognition of the marginal deviations from real-world conditions that are subsequently examined in greater depth in the discussion section of this chapter.

The empirical findings reveal several significant patterns worthy of attention. The analysis demonstrates substantial projected growth in bilateral trade values among China, Japan, and Korea, with these results being carefully analysed through four distinct but complementary metrics to provide a comprehensive assessment. These include examining absolute trade value increases, trade growth relative to world GDP, trade growth as a percentage of exporter GDP, and trade growth as a percentage of importer GDP. The variations observed in metric-specific rankings reveal particularly nuanced economic impacts that might otherwise be overlooked in a more simplistic analysis. Furthermore, the study identifies significant spillover effects extending to 57 states, with Southeast Asian states—particularly ASEAN members—emerging as the primary beneficiaries of these secondary effects. The agreement is projected to enhance both intra-ASEAN trade dynamics and extra-regional trade flows operating within the broader RCEP framework. At the sectoral level, the analysis reveals differential impacts across 32 carefully selected industrial categories, comprising 16 key export sectors and 16 sensitive items, with detailed examination focusing on top-traded commodities that dominate regional exchange. Comparative visualisations effectively highlight divergent outcomes for China-Japan-Korea and selected ASEAN states, providing policymakers with clear reference points for decision-making.

This comprehensive analysis provides what should properly be understood as a

functional projection rather than definitive assessment of the CJK FTA's potential to enhance economic cooperation within the existing RCEP framework. By systematically quantifying anticipated trade modifications and sectoral adjustments through rigorous methodology, the analysis makes an important contribution by illuminating the agreement's potential capacity to reshape regional trade dynamics while simultaneously accounting for the complex realities of protective industrial policies maintained by various participants. The following sections build upon these findings to analyse the implications and evaluate the broader transformations in trade patterns that may result from such an agreement.

5.2 Overview of gravity model

This section is divided into three parts. First, it introduces the rationale for employing counterfactual analysis based on the aggregate gravity model in these estimations. Second, it outlines the methodology underlying traditional applications of the gravity model. Finally, it discusses the use of counterfactual analysis through the structural gravity model in the context of bilateral trade, the foundations of regional trade agreements (RTAs), and global trade patterns.

5.2.1 Introduction to general gravity and counterfactual analysis

The gravity model has emerged as a fundamental analytical framework in international trade research, providing robust empirical insights into the determinants of bilateral trade flows. Drawing theoretical inspiration from Newton's Law of Universal Gravitation, this econometric approach conceptualises trade interactions as being positively correlated with the economic mass (typically measured by GDP) of trading partners while inversely related to the economic distance between them—a composite measure encompassing both geographical separation and various trade cost components. Over the past decade, the application of counterfactual analysis techniques within gravity model frameworks has gained significant traction in trade policy research. These advanced methodologies enable researchers to simulate the potential effects of various trade policy interventions, including tariff liberalisation, preferential trade agreement formation, and the implementation of trade restrictions.

By systematically comparing trade volumes under baseline and policy-altered scenarios, such analyses provide rigorous, quantitative assessments of how specific policy changes might reshape trade patterns, thereby offering valuable empirical foundations for evidence-based policymaking.

In the specific context of Northeast Asian economic integration, the proposed CJK FTA represents a particularly compelling case study. Despite 16 rounds of negotiations since the initiative's launch in 2012, substantive progress toward finalisation and implementation has remained elusive. This analysis employs an innovative adaptation of the structural gravity model framework to examine the potential trade effects of the CJK FTA, with particular attention to both intra-regional trade among the three participating economies and their external trade relationships. The analytical approach addresses a critical methodological challenge: unlike conventional gravity model applications that evaluate existing trade agreements, this analysis must account for the CJK FTA's hypothetical status as a not-yet-implemented policy instrument.

The research methodology follows a two-stage estimation process. First, I establish baseline trade flows (denoted as trade_hat) under current conditions using standard gravity model specifications. Subsequently, I construct a carefully designed counterfactual scenario that simulates the CJK FTA's full implementation, incorporating comprehensive tariff elimination, reduction of non-tariff barriers, and relaxation of trade restrictions between the three nations. This enables the estimation of potential trade flows (new_trade_hat) under the hypothetical agreement scenario. The systematic comparison between these two sets of estimates yields quantitative projections of the CJK FTA's potential trade creation and diversion effects, both within the Northeast Asian region and across global trade networks.

Notably, this analytical framework extends beyond conventional trade agreement assessment by incorporating dynamic considerations of how the CJK FTA might interact with evolving global economic conditions. The model accounts for potential secondary effects on trade patterns resulting from changes in relative competitiveness, supply chain reconfiguration, and adjustments in third-state trade policies that might emerge in response to the agreement's implementation. This comprehensive approach provides policymakers with nuanced insights into both the direct and indirect economic consequences of the proposed trade liberalisation measures.

5.2.2 Methodology

This section is divided into two detailed components: the first outlines the development of the gravity model, and the second presents the counterfactual analysis based on the structural gravity model.

5.2.2.1 The development of the gravity model in bilateral trade flows

Beginning with the fundamental factors of economic size and geographic distance as core determinants, the model's explanatory framework was significantly expanded by Linnemann (1966) through the systematic incorporation of additional variables, including population demographics and trade policy measures. Subsequent scholarly work progressively enriched the model's specifications by integrating more sophisticated economic factors such as relative income levels, comprehensive transportation cost metrics, non-tariff barrier coverage indices, bilateral exchange rate fluctuations, and various cultural-linguistic proximity measures (Linnemann 1996; Leamer 1974; Bergstrand 1985; Wei 1996). However, these important empirical extensions initially operated without rigorous theoretical underpinnings until Anderson's (1979) seminal contribution provided the crucial microeconomic foundations.

Anderson's theoretical breakthrough fundamentally transformed the gravity model by successfully integrating it with constant elasticity of substitution (CES) utility functions derived from consumer theory. This innovative formulation conclusively demonstrated that observed international trade patterns consistently conform to gravitational principles, with bilateral flows exhibiting positive correlation with the economic mass of trading partners and negative correlation with various measures of trade distance. The CES framework specifically assumes constant elasticity of substitution between domestically produced and imported goods due to inherent product differentiation across national markets, which implies that consumers' propensity to substitute between foreign and domestic alternatives remains relatively stable across different market conditions and policy environments.

Bergstrand (1985) advanced the theoretical framework substantially further by incorporating explicit price variables and developing a Comprehensive General Equilibrium (CGE) approach to trade analysis. This important methodological innovation enabled the simultaneous consideration of both supply-side and demand-side factors in international trade relationships, replacing the somewhat restrictive CES elasticity parameter with a more flexible constant term that better captures the complex dynamics of relative prices and trade costs. Bergstrand's

rigorous analysis revealed that actual import substitution elasticities in real-world trade relationships were substantially higher than previous theoretical estimates had suggested. The model's capabilities were subsequently enhanced through thoughtful extensions incorporating factor endowment considerations, which allowed for more precise accounting of supply conditions through exporter income levels and capital-labour ratios, while simultaneously capturing demand factors through importer income measurements and consumption capacity indicators (Bergstrand 1989). Of particular theoretical importance, Deardorff (1998) conclusively demonstrated the model's remarkable robustness across diverse market structures, proving its analytical validity in contexts ranging from perfectly competitive markets to those characterised by increasing returns to scale and various forms of imperfect competition.

The most significant theoretical advancement in recent decades emerged from Anderson and van Wincoop's (2003) groundbreaking work on multilateral resistance terms, which built conceptually upon McCallum's (1995) influential findings regarding border effects in international trade. Their sophisticated framework fundamentally recognised that bilateral trade flows necessarily depend not only on direct trade barriers between partner states but also, crucially, on the relative costs of trading with all other potential partners in the global trading system. This conceptual breakthrough provided a comprehensive theoretical structure for properly analysing third-state effects and more accurately accounting for the complex dynamics of comparative advantage as mediated through various trade cost channels (Milner and McGowan 2013). The analytical power of the gravity model was further enhanced through the important contributions of Melitz (2003) and Chaney (2008), who successfully incorporated firm-level heterogeneity and fixed export costs into the theoretical framework. Their innovative work demonstrated how only the most productive firms in an economy can overcome the substantial fixed costs of entering export markets, leading to significant reallocations within domestic markets where less competitive firms are compelled to exit or to refocus exclusively on domestic sales.

In contemporary empirical applications, the gravity model has demonstrated remarkable adaptability by successfully incorporating modern complexities of international trade, including global value chains and intermediate goods production networks (Baier and Bergstrand 2000; Yi 2003), the growing importance of services trade integration (Bergstrand and Egger 2007; Wang 2007), and sophisticated analysis of policy-induced welfare effects (Amiti and Weinstein 2014; Baldwin 2016). Recent theoretical developments have also fruitfully incorporated the concept of heterogeneous trade costs operating within cooperative institutional frameworks

(Egger and Larch 2011), providing new insights into the varying effects of different types of trade agreements.

The past two decades have witnessed particularly intensive focus on analysing the diverse impacts of free trade agreements through the evolving gravity model framework, with numerous studies carefully examining differential effects across agreement types, geographic regions, and industrial sectors (Chen and Tsai 2005; Gilbert et al. 2004; Endoh 2005). The model's continued relevance has been demonstrated through ongoing extensions for the study of emerging trade dimensions, including digital commerce platforms, sophisticated services trade relationships, environmental regulation impacts, climate change considerations, and innovative industry dynamics. This sustained theoretical and empirical evolution powerfully demonstrates the gravity model's remarkable adaptability in addressing increasingly complex phenomena in international trade while maintaining its core analytical rigour and explanatory power across diverse economic contexts and policy environments.

5.2.2.2 Counterfactual analysis through the application of the structural gravity model

The structural gravity model operates within a framework of N states, each supplying a differentiated product to the world market, as conceptualised in the Armington assumption (Armington 1969). Building on a general equilibrium setting with constant elasticity of substitution, the model was significantly advanced by Anderson and van Wincoop (2003) through their introduction of multilateral resistance terms. Unlike the traditional gravity model, which focuses primarily on economic size and geographical distance, the structural gravity model incorporates both inward trade resistance (trade costs with partners) and outward resistance (influences from non-partner states), thereby offering a more comprehensive explanation of bilateral trade flows.

By broadening the scope of variables, the structural gravity model provides a more robust analytical framework for understanding trade interactions within the global network. It can also account for higher trade barriers between partners when those partners have weak or limited trade relationships with the rest of the world, and conversely, explain lower trade barriers when such external relationships are strong.

The formal structure of the model is given by:

$$X_{ij} = \frac{Y_i E_j}{Y} \left(\frac{t_{ij}}{\Pi_i P_j} \right)^{1-\sigma} \quad (5-1)$$

The gravity model formula demonstrates that bilateral trade flows (X_{ij}) between

exporting state i and importing state j are determined by: (1) the economic size of both states, represented by their GDPs (Y_i and Y_j) relative to world GDP (Y); (2) the bilateral trade costs (t_{ij}) between them; and (3) their respective multilateral trade resistance terms—the outward multilateral resistance for exporter i and inward multilateral resistance (P_j) for importer j . These multilateral resistance terms capture each state’s overall trade accessibility in the global market, reflecting how trade barriers with all other trading partners influence the bilateral trade relationship between i and j .

Beyond the analysis of preferential trade agreements, the structural gravity model has been widely applied to the study of tariffs, non-tariff barriers, firm heterogeneity, and trade-related welfare effects. It allows researchers to infer the scope and magnitude of trade impacts stemming from these factors (Baier and Bergstrand 2007; Head and Mayer 2014; Rodríguez-Clare 2012). A crucial component of such research is the use of counterfactual analysis, which plays a key role in evaluating the effects of hypothetical changes in trade policies and trade costs. As illustrated in the equation (5-2), the model enables simulations that quantify how trade flows would respond under alternative policy scenarios.

$$[t_{ij,t}^{1-\sigma}]^{\text{CFL}} = \exp \left[\hat{\mu}_{ij} + T_{ij,t}^{\text{CFL}} \hat{\beta} \right] \quad (5-2)$$

The left-hand side of equation (5-2) represents the trade costs between states i and j under the counterfactual scenario. These counterfactual trade costs are derived from the pair fixed effects ($\hat{\mu}$) adjusted by the simulated trade policy shock (T_{ij}), scaled by the estimated coefficient ($\hat{\beta}$) associated with the policy change. By incorporating these adjusted trade costs, the model enables a more precise comparison of bilateral trade flows before and after the implementation of the trade policy, as illustrated in equation (5-2).

This model has been widely applied. Head and Mayer (2014) examined the role of counterfactual scenarios—such as tariff reductions or trade agreements—in gravity model analysis, while Caliendo and Parro (2015) quantified the effects of NAFTA on trade flows and welfare by simulating its absence, thereby isolating the impact of trade liberalisation. Similar methods have been employed to evaluate other cooperative frameworks, including the EU, ASEAN Free Trade Area (AFTA), Southern Common Market (hereafter MERCOSUR), Comprehensive Economic and

Trade Agreement (hereafter CETA), TPP, and bilateral FTAs (Baier and Bergstrand and Vidal 2007; Breinlich and Dhingra and Ottaviano 2016; Ceglowski 2006; Kang and Kim 2018; Petri and Plummer and Zhai 2012). Beyond trade agreements, counterfactual analysis has also been extended to assess trade cost reductions, non-tariff barriers, supply chains, global value chains, and complex trade networks (Antràs and Chor 2013; Egger et al. 2011; Miroudot 2020; Waugh 2010).

In studying trade policy through general equilibrium counterfactuals, scholars have explored not only bilateral trade flows within limited timeframes but also global equilibrium effects over extended periods (Arkolakis and Costinot and Rodríguez-Clare 2012; Baldwin and Venables 2013; Caliendo and Parro 2015; Dekle and Eaton and Kortum 2008). These studies decompose trade policy impacts into three distinct channels: partial equilibrium, conditional general equilibrium, and full-endowment general equilibrium. The first two focus on bilateral trade flow adjustments—either restricted to policy members or extended to non-member economies—while the full-endowment approach distils the economy into factory-gate prices, production quantities, and welfare. Additionally, it evaluates how shifts in resource endowments reshape the broader economy.

5.3 The estimated results of aggregate trade flows

Before presenting the final estimation of the CJK FTA, this section first outlines the economic approach and data sources employed to ensure the objectivity and credibility of the findings. It then presents the estimated impact on aggregate trade flows resulting from the establishment of the CJK FTA.

5.3.1 The approach and economic issues

5.3.1.1 The model

Given the use of the ordinary least squares (OLS) approach to estimate a partial equilibrium model, and the inclusion of a time variable that helps reduce heteroscedasticity, it is methodologically preferable to log-linearise the formula. The non-linear form of the equation is as follows:

$$X_{ij,t} = \exp(\pi_{i,t} + \chi_{j,t} + \mu_{ij} + \beta_1 RTA_{ij,t}) \times \epsilon_{ij,t} \quad (5-3)$$

Trade flows between state *i* and state *j*, over time, are influenced by several fixed effects. Exporter-time fixed effects ($\pi_{i,t}$) control for characteristics specific to each exporting state and time period. Importer time fixed effects ($\chi_{j,t}$) account for the corresponding characteristics of each importing state over time. Exporter-importer fixed effects (μ_{ij}) help address potential endogeneity related to regional trade agreements (RTAs) by controlling for both observable and unobservable bilateral characteristics. The RTA variable is a binary indicator equal to 1 if both states are members of the same RTA, and 0 otherwise. β represents the average effect of RTAs on trade, capturing the growth rate of trade flows between member states relative to the global average.

According to the first formula, bilateral trade costs between most state pairs can be estimated using the specified dummy variables and RTA policy indicators, which capture their influence on trade flows. However, for certain state pairs, trade costs are also shaped by time-invariant factors such as geographical distance and shared official language, which enter the equation linearly. To address these cases and account for missing values, the second formula must be employed. The non-linear version of this relationship can be expressed as follows:

$$t_{ij}^{1-\sigma} = \exp(\mu_{ij}) = \exp[\pi_i + \chi_j + \beta_1 \ln(DIST_{ij}) + \beta_2 LANG_{ij}] \times \epsilon_{ij} \quad (5-4)$$

For each pair of states, their trade costs—captured by the estimated pair fixed effects (μ_{ij}) from the initial equation—can be decomposed into importer fixed effects (π_i), exporter fixed effects (χ_j), and additional bilateral factors such as geographical distance and shared language. The language variable is a binary indicator equal to 1 if the exporter and importer share an official language, and 0 otherwise.

After imputing missing values but prior to conducting counterfactual analysis, a constrained baseline gravity estimation must first be implemented. This preliminary estimation serves as a reference point for subsequent comparison with the final counterfactual scenario outcomes. The baseline specification can be formally expressed as:

$$X_{ij} = \exp(\pi_i + \chi_j + RTA_{ij}) \times \epsilon_{ij} \quad (5-5)$$

Through this computation, we can straightforwardly establish a baseline scenario without counterfactual adjustments. The final outcome is then derived from the difference between this baseline and the results generated by the proposed formula.

$$X_{ij} = \exp(\pi_i^{CFL} + \chi_j^{CFL} + t_{ij}^{1-\sigma} + \beta_1 RTA_{ij}^{CFL}) \times \epsilon_{ij}^{CFL} \quad (5-6)$$

5.3.1.2 Potential economic issues and solutions

Several economic challenges emerged during this analysis, the first of which is Multilateral Resistance. As shown in formula (5-1), outward resistance (Γ_i) and inward resistance (P_j) represent components of multilateral resistance. In our context, this includes elements that are not directly observable, such as fluctuations in supply and demand or varying degrees of trade liberalisation across different state pairs—not only among China, Japan, and Korea, but also involving other existing RTAs. These factors influence bilateral trade flows within the broader $N \times N$ system, rather than a simplified $2 \times N$ framework. Formulas (5-3) and (5-4) incorporate distance, FTAs, and shared official language as quantifiable variables. For all other influences, we introduce dummy variables—specifically time fixed effects and pair fixed effects—to capture the unobservable dimensions of multilateral resistance.

Secondly, the issue of Zero Trade Flows between certain state pairs—which can cause problems in log-linearised models—is addressed following the approach of Head and Mayer (2004). Specifically, observations with more than four missing years within the 11-year panel are dropped (about 11-year panel see section 5.3.2). For those with four or fewer missing years, a very small positive value is added to the missing entries to retain them in the estimation.

Thirdly, there is the issue of Trade Policy Adjustment. In reality, bilateral trade flows do not adjust instantaneously following the implementation of a new trade policy. Thus, using annual data in the estimation may introduce deviations, especially when modelling a hypothetical shift from 0 to 1 in the year of policy implementation. However, since the key explanatory variable in this chapter is the RTA dummy, it is important to consider that, in practice, numerous rounds of negotiations typically precede the formal signing of an RTA. During these years, trade patterns often evolve gradually. Therefore, assigning a value of 1—or close to 1—to the RTA dummy in the hypothetical year is justified. Moreover, since our estimation is based on the central 7 years within an 11-year period, the resulting conclusions are expected to

minimise potential error.

The next concern relates to the application of the gravity model to Disaggregated Data. In practice, trade policies such as RTAs are often implemented unevenly across sectors due to the protection of sensitive industries—particularly in the context of China, Japan, and Korea. As a result, the estimation of overall trade values under a hypothetical CJK FTA may present a more optimistic outcome than what would occur in reality. Even though approximately two-thirds of products under the RCEP agreement among these states have already experienced either immediate or gradual tariff elimination, sector-specific protection remains. To mitigate this discrepancy and reach a more objective conclusion, the aggregate-level estimates should be supplemented by disaggregated analysis of sectoral trade impacts under the CJK FTA.

Lastly, the most notable issue present in this estimation is the Dummy Variable Trap, which refers to multicollinearity among predictors hampering the clear interpretation of individual coefficient estimates in regression analysis. To explain more clearly, if I use ‘1’ and ‘0’ to indicate the presence and absence of categorical variables. And then I estimate the ‘colour species’ this is a categorical variable in our case and the values are ‘Blue’, ‘Red’, and ‘Green’, the results for variables A, B, and C are shown in Table 15 below.

Table 15 Simple 0-1 encoding for categories A, B, and C

	Blue	Red	Green
A	1	0	0
B	0	1	0
C	0	0	1

Created by the author.

When putting the A, B, and C variables in each colour species into the regression model, the sum of the three variables is always equal to 1: $A+B+C=1$. This indicates that they are linearly dependent, resulting in perfect multicollinearity.

The most common approach to addressing this problem is to use baseline coding, which means omitting one of the dummy variables—such as keeping only A and B, and letting C serve as the reference group, with the effect of C implicitly captured by the model’s intercept. Therefore, when selecting the reference group, it is important to ensure that the chosen group is relatively small and well-defined, with limited

influence on the final estimation results, so that the coefficients of the included dummy variables can be interpreted more clearly relative to this baseline.

Coming back to the data being used in our model, in the estimation of ‘trade values’ (Section 5.3.3), the dropped pair for fixed effects occurs in the ‘EXPORTER_IMPORTER_FE’ and ‘IMPORTER_TIME_FE’ dimensions. We selected ‘Denmark-Poland’ and ‘Denmark’ as the reference groups for these two categorical variables, as their trade data is both complete and relatively limited in volume. We also tested alternative reference groups, and the results remained highly consistent, supporting the validity of our initial choices.

5.3.2 Data sources and sample

The database used for this analysis adopts the exporter-as-reporter and importer-as-partner framework, with estimations based on 57 major economies worldwide. The sample includes members of key regional trade blocs (EU, MERCOSUR, ASEAN, NAFTA, RCEP) along with significant individual economies such as India, Russia, and South Africa, ensuring comprehensive geographic coverage and representation of global trade flows.

The primary data source is the UN Comtrade database, the most widely used repository for both aggregated and disaggregated merchandise trade statistics. Over 160 states report their annual and monthly trade data dating back to 1962, yielding an initial sample of 34,794 observations (see Appendix Figure 1). The study period spans 2009 to 2019, encompassing the CJK FTA negotiations while excluding the pandemic period, which represents abnormal economic conditions unsuitable for estimation purposes.

Additional control variables include bilateral distance and official language data sourced from CEPII’s GeoDist database, along with regional trade agreement indicators from the WTO Regional Trade Agreements Information System. The sample exclusively covers international trade flows, excluding intra-national trade. All trade values are denominated in US dollars, with bilateral distances calculated using great-circle distances between national capitals in kilometres. The analysis is strictly limited to goods trade, excluding services trade from the estimation.

5.3.3 Partial equilibrium effects of general trade flows

This section presents the estimation results of the OLS method, with all results displayed in the form of histograms.

First, RTAs serve as a crucial indicator for assessing the degree to which bilateral or multilateral trade remains unaffected by tariffs or other trade barriers. Our estimation incorporates major multilateral and bilateral FTAs among the 57 studied economies—including NAFTA, CPTPP, EU, the European FTA (EFTA), and MERCOSUR—into equation (5-2). The results show an intra-regional free trade coefficient of 0.14, indicating that existing FTAs can boost trade between member states by approximately 50%. The t-statistic of 3.81 (exceeding the critical value of 2) confirms this result's statistical significance.

The model demonstrates strong explanatory power with an R-squared value of 0.98, reflecting a robust relationship between the dependent variable (trade values) and independent variables (pair fixed effects, time fixed effects, and FTA indicators). However, the estimation excluded 113 pair fixed effects and 13 time fixed effects due to linearity constraints. This limitation arises because bilateral trade between certain state pairs may be significantly influenced by other factors such as distance and common language—relationships that will be explicitly captured in our alternative specification (5-4).

The distance dummy variable in the second estimation demonstrates its significant role as a trade impediment, with a coefficient of -1.26 that closely aligns with benchmark estimates from Disdier and Head (2008) and Head and Mayer (2014). This indicates bilateral trade volume decreases by approximately 1.26 units for each unit increase in distance between trading partners. Meanwhile, the common official language variable shows a positive coefficient of 0.25, suggesting shared language between trading partners increases bilateral trade by about 0.25 units. These results confirm the expected directional effects of both geographical distance and cultural proximity on trade flows, where greater distance suppresses trade while common language facilitates it. The magnitude of these effects is consistent with established findings in the trade literature.

The constrained baseline in equation (5-5) represents the estimated trade values between the exporter and importer under existing multilateral resistances, such as FTAs, excluding the CJK FTA as a counterfactual scenario. It serves as the reference

point for measuring the degree of change. The corresponding estimates are presented in Appendix Figure 2.

In the counterfactual scenario, the period from 2011 to 2017 is selected to enhance the credibility of the analysis and to avoid distortions caused by special events or major policy changes, thereby ensuring the robustness of the model estimation. Through repeated simulations, the outcomes across different years remain stable in terms of the sequence of potentially increasing state pairs, with only minor variations in specific figures. Based on this consistency, the estimates from 2011 are chosen as the representative results.

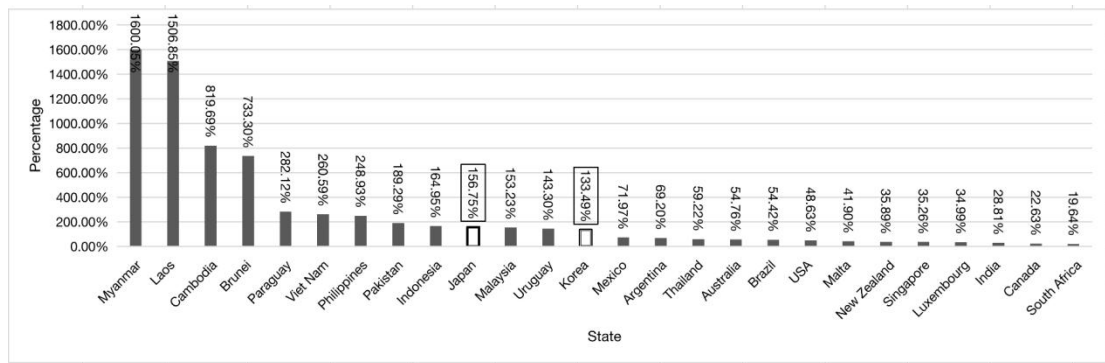
The estimated outcomes are then categorised into four dimensions: (1) the pure estimated trade growth rate; (2) the increase relative to world GDP; (3) the increase relative to the exporter's GDP (specifically for China, Japan, and Korea); and (4) the growth rate relative to the importer's GDP.

5.3.3.1 Estimated trade growth rate

This section presents a partial equilibrium analysis, which captures only the short-term effects following the implementation of the trade policy. In other words, the counterfactual scenario is limited to reflecting the impact of the CJK FTA on trade flows between China, Japan, and Korea and their external trade partners within a few years after the agreement's establishment. The reported trade growth rate is derived from the ratio of the \hat{trade} variable under the counterfactual scenario to that under the constrained baseline. This formulation isolates the pure estimated increase in trade, enabling a clearer assessment of the policy's immediate impact.

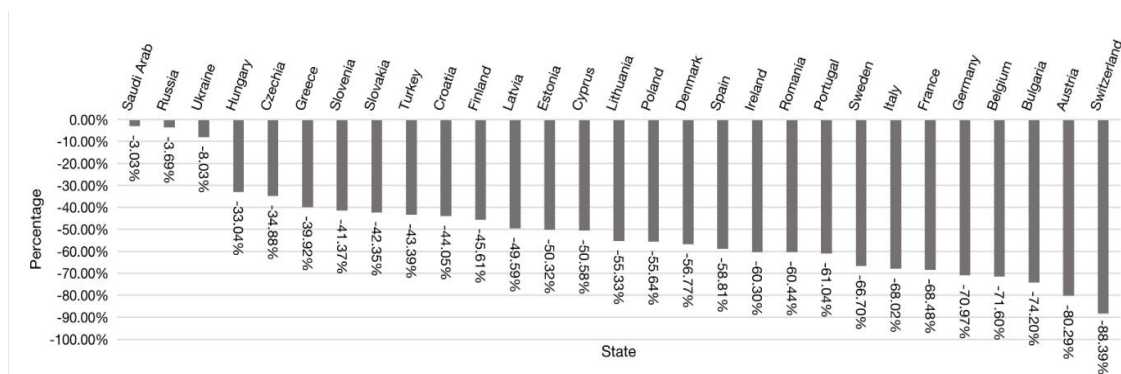
The analysis displayed in Figures 5 and 6 reveals significant changes in trade patterns between China as exporter and its trading partners (with the Netherlands excluded from Figure 6 due to a -100% estimation result caused by linearity issues). Compared to the constrained baseline, both charts demonstrate notable potential trade growth between China and East Asian economies, particularly ASEAN members. Among the top trading partners, Japan and Korea stand out as the only developed economies in the rankings, occupying the 10th and 12th positions, with growth rates of 156.75% and 133.49% respectively.

Figure 5 Estimated partners with positive trade growth with China



Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 6 Estimated partners with negative trade growth with China



Data source: UN Comtrade database, the estimated results are calculated by the author.

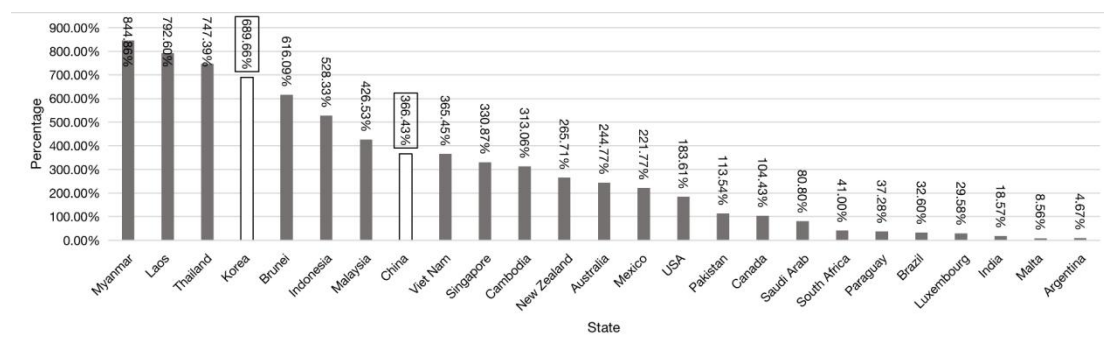
However, it is important to note that these growth rates must be interpreted in context. The top three partners—Myanmar, Laos, and Cambodia—show exceptionally high growth rates of around 1,600%, 1,500%, and 800%, but their absolute trade volumes post-counterfactual may not match these percentages due to their relatively smaller economic sizes and historically limited trade volumes with China. The analysis suggests China’s export growth would concentrate significantly within RCEP members, indicating strengthened regional cooperation. In contrast, EU members appear to face substantial trade diversion effects from this policy shift, likely attributable to the constraining effect of geographical distance on China-EU trade and China’s increasing trade reorientation toward Asian partners.

Figures 7 and 8 present estimates of Japan’s exports to its trading partners, revealing patterns similar to China’s case¹⁶. The results show RCEP members and the United States as primary beneficiaries of positive trade growth, with Korea (4th position, 690% growth) and China (8th position, 366% growth) leading among Asian

¹⁶ The states in the negative growth list included the Philippines and Belgium, but these were deleted from Chart 5.4, due to the effect of linearity on the estimation results for these states.

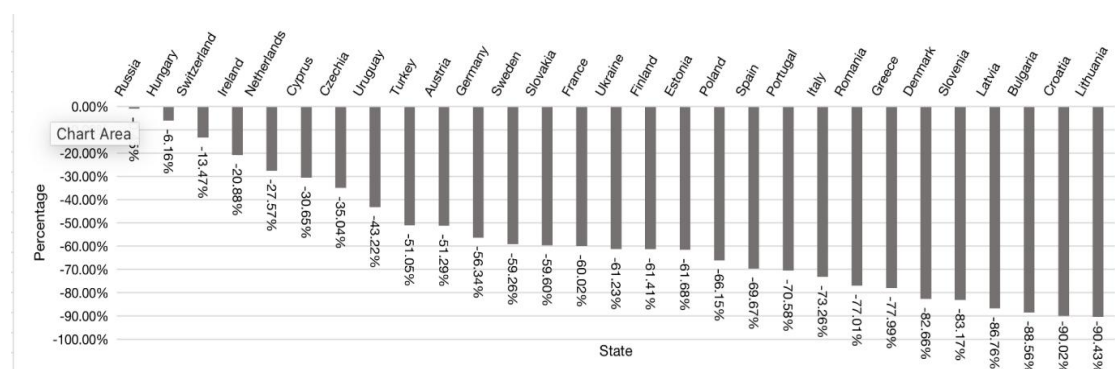
partners. Other developed economies, including Singapore, New Zealand, Australia, and the United States follow with significant but relatively moderate gains.

Figure 7 Estimated partners with positive trade growth with Japan



Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 8 Estimated partners with negative trade growth with Japan



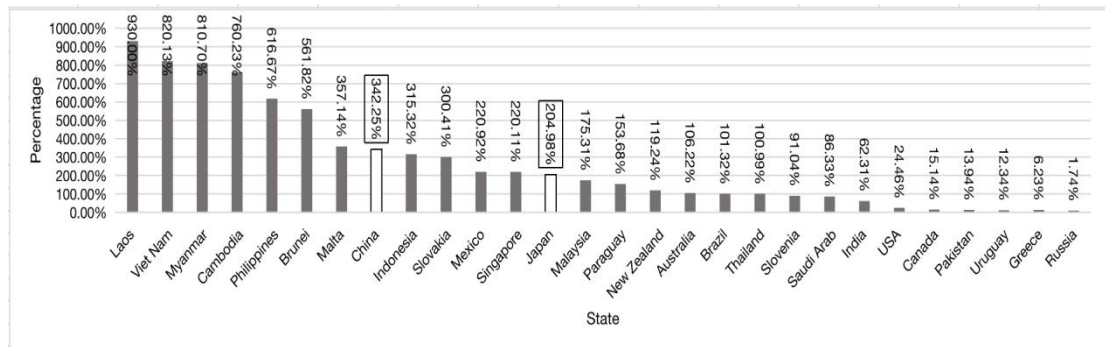
Data source: UN Comtrade database, the estimated results are calculated by the author.

The analysis highlights distinct patterns between developed and developing RCEP members. While developing RCEP economies show substantial percentage growth rates comparable to China’s case, their absolute trade gains remain constrained by smaller economic scales and less developed industrial chains. Conversely, the estimates indicate negative trade effects for nearly all EU members, along with geographically distant economies like Russia and Turkey. These results demonstrate the strong regional orientation of the trilateral trade framework, with Northeast Asian partners showing the most pronounced benefits while more distant economies face trade diversion effects.

Figures 9 and 10 present Korea’s potential trade growth rates with its partners under the scenario, revealing patterns consistent with those observed for China and Japan. The results show ASEAN developing economies occupying top positions due

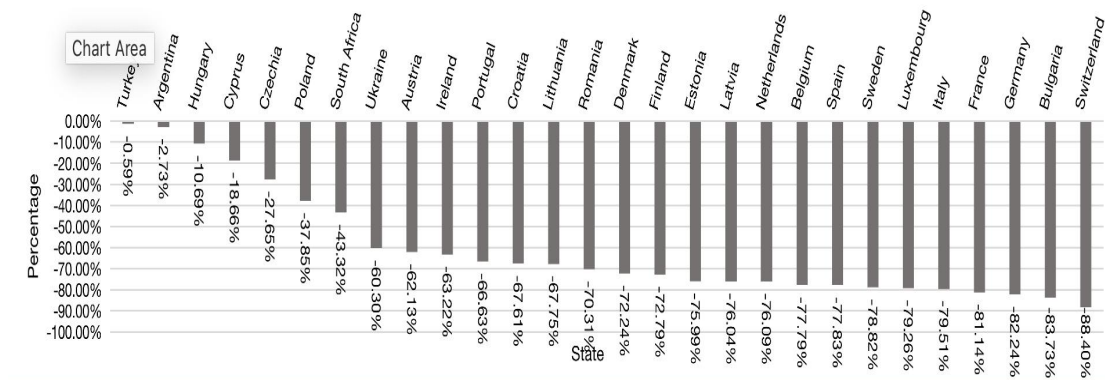
to their smaller economic size and established trade and investment ties with Korea. Among major developed partners, China (8th, 342%), Singapore (12th, 220%) and Japan (13th, 205%) demonstrate substantial growth potential, followed by New Zealand, Australia, the United States, and Canada, with growth rates ranging from 15% to 119%. These percentages reflect the untapped potential for trade expansion between Korea and its partners under the CJK FTA framework.

Figure 9 Estimated partners with positive trade growth with Korea



Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 10 Estimated partners with negative trade growth with Korea

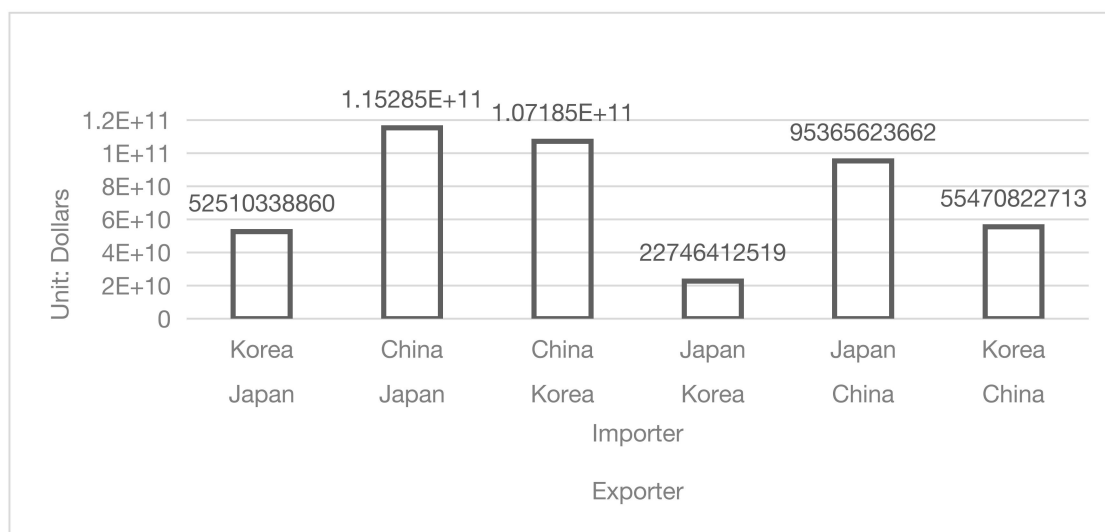


Data source: UN Comtrade database, the estimated results are calculated by the author.

The comparative analysis reveals a contrasting pattern for EU members, which show negative trade growth with Korea in Figure 10. Notably, this occurs despite the Korea-EU FTA implemented since 2015, though the negative growth rates appear slightly moderated compared to other cases. This suggests the existing FTA has provided some, albeit limited, mitigation against trade diversion effects. The complete data for EU members is presented in Appendix Figure 4 to maintain focus on primary RCEP relationships in the main analysis.

However, as mentioned above, the growth rate of trade flows does not clearly reflect the extent to which trade volume has increased, since these rates are significantly influenced by the initial trade values between each pair of states. In other words, for example, the estimated 1,600% trade growth rate between China and Myanmar only accounts for one-third of the actual trade value when compared to the 48.63% increase between China and the United States, as shown in Figure 5. Therefore, to better capture the changes in actual trade values among China, Japan, and Korea within the CJK FTA framework, Figure 11 addresses this issue.

Figure 11 Estimates of increased trade values for China, Japan, and Korea



Created by the author.

Figure 11 presents the estimated trade growth effects under the CJK FTA framework, revealing a substantial doubling of trade values compared to pre-counterfactual levels. This demonstrates the significant untapped trade potential among China, Japan, and Korea within the trilateral agreement. The results highlight complementary benefits: Japan and Korea, as export-oriented economies, stand to gain particularly from expanded access to China's large domestic market, while China simultaneously increases its export penetration in Japanese and Korean markets.

The counterfactual analysis uses 2011 as its baseline year. To validate the robustness of these findings, we include supplementary 2016 estimates in Appendix Figure 3, accounting for the implementation of the China-Korea FTA (CK FTA) in 2015. This supplemental analysis confirms the stability of our main results, showing only marginal numerical differences despite the intervening policy change. The consistency across both time periods strengthens confidence in the estimated trade potential captured in our primary analysis.

However, as mentioned in Section 5.3.1, the gravity model has a key limitation: it assumes a ‘perfect’ RTA, meaning it treats the agreement as fully comprehensive, without accounting for cases where certain products are not exempt from tariffs—an assumption that diverges from reality. As a result, the estimated increase in trade values tends to be higher than the actual level. To address this discrepancy, a correction has been applied, and the results indicate that the deviation is not significant, meaning the margin of error remains within an acceptable range.

A comparative analysis of Figures 5 to 10 reveals distinct trade patterns among China, Japan, and Korea. Japan demonstrates particularly strong export potential toward both China and Korea, with growth rates of 366% and 690% respectively—consistent with their positions as Japan’s first and third largest export markets. As Figure 11 illustrates, these percentages translate to a near doubling of trade volumes compared to pre-FTA levels¹⁷. The Japan-China trade flows exceed Japan-Korea volumes due to greater industrial complementarity and China’s larger market size.

Korea’s trade growth rates, while still positive, appear more modest than Japan’s, reflecting Korea’s already high baseline trade integration as an export-oriented economy. Notably, the 350% growth rate for Korea-China trade persists despite the 2015 CK FTA, suggesting residual trade barriers in China’s market. Supplementary analysis in Appendix Figure 4 uses 2016 data and presents the results for 2017 confirms that these patterns remain stable post-CK FTA implementation, showing only marginal numerical variations.

The Japan-Korea trade relationship shows the most constrained growth potential, with no existing bilateral FTA and limited by both industrial structure differences and Japan’s relatively smaller import market. This tripartite analysis underscores how initial trade conditions, market structures, and existing agreements differentially shape the CJK FTA’s potential benefits across each bilateral relationship.

5.3.3.2 Estimated results based on world GDP

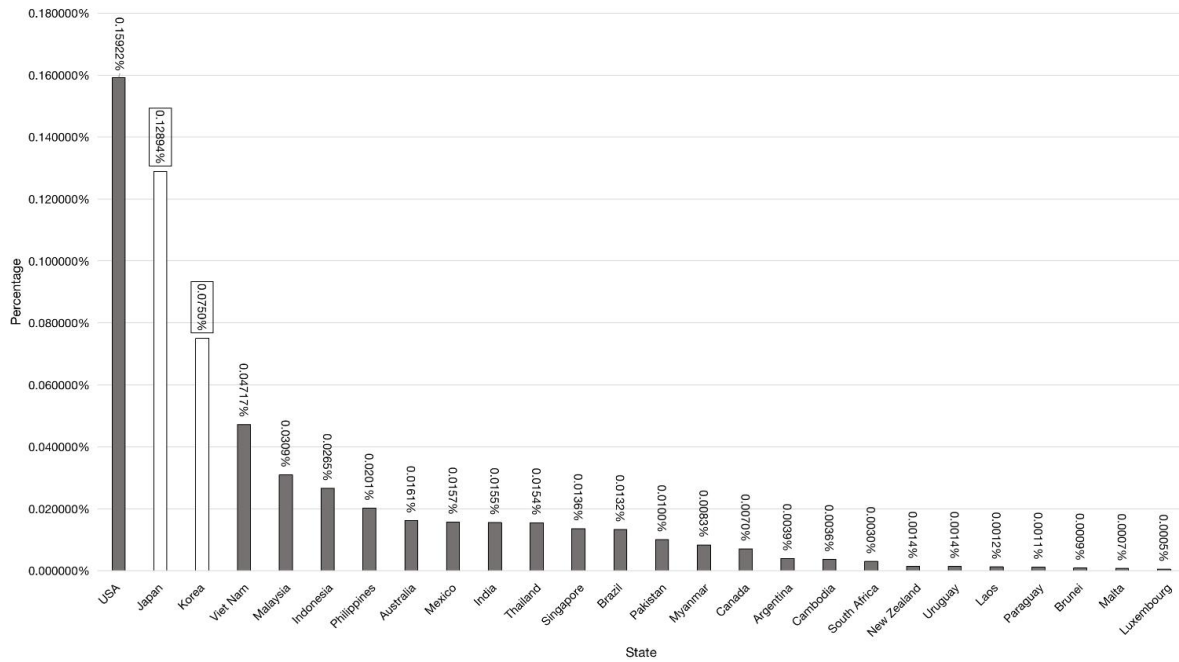
This section describes the estimated impact of the establishment of the CJK FTA on the global economy, providing a more comprehensive representation of trade effects by incorporating both economic scale and actual trade flows.

Figures 12 and 13 show the estimated potential trade growth based on world GDP

¹⁷ This value is still higher than would be the case in reality because of model’s weakness in assuming that tariffs are totally exempted.

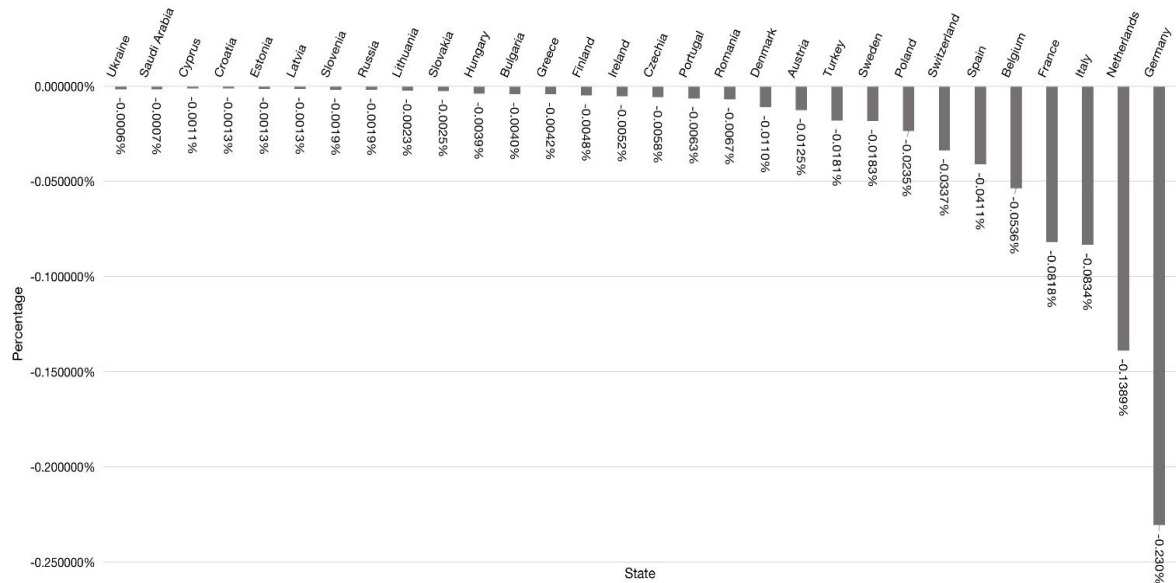
in 2011, which helps avoid the problem of extremely high or low growth rates caused by small economic size and trade volume seen in Figures 5 and 6. These charts clearly show how the CJK FTA affects China's trade relationships worldwide, including both trade flows between China and its partners and the overall impact on global GDP.

Figure 12 Estimated partners with positive trade growth with China based on world GDP



Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 13 Estimated partners with negative trade growth with China based on world GDP



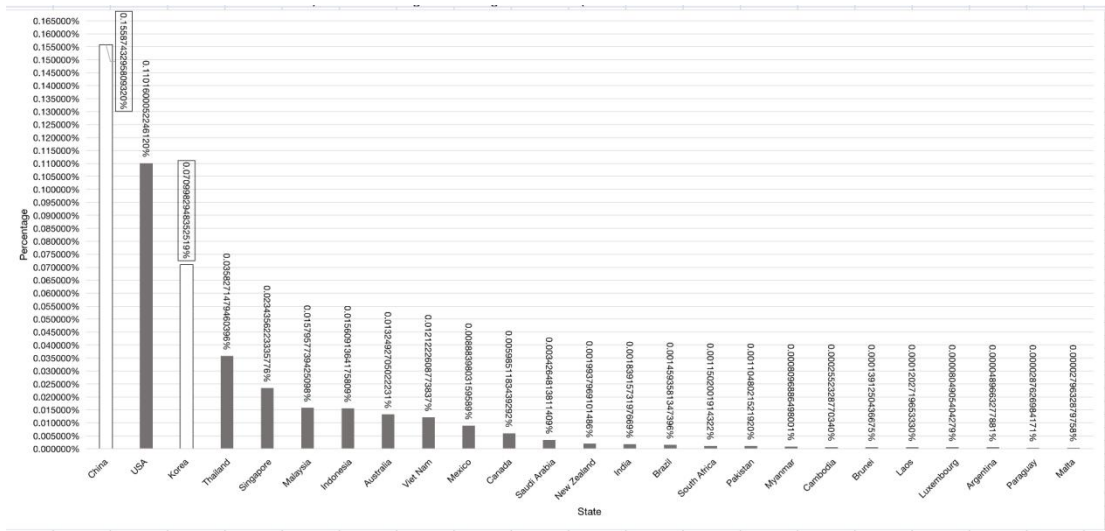
Data source: UN Comtrade database, the estimated results are calculated by the author.

The results indicate that the United States, Japan, and Korea are China’s top three export partners with positive trade growth, showing actual trade value increases ranging from 0.07% to 0.15%. Other RCEP members follow, with growth between 0.0009% to 0.047%, while EU states remain in negative growth territory. The leading position of the US, Japan, and Korea reflects their current status as China’s first, third, and fourth largest trading partners. Additionally, ASEAN’s cooperation with China through combining the ‘ASEAN Connectivity 2025’ plan with China’s BRI project contributes to these positive results.

However, comparing Figures 12 and 13 reveals that China’s participation in the CJK FTA may not benefit global economic development overall, as the negative impacts outweigh the positive ones in our estimates. The analysis shows more trade diversion effects than creation effects at the global level.

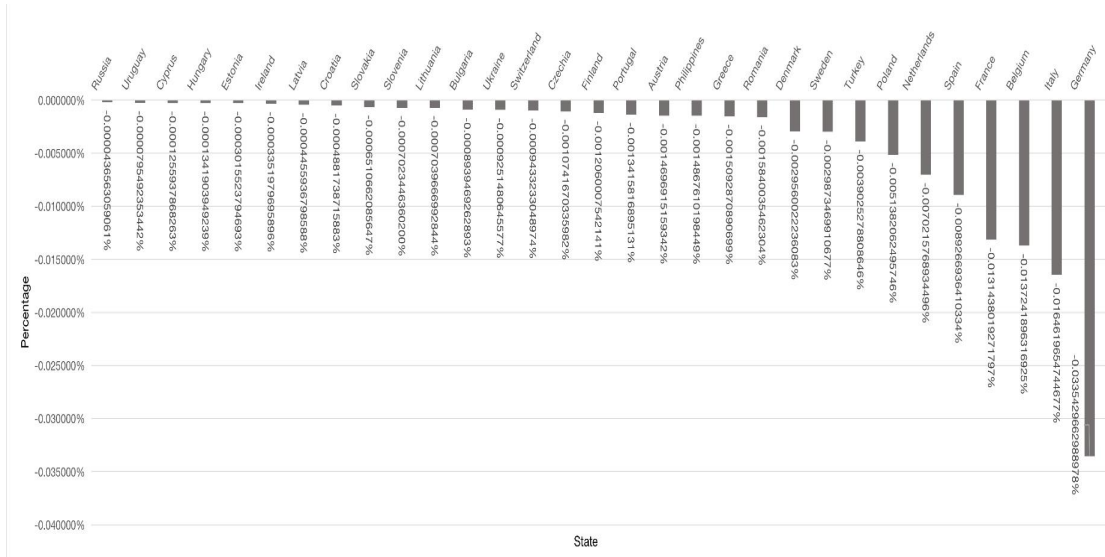
Given the current global economic situation, and as indicated in Figures 14 and 15, how might the CJK FTA influence Japan’s trade relations with its major partners—particularly China and Korea, as well as others outside the trilateral framework?

Figure 14 Estimated partners with positive trade growth with Japan based on world GDP



Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 15 Estimated partners with negative trade growth with Japan based on world GDP



Data source: UN Comtrade database, the estimated results are calculated by the author.

China and Korea rank first and third, with growth rates of 0.1587% and 0.0709% respectively, meaning increased trade between Japan and these two states would boost world GDP. As a key macroeconomic indicator, world GDP helps predict which states might benefit most from increased trade opportunities, particularly those more connected to global markets.

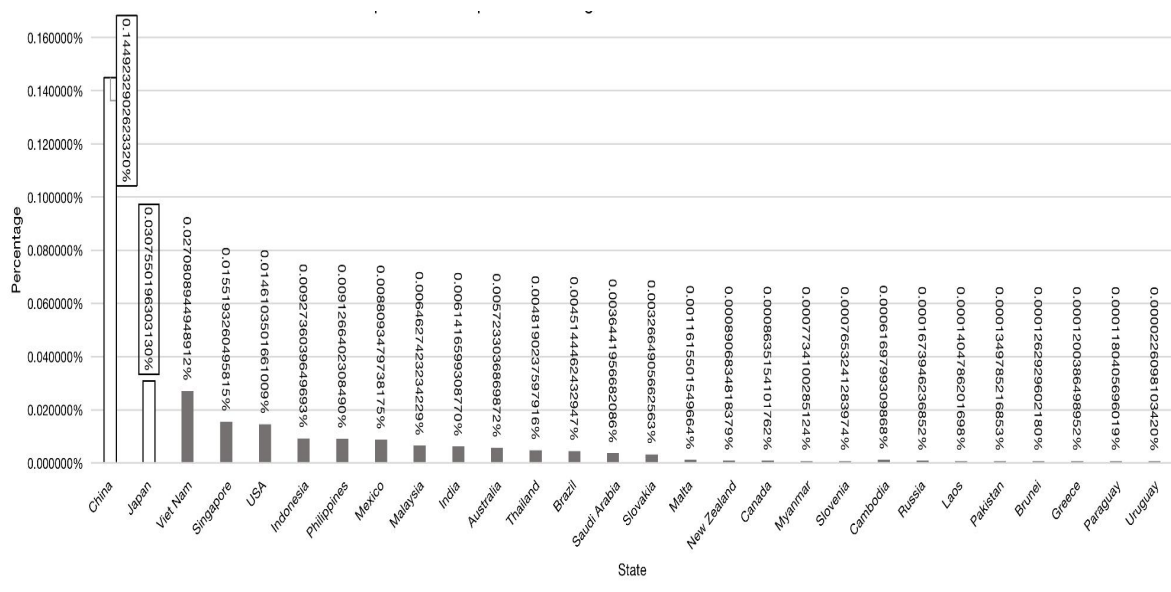
Besides China and Korea, the US—as one of Japan’s biggest trade partners—ranks second in positive growth. Other RCEP members like ASEAN states, Australia, and

New Zealand rank from fourth to 22nd, partly because ASEAN states have received substantial Japanese investment over the years and maintain close economic ties. Among ASEAN members, Thailand, Singapore, Malaysia, and Indonesia show the strongest performance due to their relatively stronger economic capacity within the region.

In contrast, EU states again show negative growth rates in trade with Japan. This stems from both geographical distance and the lack of a comprehensive FTA between Japan and the EU. The results suggest the CJK FTA would likely divert some trade away from EU partners toward Asian markets.

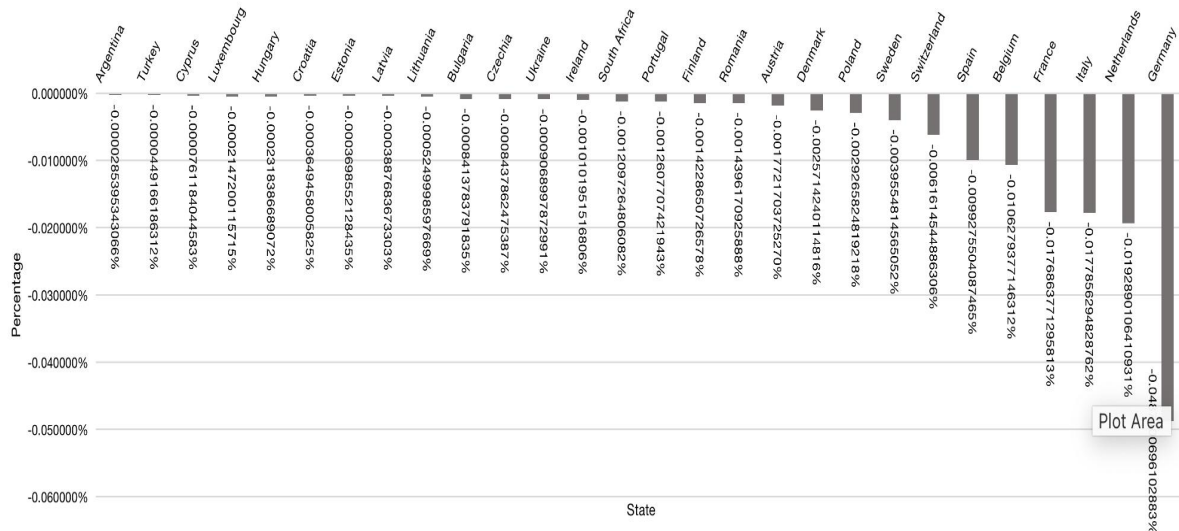
Unlike China and Japan as principal actors, Korea’s trade patterns (see Figures 16 and 17) show distinct characteristics of an export-oriented economy. The charts reveal that Korea’s most significant potential trade growth occurs with its Northeast Asian neighbours rather than with the US, highlighting Korea’s deeper economic integration within its immediate region. Specifically, Figure 16 shows substantial growth potential for Korean exports to China (0.144%) and Japan (0.030%), indicating these bilateral flows would significantly influence the global economy under the CJK FTA scenario.

Figure 16 Estimated partners with positive trade growth with Korea based on world GDP



Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 17 Estimated partners with negative trade growth with Korea based on world GDP



Data source: UN Comtrade database, the estimated results are calculated by the author.

Among developing RCEP members, Vietnam, Indonesia, and the Philippines emerge as top performers despite their smaller economic size, benefiting from industrial complementarity and strong domestic demand for Korean goods. The analysis suggests most RCEP members and American states would contribute positively to global economic growth through enhanced trade with Korea.

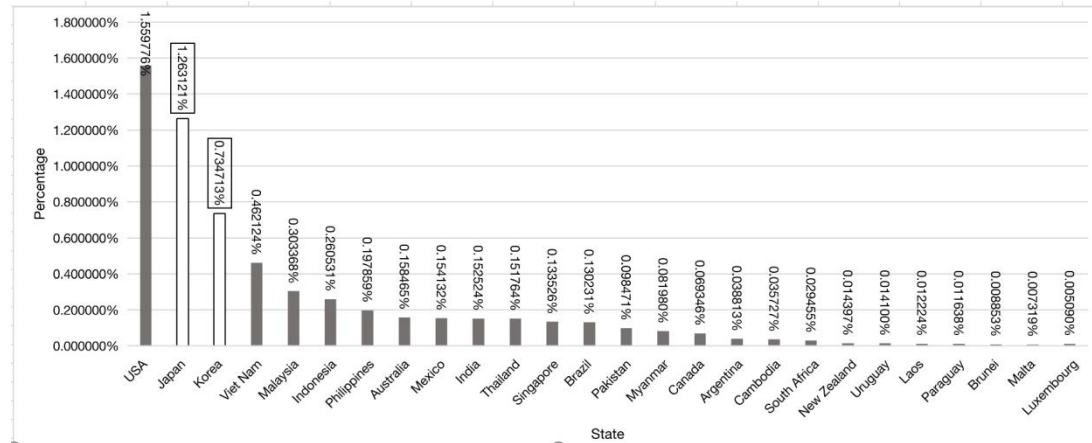
Conversely, the scenario projects moderate trade reduction with EU members, though the proportional impact appears limited. This downward adjustment reflects trade diversion effects from the hypothetical CJK FTA, though the relatively recent implementation of the EU-Korea FTA (2011) suggests these effects may moderate over time as the trade relationship matures and finds a new equilibrium. The time-sensitive nature of these estimates underscores the importance of considering both immediate and long-term FTA impacts.

5.3.3.3 Estimated results based on exporter GDP

The charts that follow are based on the assumption that the results are derived from the GDP of the exporting state—specifically focusing on China, Japan, and South Korea. As the world’s second, fourth, and 12th largest economies respectively, the ranking of trade partners estimated based on exporters’ GDP aligns with the estimation based on global GDP.

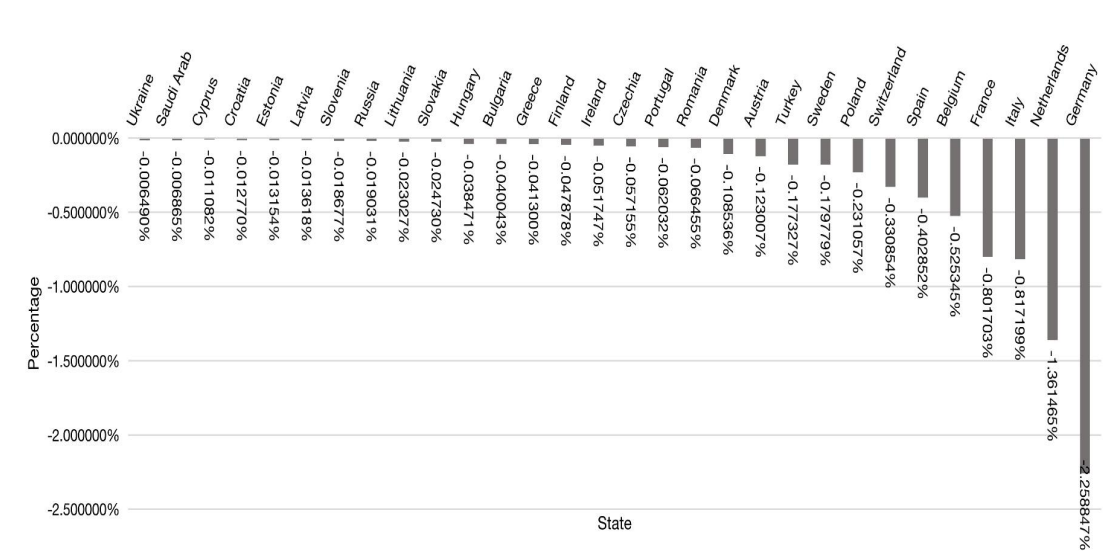
Figures 18 and 19 show how the scenario affects China's economic development. As the world's second largest economy, accounting for nearly 20% of global GDP, China's GDP impact follows similar patterns to the world GDP results.

Figure 18 Estimated partners with positive trade growth with China based on exporter GDP



Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 19 Estimated partners with negative trade growth with China based on exporter GDP



Data source: UN Comtrade database, the estimated results are calculated by the author.

The United States, as China's top trading partner, would import more Chinese goods worth about 1.5% of China's GDP, though this estimate does not consider actual trade protections and political factors. Japan and Korea, ranked as China's fifth and fourth largest trade partners respectively, remain important importers of Chinese

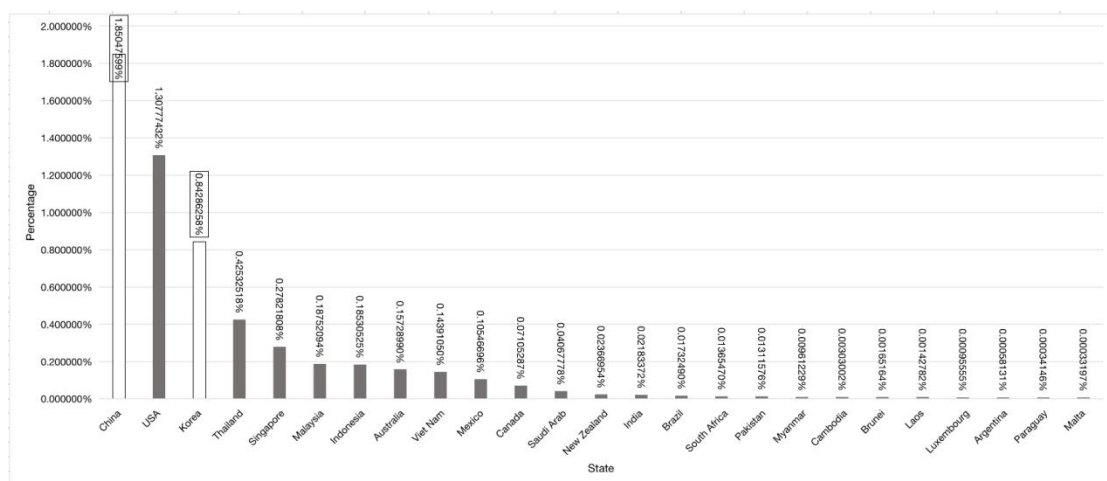
products, with growth ranging from 0.73% to 1.26%, helping boost China’s GDP.

On the other hand, the EU, currently China’s second largest trade partner, would see some trade flows shift to East Asia, North America, and South America. It is worth noting these estimates may be higher than reality due to limitations in the model, as explained earlier. The results likely overstate the actual impacts to some degree.

The charts clearly show different impacts across regions (see Figures 20, 21, 22, and 23). The percentage growth in trade values for Japan’s partner states represents their share of export growth contributing to Japan’s overall economy. For example, currently, 5.5% of Japan’s GDP is attributed to trade between China and Japan. Under the estimated impact of the CJK FTA, Japan’s exports to China could contribute an additional 1.8% to its GDP. However, we must note again that, in reality, the actual increase likely would not reach the full 1.8%, but would probably be around 1% instead.

These patterns match what we see in Figures 20 and 21: positive impacts would mainly benefit Asian and American markets, while trade relations with Europe would weaken. The results consistently show regional advantages shifting toward Asia and the Americas under this trade framework.

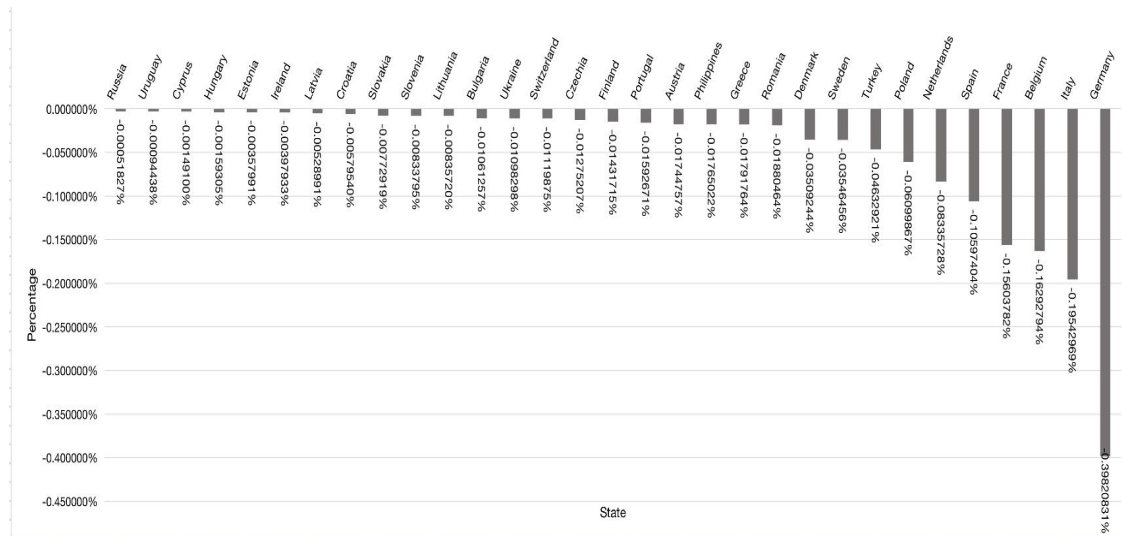
Figure 20 Estimated partners with positive trade growth with Japan based on exporter GDP



Data source: UN Comtrade database, the estimated results are calculated by the author.

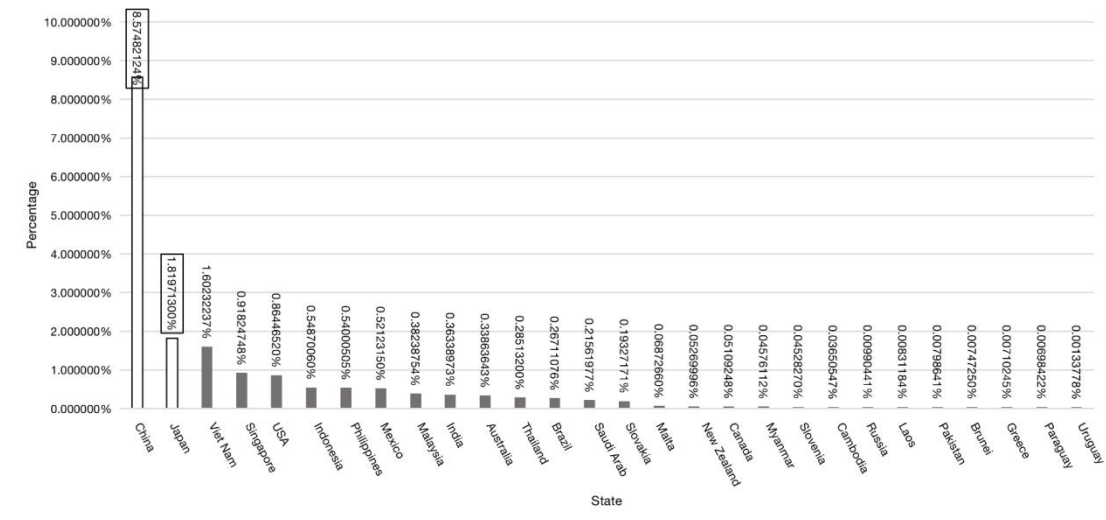
Figure 21 Estimated partners with negative trade growth with Japan based on exporter

GDP



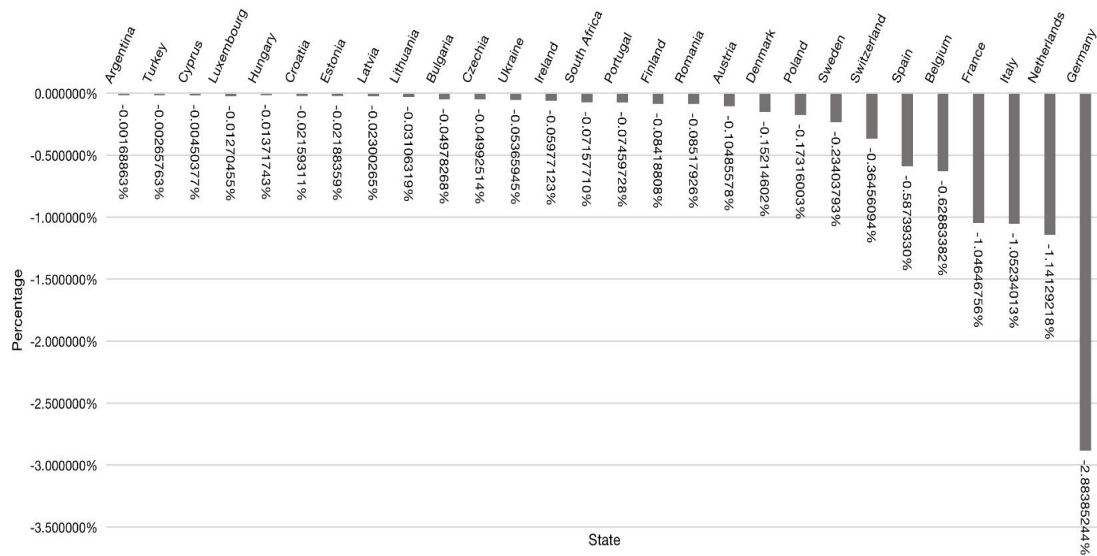
Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 22 Estimated partners with positive trade growth with Korea based on exporter GDP



Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 23 Estimated partners with negative trade growth with Korea based on exporter GDP



Data source: UN Comtrade database, the estimated results are calculated by the author.

The analysis demonstrates that China and Japan serve as Korea’s most crucial trade partners, with China’s complete market opening potentially boosting Korea’s GDP by 8.57% percentage points—a substantial margin that would establish clear leadership among trading partners. This significant potential reflects Korea’s existing high level of economic dependence on China, which will be examined in greater detail in the next chapter. Other major markets including Japan, Singapore, and the United States also exhibit considerable influence, with projected growth contributions ranging between 1% to 1.8%, compared against Korea’s 2.6% annual expansion rate in 2022¹⁸. While these figures suggest meaningful opportunities for economic improvement through enhanced market access, it is important to note that they derive from an idealised ‘complete’ scenario model and likely overestimate actual outcomes. The potential downside becomes evident in Figure 23, which quantifies the economic losses Korea would incur from reduced EU imports under the hypothetical CJK FTA scenario. Nevertheless, the projected gains from Asian and American markets appear sufficient to offset these EU-related losses, indicating an overall positive net effect for Korea’s economy¹⁹.

5.3.3.4 Estimated results based on importer GDP

¹⁸ World Bank. ‘Korea, Rep.’ World Bank Open Data. Accessed September 6, 2024.

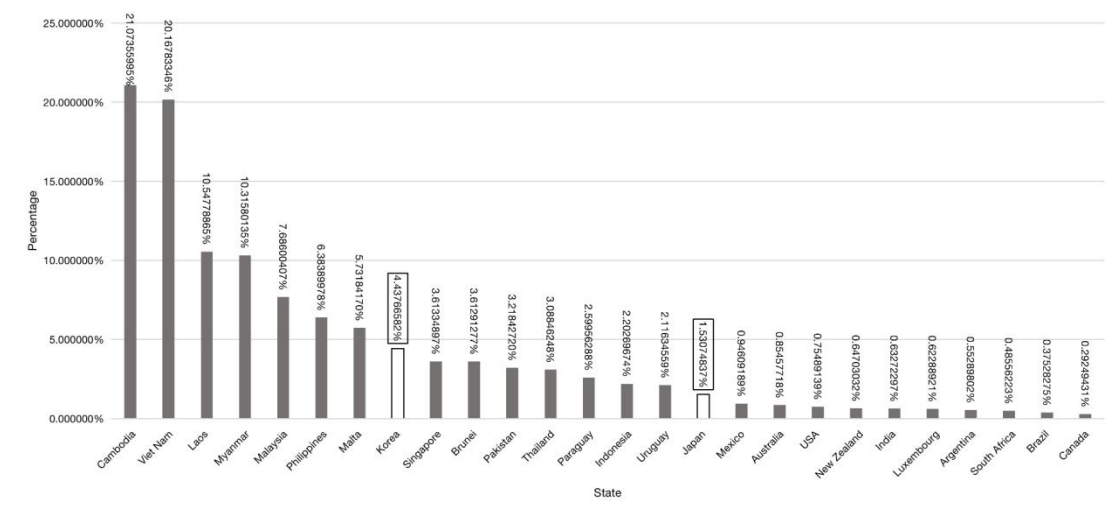
<https://data.worldbank.org/state/korea-rep>.

¹⁹ This study was concluded before March 2025, so the effects of the current U.S. tariffs on other countries are not included in this thesis.

This section illustrates the extent to which importers are affected by increased export flows from China, Japan, and Korea under the CJK FTA.

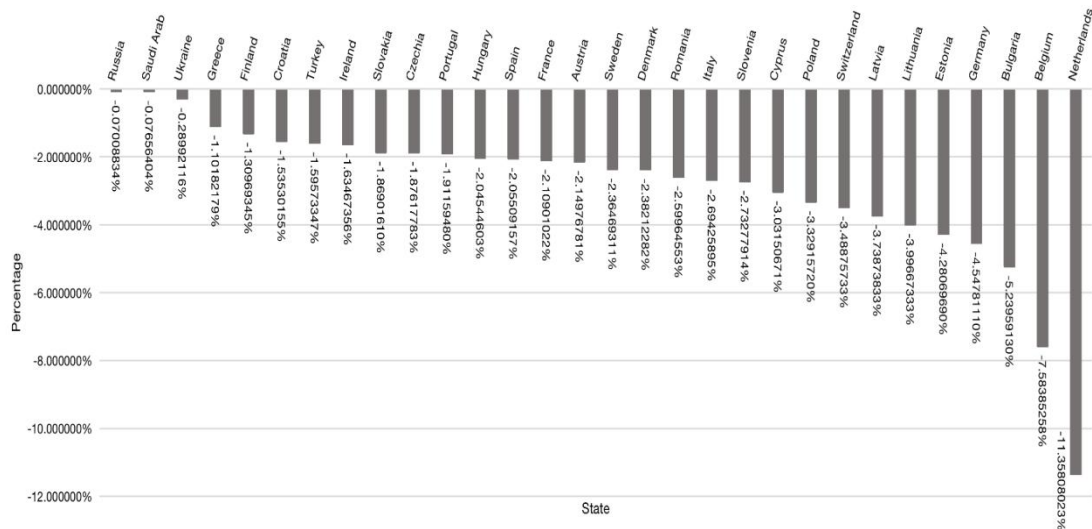
Figures 24 and 25 demonstrate that the CJK FTA would significantly affect developing ASEAN nations including Cambodia, Vietnam, Laos, Myanmar, and Malaysia, with potential impacts ranging from 10% to 20% of their domestic GDP, as the importers. Among developed economies, Korea, Singapore, and Japan emerge as the three most affected importers, showing measurable GDP impacts. EU members, particularly Belgium and the Netherlands, face relatively substantial negative consequences. The analysis concludes by evaluating the CJK FTA's comprehensive effects on China, Japan, and Korea within their regional context, incorporating RCEP members and the US based on these quantitative estimates.

Figure 24 Estimated partners with positive trade growth with China based on importer GDP



Data source: UN Comtrade database, the estimated results are calculated by the author.

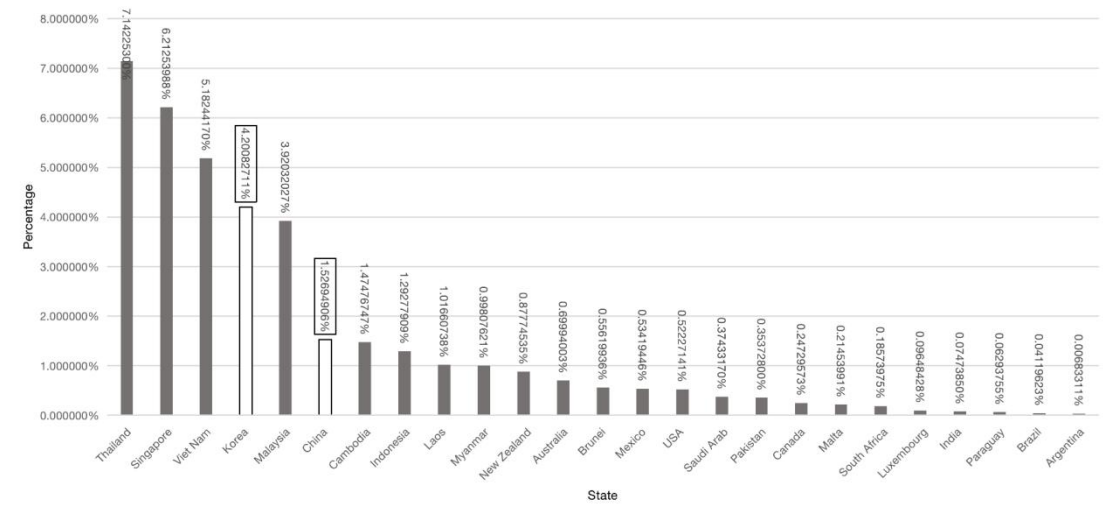
Figure 25 Estimated partners with negative trade growth with China based on importer GDP



Data source: UN Comtrade database, the estimated results are calculated by the author.

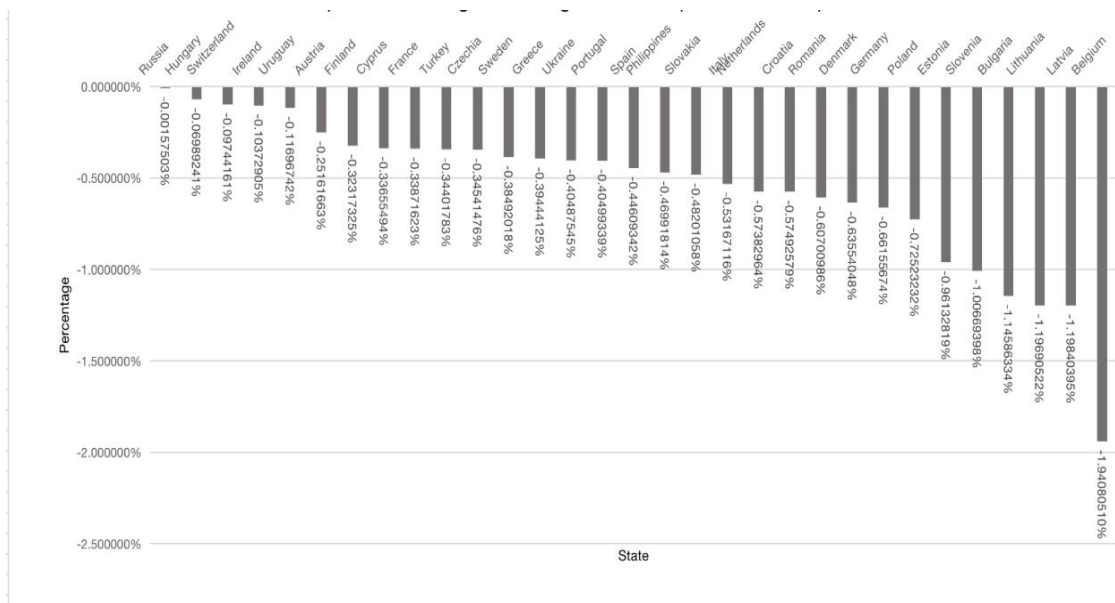
Figures 26 and 27 reveal that under the CJK FTA scenario, the projected import growth would account for a substantial proportion of GDP for Thailand, Singapore, Vietnam, and Korea. For Korea, with its average GDP growth rate of approximately 2.6%, expanded imports from Japan would significantly impact its economy. China would also experience notable effects, reflected in its 5% GDP growth rate increase. While major economies like the United States and Canada show limited susceptibility, other RCEP members would face measurable impacts from increased Japanese imports. The charts particularly highlight the strong economic interdependence among Japan, China, and Korea, demonstrating how tightly integrated these Northeast Asian economies have become. These results underscore how the CJK FTA would disproportionately affect regional partners compared to global economic powers.

Figure 26 Estimated partners with positive trade growth with Japan based on importer GDP



Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 27 Estimated partners with negative trade growth with Japan based on importer GDP

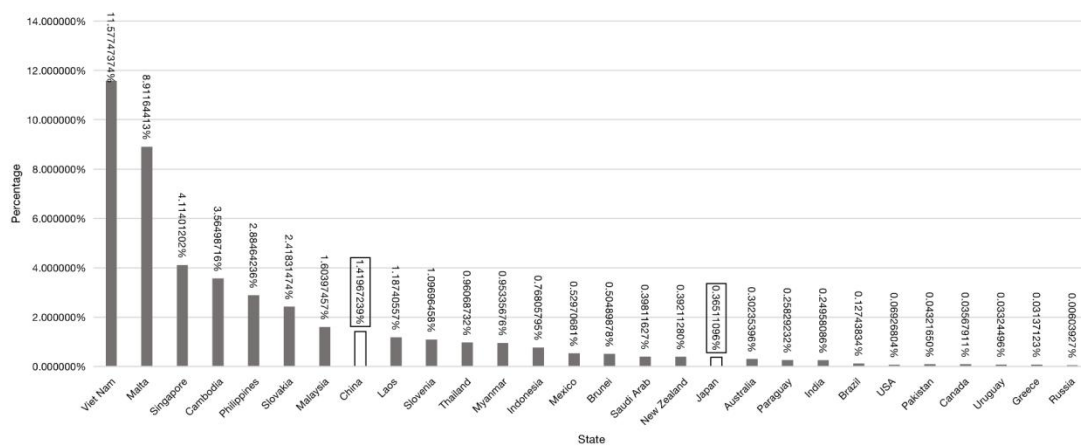


Data source: UN Comtrade database, the estimated results are calculated by the author.

Figures 28 and 29 present contrasting patterns regarding Korea's export impacts. The analysis reveals that Korea's export growth contributes only marginally to economic development in China and Japan. However, several ASEAN members—including Vietnam, Singapore, Cambodia, and the Philippines—demonstrate heightened sensitivity to increased Korean imports. This likely stems from competitive product structures and relatively weaker industrial bases in these Southeast Asian economies. The EU exhibits predominantly negative

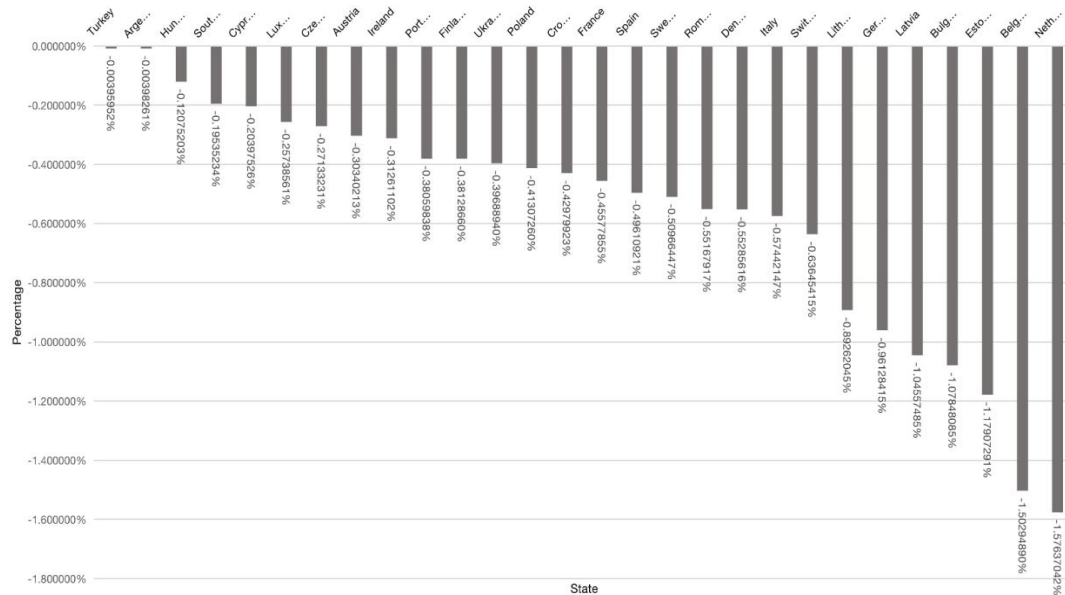
growth trends, with the Netherlands and Belgium experiencing the most substantial economic losses during the initial years of our scenario. Notably, while these impacts remain adverse, the percentage declines stay within modest negative ranges. Only Malta and Slovakia deviate from this general pattern among European nations. These findings highlight the differential regional impacts of Korea's export expansion under the CJK FTA framework.

Figure 28 Estimated partners with positive trade growth with Korea based on importer GDP



Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 29 Estimated partners with negative trade growth with Korea based on importer GDP



Data source: UN Comtrade database, the estimated results are calculated by the author.

5.3.4 Some explanations

The estimated results under the CJK FTA scenario show broadly similar but slightly differentiated outcomes for China, Japan, and Korea when examining their respective trade relationships. The sequencing of trade partners with positive versus negative growth reveals a clear regional pattern: states within Northeast Asia, RCEP member states, and American markets generally experience varying degrees of trade value increases, while EU member states consistently emerge as the primary losers under this particular trade framework. These shifting trade flows originating from China, Japan, and Korea manifest differential impacts on partner states' GDP growth trajectories. Several critical observations warrant particular emphasis.

First, the potential trade growth exhibits marked asymmetries among the three Northeast Asian economies. Under conditions of complete export liberalisation, China's aggregate trade volume could expand by 133%~156%, while Korea's trade within the trilateral relationship shows 205%~342% growth potential, and Japan demonstrates 366%~690% expansion. Notably, Japan's potential trade increase measures three to six times greater than China's corresponding figure, while also exceeding Korea's potential growth by two to three times. This substantial variation principally reflects two underlying factors: 1) the relatively more constrained baseline trade volumes between Japan/China and Korea/China (thereby leaving greater marginal space for expansion), and 2) the superior degree of industrial complementarity characterising China's economic relationship with both Japan and Korea compared to the bilateral dynamic between Japan and Korea themselves.

Second, ASEAN member states demonstrate heterogeneous responsiveness to augmented trade flows from the three Northeast Asian economies. According to the data visualised in Figures 5, 7, and 9, average export growth rates measure approximately 1,600% for China, surpassing Japan's and Korea's respective averages of 800%. This discrepancy primarily stems from China's historically more substantial export volumes directed toward EU markets (accounting for 19.7% of its total exports in the baseline year 2010, versus 10.3% for Japan and 11.6% for Korea²⁰), which

²⁰ Calculated from the WTO database.

renders trade diversion effects more statistically conspicuous in China's case²¹. Furthermore, the divergent rankings of positively affected ASEAN/RCEP partners (including Australia and New Zealand) across the three Northeast Asian exporters reflect meaningful variations in pre-existing trade relationships and distinct national market demand structures.

Third, Korea exhibits particularly pronounced economic dependence on Chinese markets. Figures 18, 20, and 22 collectively indicate that while potential trade growth with the United States ranges between 0.73% to 1.85% across all three states, Korea displays an exceptional 8.57% growth potential with respect to China. This remarkable figure persists despite nearly 10 years of CK FTA implementation and recent multilateral integration through RCEP participation, underscoring China's enduring position as Korea's pre-eminent trade partner, with substantial unrealised potential that could profoundly influence Korea's future economic development trajectory.

Finally, the CJK FTA's differential impacts on RCEP states versus EU member states reveal striking variations across the three Northeast Asian economies. Based on comprehensive analysis of Figures 24, 26, and 28, China's average growth impact on RCEP members reaches 9.86%, substantially exceeding Japan's 3.9% and Korea's 2.93%. The pattern reverses for EU members, where the figures register at -2.46% (China), -0.42% (Japan), and 0.32% (Korea). These results clearly demonstrate China's comparatively greater capacity to influence both RCEP and EU trade partners relative to Japan and Korea, while simultaneously revealing that Korea has the most balanced impact profile with the narrowest disparity between positive and negative external effects.

Obviously, the establishment of the CJK FTA would bring tangible economic benefits to not only to the three countries, but also to broader East Asian region and the world. Increased trade interconnection between China, Japan, and Korea would likely to strengthen mutual economic trust and create positive spillover effects in the political sphere. Specifically, policy changes such as harmonizing tariffs and rules of origin, liberalizing investment, implementing joint infrastructure projects, and establishing formal dispute settlement mechanisms could institutionalize cooperation and reduce the risk of conflict. At the same time, however, deeper economic

²¹ However, the decreased rates reported by China, Japan, and Korea partnered with EU members are similar to those shown in Figures 6, 8, and 10.

integration may also heighten the risks associated with potential breakdowns in their relations, thus lowering the likelihood of relationship breakdown caused by geopolitical or historical conflicts (see section 1.1.3 and 4.4.4). Moreover, China, Japan, and Korea can utilize this trade framework to strengthen their engagement with South Asia, and their joint participation in regional initiatives which are broader in scope and more institutionally coherent can foster more structured and predictable interactions among the three countries, thereby reducing political risks in their relationship.

5.4 Industrial sector shifts under the estimation

Before estimating the industrial sectors under the CJK FTA, this section outlines the operational approach and key issues involved, followed by a description of the data sources and their specifications.

5.4.1 The approach and economic issues

5.4.1.1 The model

This part continues to employ the OLS approach, following the same theoretical framework and estimation process as used in the analysis of aggregate trade. The first equation is as follows:

$$X_{ij,t} = \exp(I_t + T_t + \mu_{ij} + \beta_1 RTA_{ij,t}) \times \epsilon_{ij,t} \quad (5-7)$$

Unlike equation (5-3), the new specification introduces industry fixed effects (I_t) and time fixed effects (T_t) as additional independent variables, following the pair fixed effects. This allows the model to capture changes specific to a given exporter-importer pair within a particular industry over time. Meanwhile, exporter/importer time fixed effects are omitted due to redundancy. The rest of the equation remains consistent with (5-3)²². Subsequently, the equation used to fill in the missing values from (5-7) is applied.

$$t_{ij}^{1-\sigma} = \exp(\mu_{ij}) = \exp[\pi_i + \chi_j + I_t + \beta_1 \ln(DIST_{ij}) + \beta_2 LANG_{ij}] \times \epsilon_{ij} \quad (5-8)$$

²² Due to limited observation space in STATA, industry factors are not included in the pair fixed effects.

To not only control for the effects of importing and exporting states but also to distinguish these effects across industry categories—and to estimate the influence of non-time-varying factors such as language and distance on each state pair within each industry—equation (5-8) introduces an additional fixed effect for industry codes (I_t) compared to equation (5-4). Following this, equation (5-9) presents the restricted baseline for the estimation.

$$X_{ij} = \exp(\pi_i + \chi_j + I_t + RTA_{ij}) \times \epsilon_{ij} \quad (5-9)$$

As with the previous equation, equation (5-9) also includes industry fixed effects to ensure that the coefficients are disaggregated for each state pair within each specific industry.

Equation (5-10) represents the final step in obtaining the estimated results under the counterfactual scenario. As with the aggregate trade analysis, the year 2011 is adopted as the counterfactual benchmark.

$$X_{ij} = \exp(\pi_i^{CFL} + \chi_j^{CFL} + I_t^{CFL} + t_{ij}^{1-\sigma} + \beta_1 RTA_{ij}^{CFL}) \times \epsilon_{ij}^{CFL} \quad (5-10)$$

5.4.1.2 Potential economic issues and solutions

The challenges encountered during this process were similar to those faced in the aggregate trade analysis, including Multilateral Resistance, Trade Policy Adjustment, and the application of the gravity model to Disaggregated Data. However, one key difference lies in the treatment of Zero Trade Flows: due to the large volume of observations and substantial missing data, no major adjustments were made, in order to ensure that missing values for major states did not distort the overall results.

Similarly, the issue of the Dummy Variable Trap persists in the estimation of industrial sectors. Following the explanation provided in Section 5.3.1.2, we selected reference groups from the categorical variables ‘EXPORTER_IMPORTER_FE’, ‘INDUSTRY_FE’, and ‘TIME_FE’. Accordingly, ‘Ireland–Belgium’ was dropped from all three datasets. For the industry fixed effects, the dropped categories were: ‘Beverages and Tobacco’ (02) in the SITC database, ‘Mineral Fuels’ (27) in the HS 2-digit classification, and ‘Petroleum Oils’ (2710) in the HS 4-digit classification. For the time fixed effects, the year 2009 was dropped across all three datasets. A

comparison of the estimation results after dropping the different reference groups shows only minimal changes, indicating the robustness of the results.

5.4.2 Data sources and sample

The dataset comprises 57 states that each participate strictly as either exporters or importers, without any overlap where a single state serves both roles simultaneously in any given trade relationship. The analysis employs both SITC and HS classification systems at 2-digit and 4-digit levels to generate three parallel sets of estimates yielding 257,034, 220,230, and 156,536 observations respectively, with all trade data sourced exclusively from the UN Comtrade database (see Appendix Figure 5, 6, and 7).

The SITC database serves as a supplement to the HS 2-digit database, as the latter lacks broader product categories. In the SITC classification (see Table 16), product categories coded from 01 to 09 are used in this analysis, as they encompass nearly all traded goods in both imports and exports. Detailed information is provided above.

Table 16 SITC categories

SITC code	Description
01	Food and live animals
02	Beverages and tobacco
03	Crude materials, inedible, except fuels
04	Mineral fuels, lubricants and related materials
05	Animal and vegetable oils, fats and waxes
06	Chemicals and related products, n.e.s.
07	Manufactured goods classified chiefly by material
08	Machinery and transport equipment
09	Miscellaneous manufactured articles

Data source: UN Comtrade.

The HS 2-digit database offers a more detailed segmentation by product category (see Table 17), making the resulting forecasts more closely aligned with the trade

realities of China, Japan, and Korea. It includes the five most advanced export items and four sensitive items among the three states, as shown in the Table 16²³.

Table 17 HS 2-digit categories

HS Code	Description
04	Dairy products
07	Edible vegetables
10	Cereals
11	Wheat
27	Mineral fuels, oils, distillation products
29	Organic chemicals
39	Plastics
84	Machinery, nuclear reactors, boilers
85	Electrical, electronic equipment

Data source: UN Comtrade database.

The third, HS 4-digit, database, shown in Table 18, provides more detailed information on the most representative items that face slow or no tariff exemption under the RCEP tariff schedules, based on the nine categories identified in the previous HS 2-digit database. This allows for a more effective illustration of the impact of the CJK FTA in comparison with RCEP.

Table 18 HS 4-digit categories

HS Code	Description	RCEP Tariff Status
0401	Milk and cream	No exemption
0402	Milk powders	Slow exemption
1006	Rice	No exemption
1101	Wheat flour	Slow exemption
0713	Dried leguminous vegetables	No exemption
2710	Petroleum oils	Slow exemption
2902	Cyclic hydrocarbons	No exemption
3901	Polymers of ethylene	Slow exemption
8471	Automatic data processing machines	No exemption
8542	Electronic integrated circuits	Slow exemption

Data source: UN Comtrade database, organised by the author.

²³ This rank is derived from the comparison of full categorical dataset from the UN Comtrade database.

5.4.3 Partial equilibrium effects of industrial sectors

The analysis shows FTA coefficients of 0.05, 0.1, and 0.12 for SITC, HS 2-digit, and HS 4-digit classifications respectively, reflecting quarterly industrial growth rates under the FTA framework. The corresponding t-values are 0.78, 2.18, and 1.86, with R-squared values of 0.95, 0.97, and 0.95. The SITC results appear less precise, showing insignificant FTA effects. Following initial estimation, the model excluded one pair fixed effect per database due to linear dependency issues. All specifications maintained consistent methodology while accounting for expanded industrial data coverage across state pairs. The HS-based estimates demonstrate stronger statistical significance compared to the SITC results.

The second-stage estimation for filling missing values yields distance coefficients of -0.012, -1.56, and -1.47 across the three databases, with corresponding language coefficients of -0.005, 0.46, and 0.18. While the statistical significance of both distance and language variables appears weaker in the SITC database compared to the HS classifications, this does not necessarily indicate unreliable results from the SITC estimation.

The counterfactual scenario follows the same general principles as in the aggregate trade section; therefore, repeated explanations are omitted here. The estimated outcomes are presented in three main parts, corresponding to the different databases used. It should be reiterated that, due to inherent limitations of the model, this section—like the previous one—depicts changes in goods trade under a fully implemented FTA scenario. While the magnitude of these changes may differ significantly from real-world conditions, this does not affect the overall interpretation of the results.

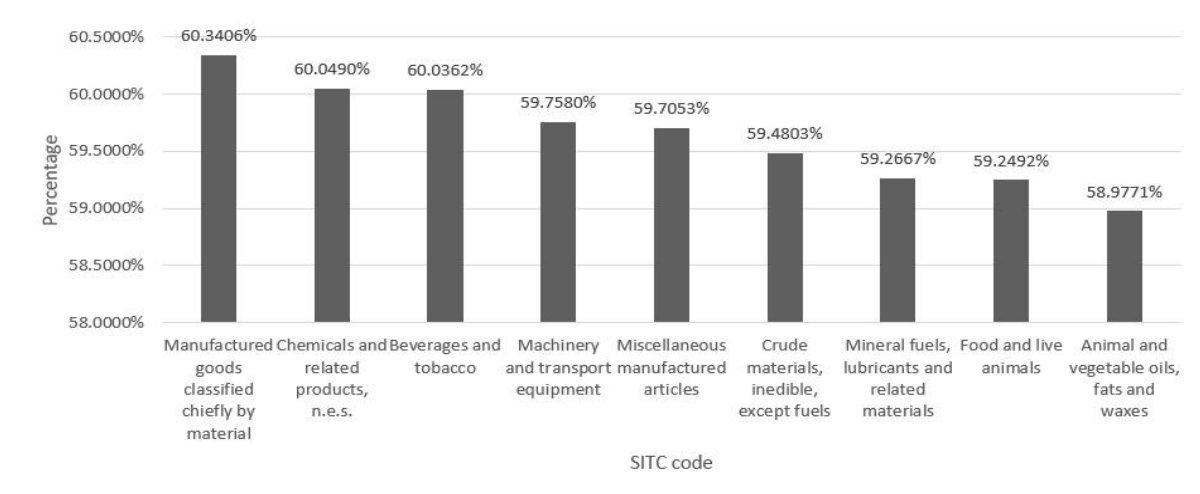
5.4.3.1 Estimated growth rate of industries categorised by SITC

This section continues to examine the short-term partial equilibrium effects on broad industrial sectors, based on SITC codes, as shown in Table 16. The counterfactual scenario is set for the year following 2010, meaning the estimation reflects the results for 2011, incorporating the actual trade volumes of that year.

Figures 30 and 31 show that China's exports to Japan and Korea would increase across major product categories, but with different growth rates. Manufactured

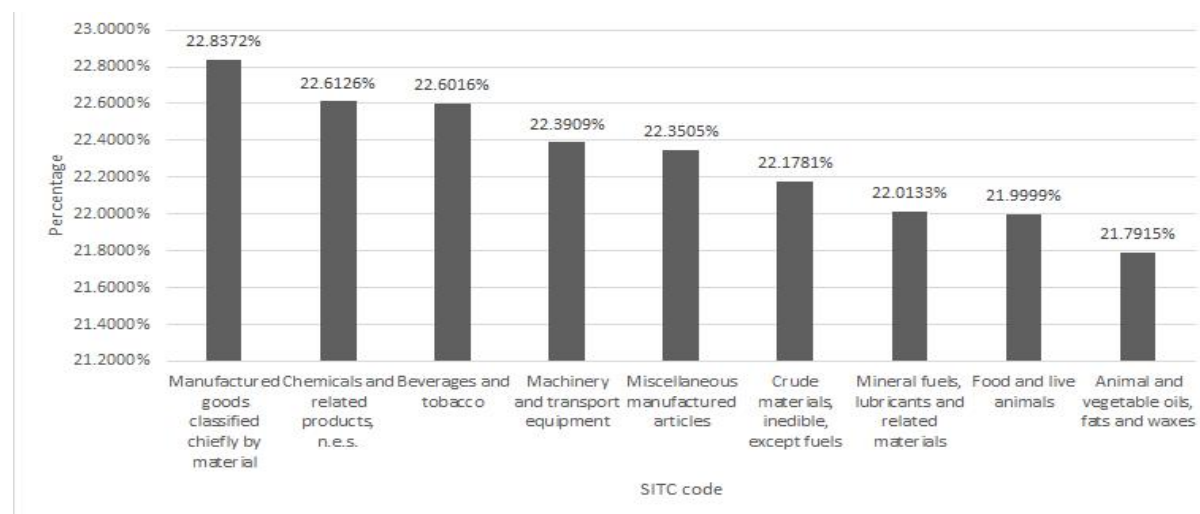
products (07), machinery (08), chemicals (06), crude materials (03), and miscellaneous manufactured articles (09) represent China's most advanced exports to these markets, though their growth potential is limited as they include both specialised and general products. On the other hand, food (01) and vegetable oil (05) show the lowest growth rates because they contain sensitive agricultural products that face high tariffs.

Figure 30 Estimated industrial growth rate from China to Japan based on SITC classifications



Data source: UN Comtrade database, the estimated results are calculated by the author.

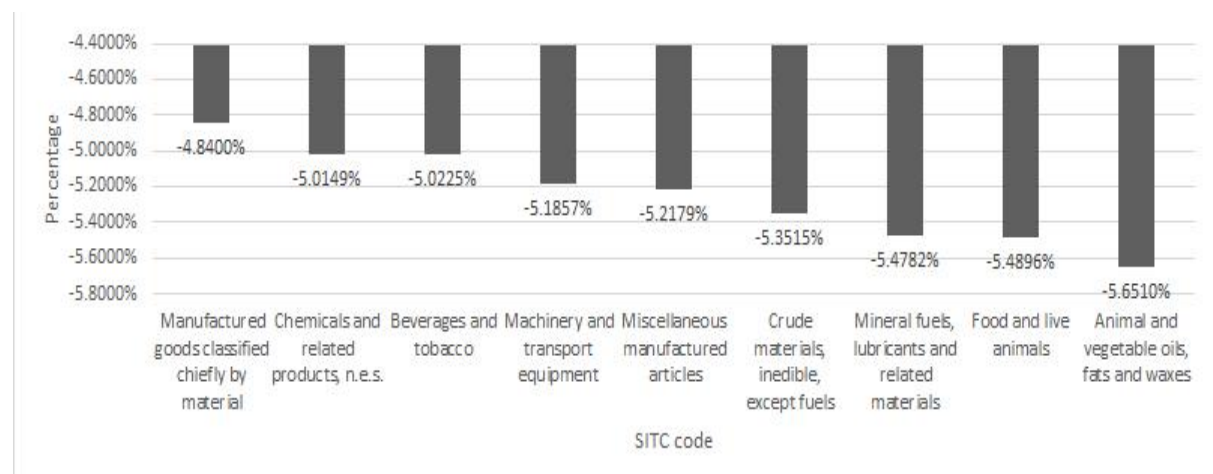
Figure 31 Estimated industrial growth rate from China to Korea based on SITC classifications



Data source: UN Comtrade database, the estimated results are calculated by the author.

Due to the similar export structures among China, Japan, and Korea, the growth rate rankings across all SITC categories, including those of Japan and Korea, align with those of China. For example, according to the 2023 SITC database, China and Korea rank among the top 10 destinations for Japanese exports across all 57 SITC categories—reflecting a pattern also observed for China and Korea themselves²⁴. Compared to the version presented in Figure 30, Japan’s exports to China (Figure 32) show a slight decline in estimated growth—from -5.6% to -4.8%—highlighting two key points. First, this reflects the limitations of the SITC database: its broad categories may group together both advanced and less competitive sectors, thereby obscuring finer distinctions. This justifies the use of the subsequent two HS-based estimations, which help address this issue. Second, it suggests that, under the assumption of full trade liberalisation, Japan’s major export categories may lack strong comparative advantages in the Chinese market. Nevertheless, Japan is expected to retain a competitive edge in the Korean market, where the estimated export growth rate could reach approximately 30%.

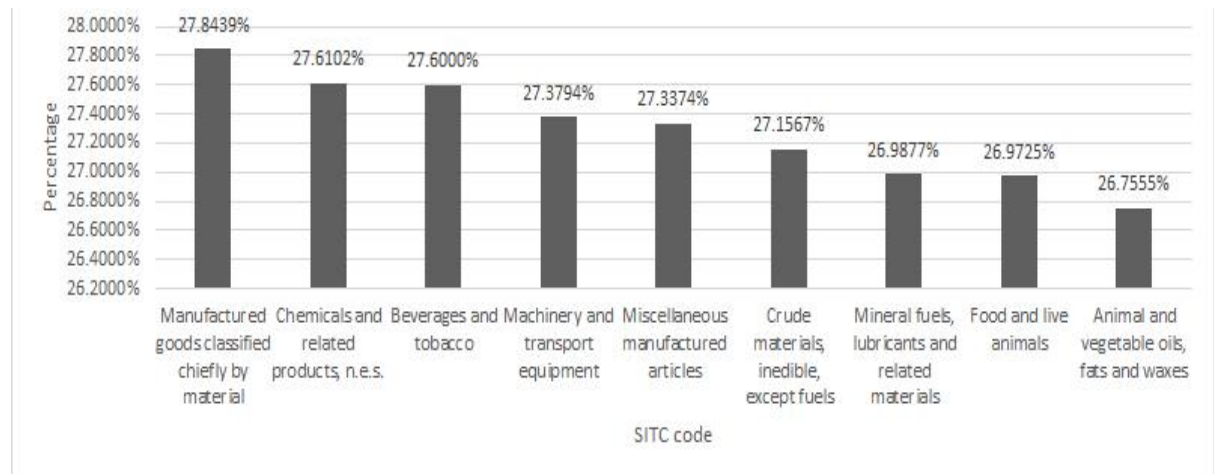
Figure 32 Estimated industrial growth rate from Japan to China based on SITC classifications



Data source: UN Comtrade database, the estimated results are calculated by the author.

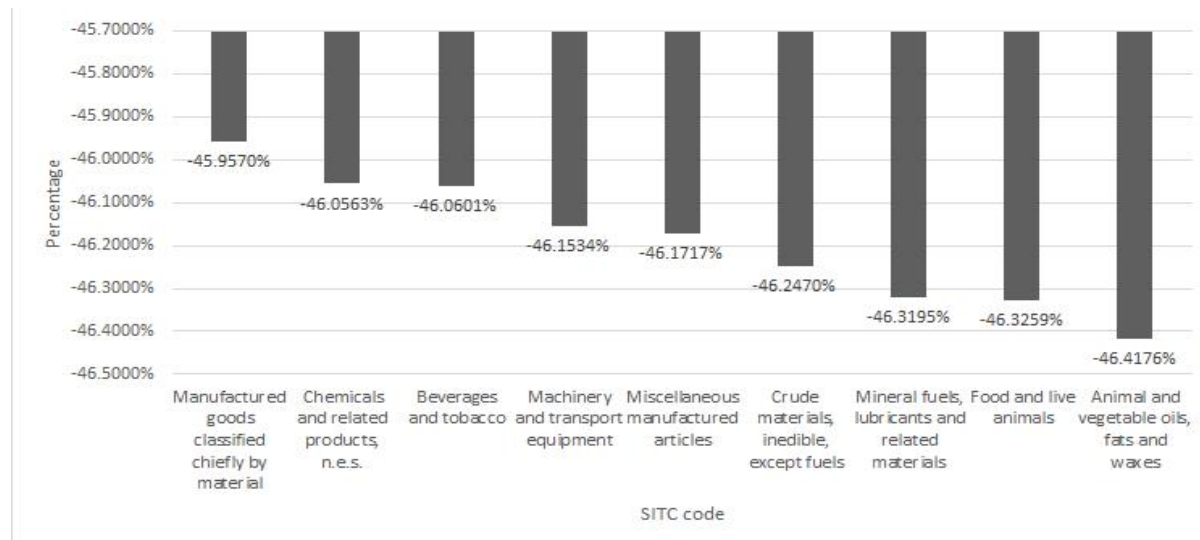
²⁴ Arranged and analysed by the author based on UN Comtrade data.

Figure 33 Estimated industrial growth rate from Japan to Korea based on SITC classifications



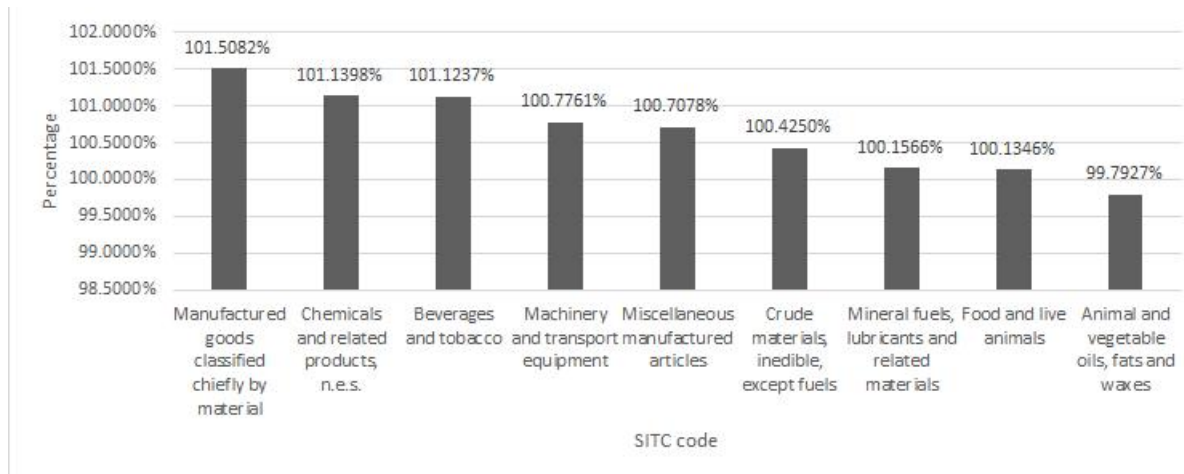
Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 34 Estimated industrial growth rate from Korea to China based on SITC classifications



Data source: UN Comtrade database, the estimated results are calculated by the author.

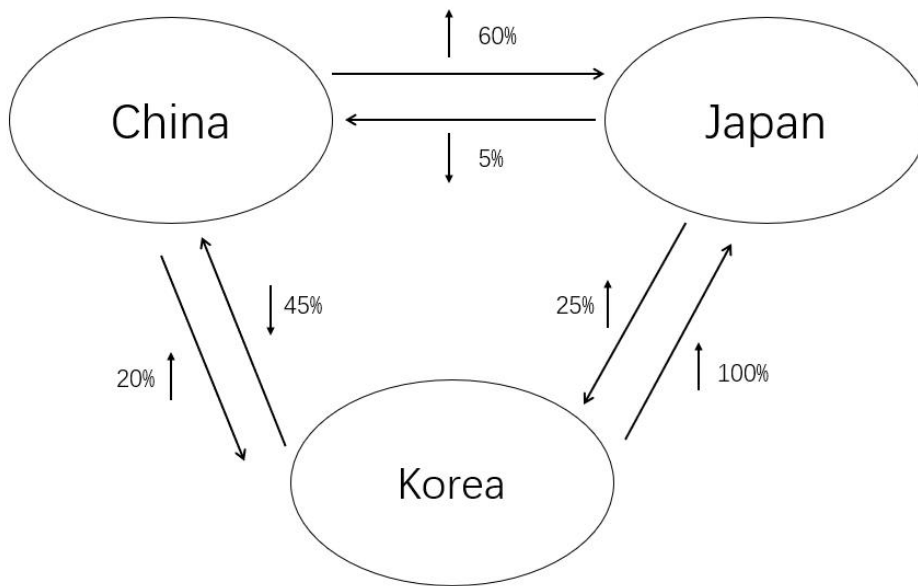
Figure 35 Estimated industrial growth rate from Korea to Japan based on SITC classifications



Data source: UN Comtrade database, the estimated results are calculated by the author.

In addition to the identical ranking of estimated growth rates—for the same reasons mentioned earlier—Korea experiences a more significant loss of market share in China across the SITC categories compared to Japan. However, Korea simultaneously gains the most in Japan’s market, with an estimated increase of nearly 100%. As illustrated in Figure 33 and Figure 35, Japan and Korea are projected to become more closely integrated in their bilateral trade under the CJK FTA. From a real-world perspective, this phenomenon could be attributed to Japan offering a more receptive market capable of absorbing a wider range of Korean exports, while China may increasingly favour more competitive or affordable goods produced domestically or imported from other states over those from Korea. Given that the results include both increases and decreases in trade flows, the following diagram (Figure 36) summarises the overall impact on exports and imports for the three states.

Figure 36 Overall estimated impact of CJK FTA on China, Japan, and Korea



Created by the author.

As illustrated in Figure 36, and from the perspective of trade balance—without considering detailed trade volumes—under the estimated scenario of the CJK FTA, China’s exports to Japan and Korea show a notable increase of approximately 85%, while Japan’s exports to China and Korea also rise by around 20%, as do Korea’s exports to China and Japan. After accounting for the changes in imports, the net gains stand at 105% for China²⁵, and around -140%, and 10% for both Japan and Korea.

Since these figures represent percentage changes rather than absolute trade values, it is difficult to determine precisely whether Japan or Korea benefits more in their bilateral trade. However, it is clear that China’s exports to Japan and Korea increase significantly, while Japan’s and Korea’s exports to China both decline in absolute terms. This asymmetry helps explain one of the reasons behind the lack of strong enthusiasm for the CJK FTA in Japan and Korea.

Furthermore, the estimates reveal an important insight: Korea appears less stable and relatively disadvantaged in traditional trade sectors compared to China and Japan. This is evident from the fact that the growth rate of Korean exports to China is the lowest among all the charts presented. These results underscore the urgency for Korea to accelerate its industrial transformation toward digital and innovative technologies if

²⁵ This assumes no further increase in imports from Japan and Korea, thus keeping the import share unchanged.

it aims to maintain its economic competitiveness within the trilateral relationship and across Northeast Asia more broadly.

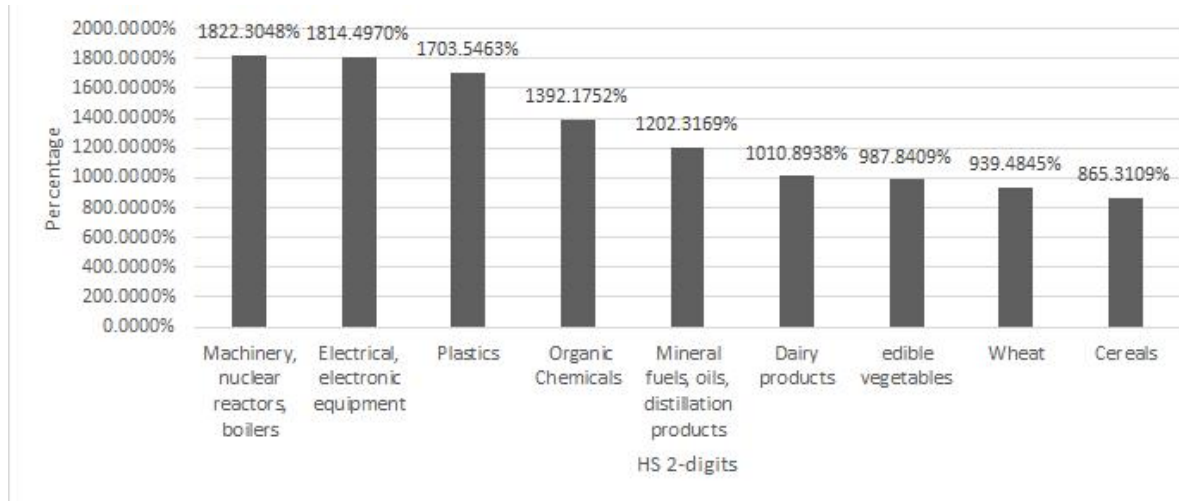
It is important to emphasise that the database used in this section covers a broad range of industrial sectors. In other words, each category includes both competitive and less competitive export industries, which inevitably affects the estimated results. Consequently, the findings here reflect the general impact of trade changes under a fully liberalised FTA across these broad categories. In contrast, the databases used in the following two sections—based on HS 2-digit and HS 4-digit classifications—align more closely with the actual export profiles of China, Japan, and Korea, as they focus on each state’s key competitive export items and sensitive industries. Within an FTA framework, states have the flexibility to determine the scope and depth of trade liberalisation based on their respective economic conditions. Therefore, the HS-based databases offer a more realistic depiction of how each state might approach liberalisation, and they help to verify the potential positive impacts of the CJK FTA on all three economies.

5.4.3.2 Estimated growth rate of industries categorised by HS 2-digit classifications

The significance of the HS 2-digit classification lies in its widespread use, including its adoption in the official tariff schedules of the RCEP agreement. Compared to the broader SITC categories, this classification places greater emphasis on specific competitive export industries and officially designated sensitive sectors.

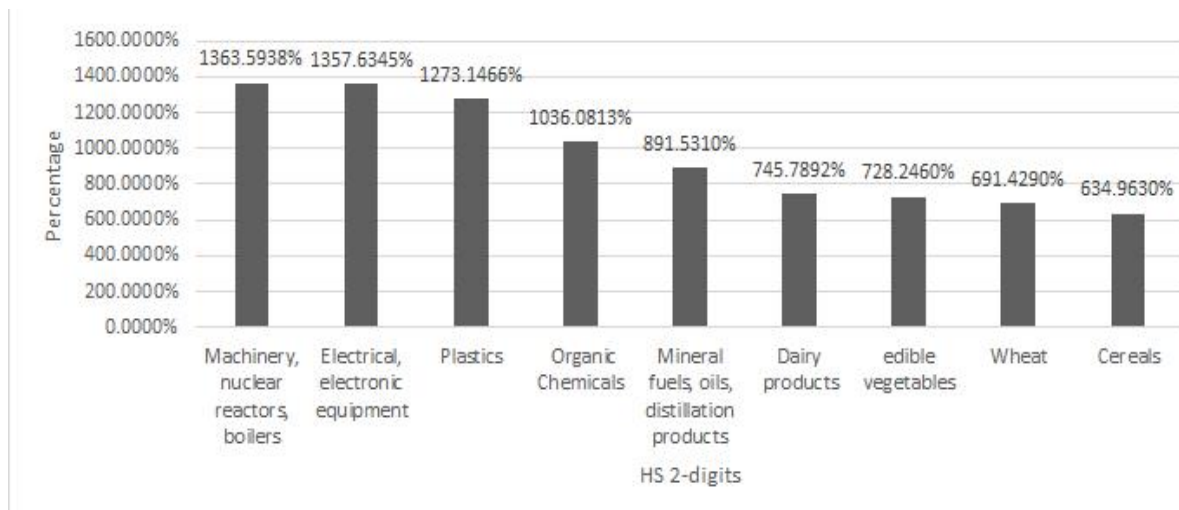
The results in Figures 37 and 38 appear reasonable when accounting for model limitations. Five key export industries—machinery (84), electrical (85), plastics (39), organic chemicals (29), and mineral fuels (37)—show higher growth than sensitive sectors such as dairy products (04), edible vegetable (07), cereals (10), and wheat (11), consistent with the SITC database’s fundamental characteristics. The growth rates indicate more products in these categories would be exported from China to Japan under the CJK FTA, aligning with their historically large trade volume. Meanwhile, industrial trade growth between China and Korea is estimated to be weaker than the China-Japan trade relationship.

Figure 37 Estimated industrial growth rate from China to Japan based on HS 2-digit classifications



Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 38 Estimated industrial growth rate from China to Korea based on HS 2-digit classifications



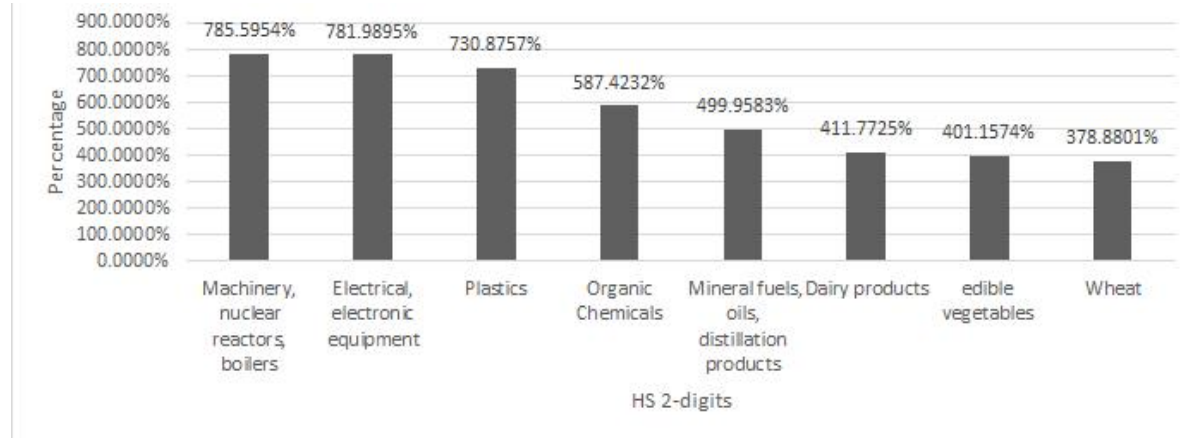
Data source: UN Comtrade database, the estimated results are calculated by the author.

According to Figures 39 and 40²⁶, Japan is projected to increase its exports across the nine sectors to both Korea and China. Compared to the SITC-based results in Figure 32, Japan's exports to China in Figure 39 have moved from a flat outcome to a noticeable increase. This suggests that, within Japan's competitive and sensitive industries, more products could be exported to the Chinese market under the FTA

²⁶ Due to the absence of data on cereal products in the UN Comtrade database, no relevant estimates are provided for this category in Figures 39 and 40.

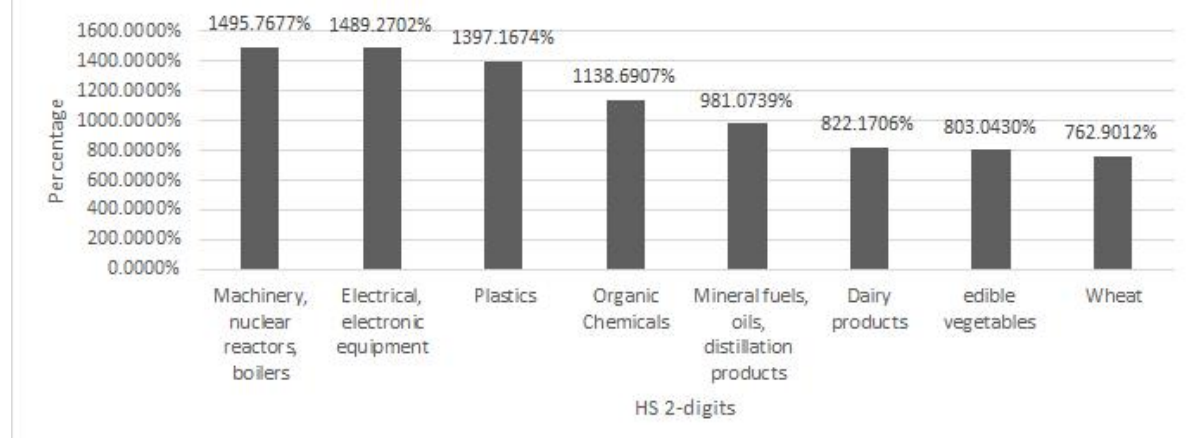
framework. Nevertheless, Korea remains Japan’s closer trade partner in terms of export volume and growth.

Figure 39 Estimated industrial growth rate from Japan to China based on HS 2-digit classifications



Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 40 Estimated industrial growth rate from Japan to Korea based on HS 2-digit classifications

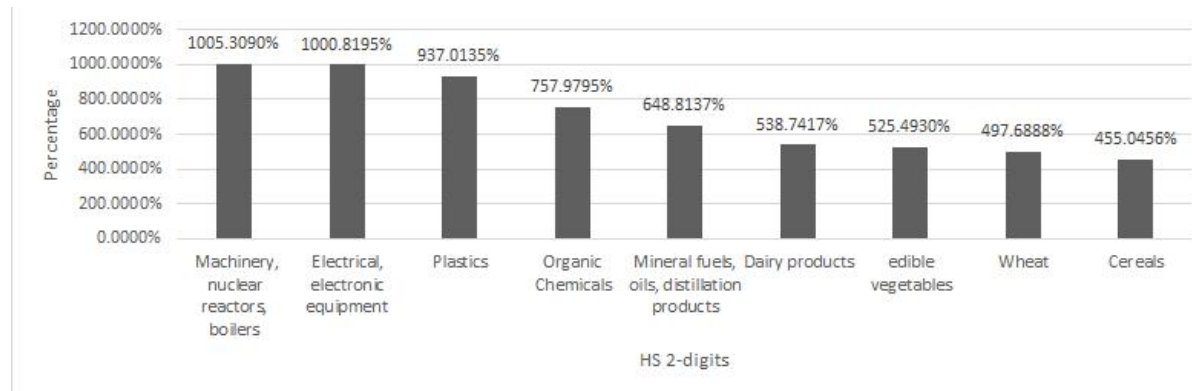


Data source: UN Comtrade database, the estimated results are calculated by the author.

The estimated results in Figure 41 show that Korea’s exports to China have increased, contrasting with the significant decline shown in Figure 34, though the growth proportion remains limited—particularly when compared to Korea’s export growth to Japan in Figure 42. This further confirms that the FTA framework would strengthen trade ties between Japan and Korea more than between China and either state.

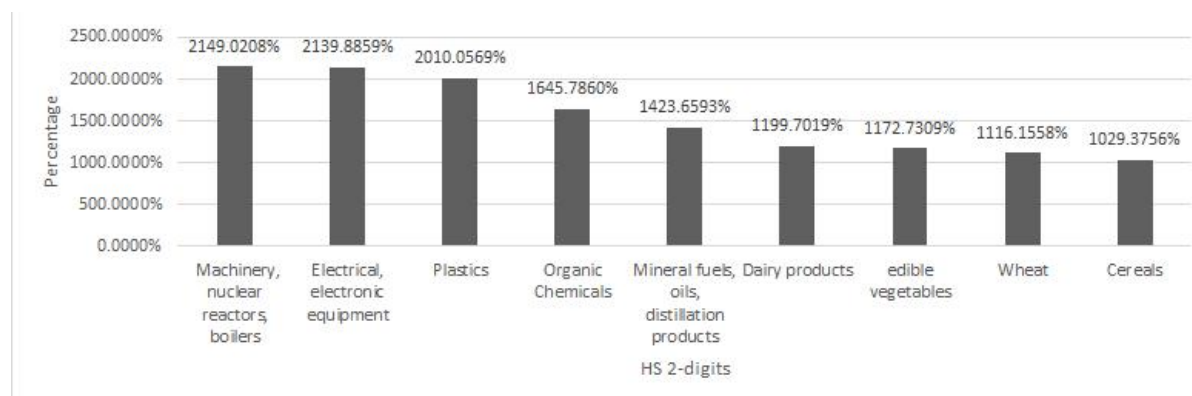
Figure 41 Estimated industrial growth rate from Korea to China based on HS 2-digit

classifications



Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 42 Estimated industrial growth rate from Korea to Japan based on HS 2-digit classifications



Data source: UN Comtrade database, the estimated results are calculated by the author.

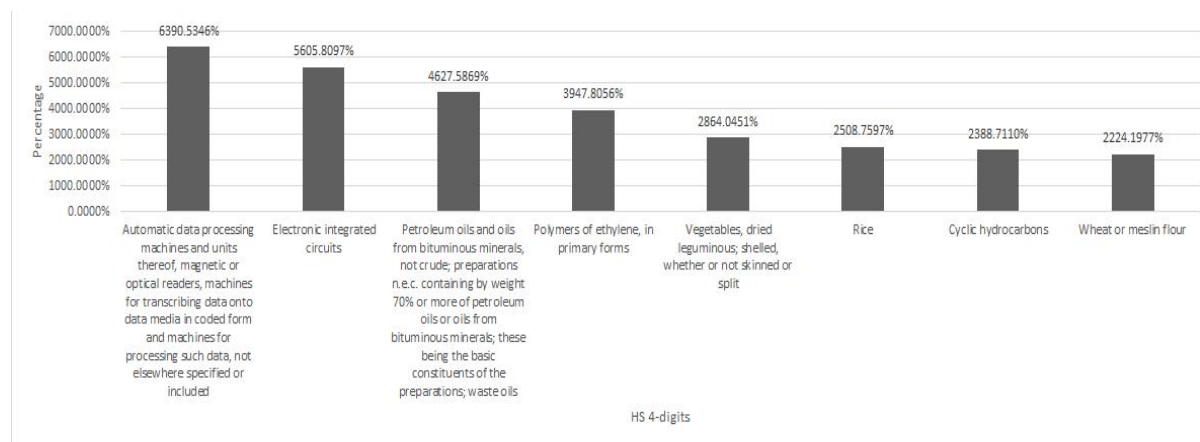
Overall, the SITC and HS 2-digit results show consistent general trends: advantageous export industries grow faster than sensitive agricultural sectors, and Japan-Korea trade relations become notably closer. The next section presents the HS 4-digit analysis, which will reveal the CJK FTA’s potential impact compared to RCEP implementation.

5.4.3.3 Estimated growth rate of industries categorised by HS 4-digit classifications

This section selects the nine most representative sub-categories from the broader nine industries identified in the HS 2-digit database—specifically those with no tariff reduction or a prolonged reduction period under RCEP—to assess the potential impact of the CJK FTA and identify possible areas for further progress.

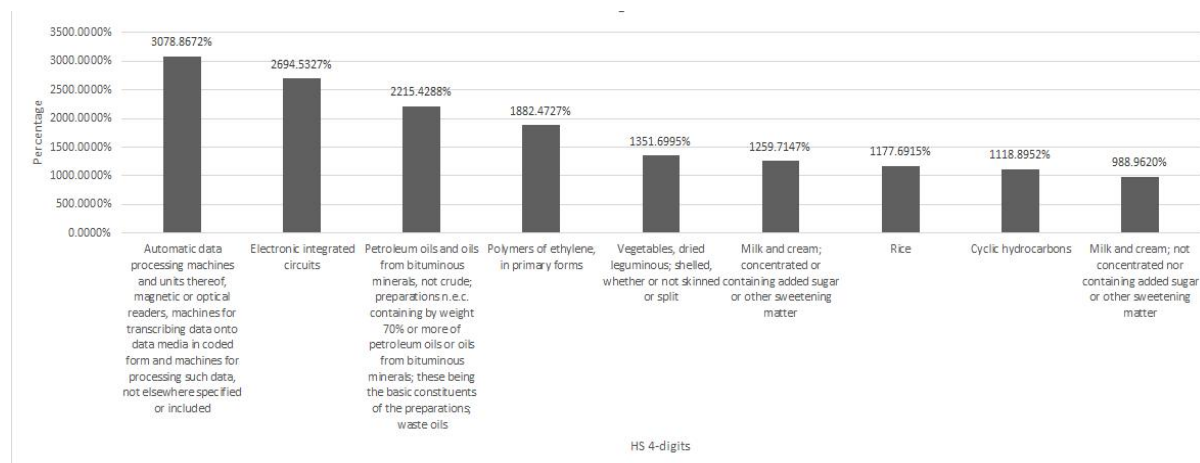
Figures 43 and 44 demonstrate that China’s key export sub-industries, including automatic data processing machines (8471), electronic integrated circuits (8542), petroleum oils (2710), and polymers of ethylene (3901), would experience significant growth when exporting to Japan and Korea under the CJK FTA, while sensitive sub-industries show comparatively smaller increases. Notably, these four product categories exhibit stronger export advantages in the Japanese market than in Korea, reflecting their enhanced competitiveness specifically in Japan²⁷.

Figure 43 Estimated industrial growth rate from China to Japan based on HS 4-digit classifications



Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 44 Estimated industrial growth rate from China to Korea based on HS 4-digit classifications

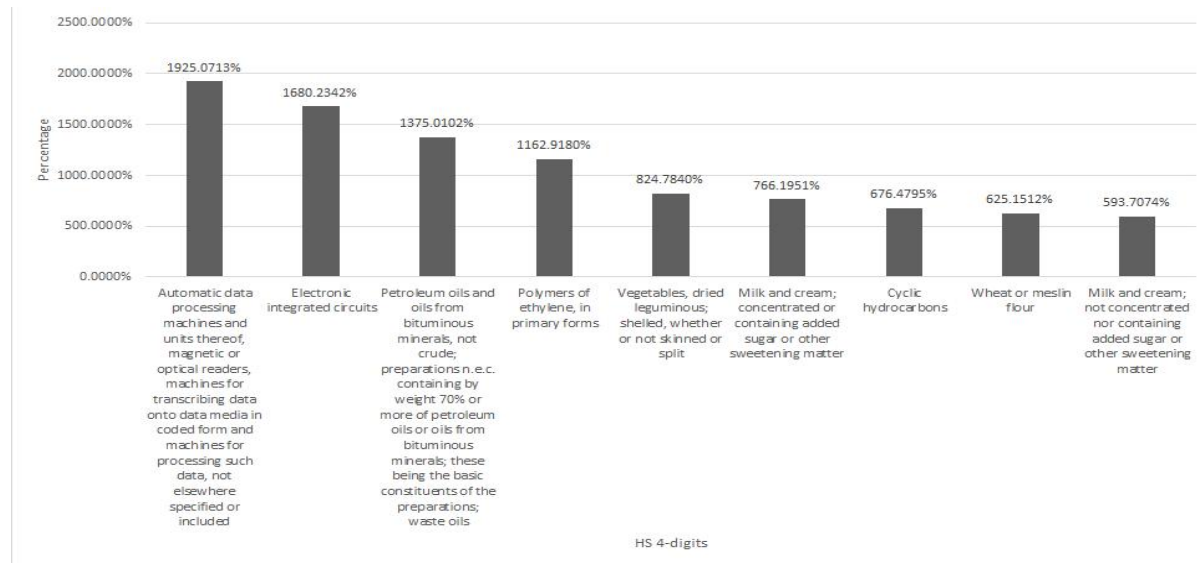


Data source: UN Comtrade database, the estimated results are calculated by the author.

²⁷ Figure 44 excludes HS 0401 due to missing raw trade data.

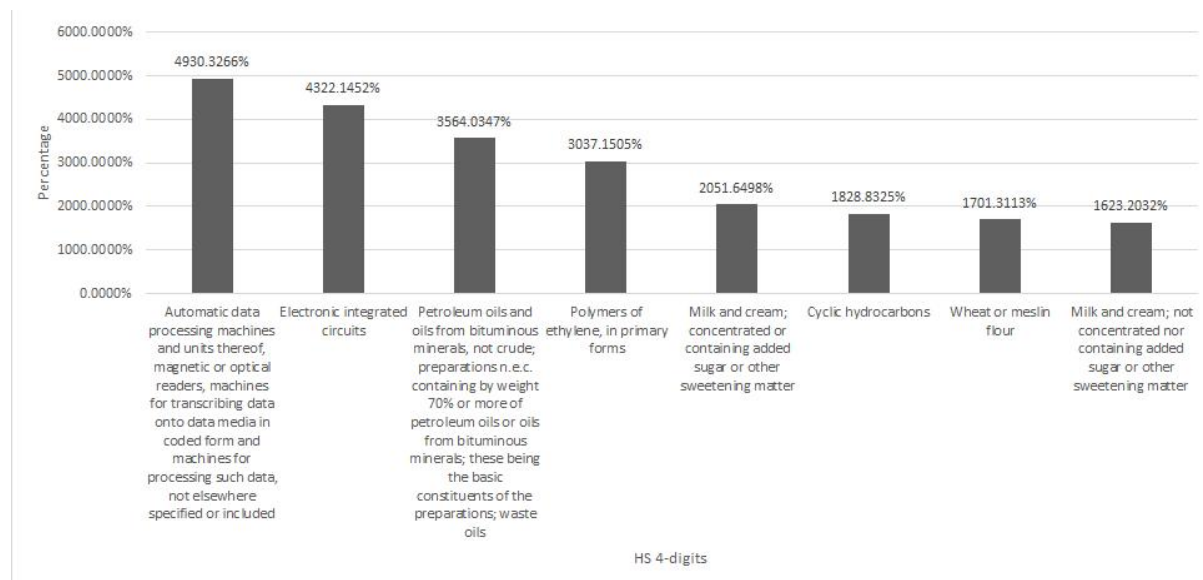
Japan's competitive export items are expected to gain a larger market share in Korea than in China, although total exports to both states are projected to increase to varying degrees (see Figures 45 and 46). At the same time, the Korean market appears more capable of absorbing a wider range of agricultural products due to Korea's limited domestic capacity to develop such goods.

Figure 45 Estimated industrial growth rate from Japan to China based on HS 4-digit classifications



Data source: UN Comtrade database, the estimated results are calculated by the author.

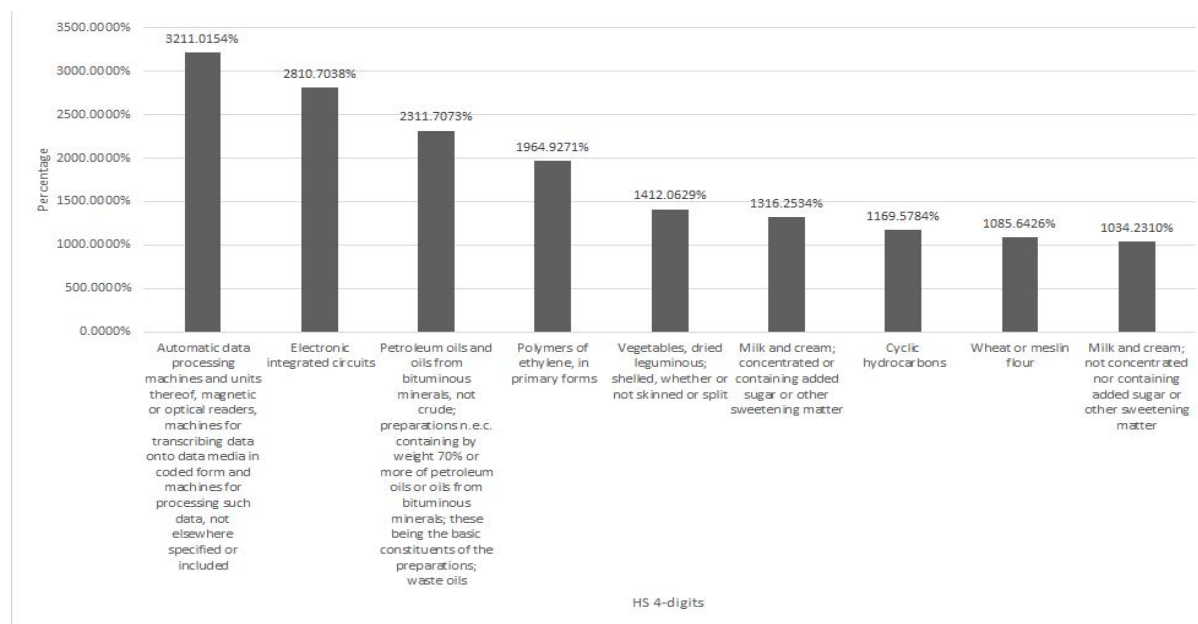
Figure 46 Estimated industrial growth rate from Japan to Korea based on HS 4-digit classifications



Data source: UN Comtrade database, the estimated results are calculated by the author.

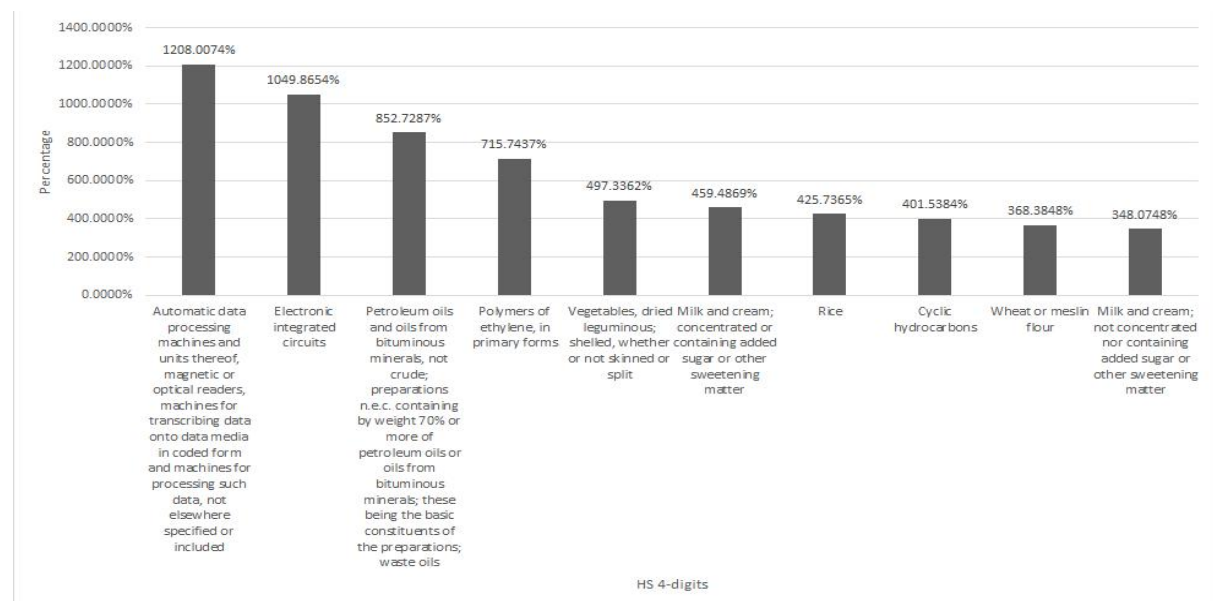
Surprisingly, in these sub-categories, and as shown in Figures 47 and 48, Korea’s exports to China exceeded those to Japan—a trend that contrasts with the results observed in the SITC and HS 2-digit analyses. This outcome is noteworthy, as Korea and Japan share similar industrial structures, suggesting that Korean products may face stronger competition from domestic Japanese goods in the Japanese market.

Figure 47 Estimated industrial growth rate from Korea to China based on HS 4-digit classifications



Data source: UN Comtrade database, the estimated results are calculated by the author.

Figure 48 Estimated industrial growth rate from Korea to Japan based on HS 4-digit classifications



Data source: UN Comtrade database, the estimated results are calculated by the author.

The section revealed clearer patterns of industrial competitiveness among the three nations. Regarding advanced industrial products, Japan maintains competitive advantages over Korea and captures a greater market share. Meanwhile, China demonstrates stronger capabilities in the components and processing segments of key industries, positioning it to potentially export more intermediate goods to both Japan and Korea. These differences highlight complementary yet competitive industrial relationships within the trilateral framework.

5.4.4 Some explanations

Based on the estimated results from the three databases, three key points emerge in the context of a win-win-win scenario.

Firstly, due to the similar industrial structures of Japan and Korea, Japan's advantageous export products—such as machinery and transport equipment—perform more robustly in the Chinese market than those from Korea. Meanwhile, China plays a central role in the production of intermediate goods and components. This conclusion is supported by both the SITC and HS 4-digit results, which show that the growth rate of Korea's advantageous exports to the other two states is lower than that of Japan and China. Although a trilateral FTA would strengthen the connections among the three states, Korea would likely gain more market share in Japan than in China.

Secondly, the HS 2-digit results show that China would benefit most from the CJK FTA, followed by Japan, with Korea gaining the least. The five most competitive export products have greater growth potential than the selected sensitive industries. Even as China, Japan, and Korea shift toward digital and green economies, promoting traditional trade liberalisation under RCEP and CJK FTA remains worthwhile, especially if this economic transformation proves incomplete or if domestic conservative forces gain influence. The data confirms traditional trade deals can still deliver benefits during structural economic changes.

Lastly, the estimated results for HS 4-digit products suggest that exports of medium and high-end products within the existing RCEP—those without tariff reductions due to geopolitical factors or with a 20-year transition period—still offer significant room for further negotiations in the CJK FTA. For example, automatic data processing machines, categorised under HS code 8471, currently do not benefit from tariff reductions but have the potential for a significant increase in trade, potentially growing from 1,208% to 6,390%. If domestic politics within the China-Japan-Korea or the international situation change, there is ample space for further cooperation and adjustments.

Apparently, the CJK FTA not only advances and stabilizes regional supply chain, but also helps the three countries build stronger joint positions in areas such as WTO reform and the setting of international trade rules, while enhancing East Asia's ability to act independently and increase its bargaining power in the international system.

5.5 Conclusion

In this chapter, the partial equilibrium effects of trade value and the specific industry value in the CJK FTA between China, Japan, and Korea, and among a larger group of 57 states are estimated by gravity model. In the first estimation, there is likely to be a notable increase in export rates from China, Japan, and Korea to each other and to the rest of their trade partners in the world, the estimated results present in the Table 19.

Table 19 Export growth rates among China, Japan, and Korea

Exporter	Importer	Trade Value (%)	World GDP (%)	Exporter GDP (%)	Importer GDP (%)
China	Japan	156.75	0.13	1.26	1.53
China	Korea	133.49	0.07	0.73	4.43
Japan	China	366.43	0.15	1.85	1.52
Japan	Korea	689.66	0.07	0.84	4.2
Korea	China	342.00	0.144	8.57	1.41
Korea	Japan	205.00	0.03	1.81	0.36

Data source: Section 5.3.

Additionally, the diversion effect of the CJK FTA would cause an expansion in exports from China, Japan, and Korea to Southeast Asia and America, but a shrinking in exports to Europe. It should be mentioned again that the estimated results will show larger effects than would be present in reality, owing to the drawbacks of the gravity model, which assumes full trade liberalisation.

The analysis of specific industries based on the SITC database, examining exports of products ranging between SITC codes 01 and 10—which contain most of the generic products—show that exports from China to Japan and Korea would grow under the CJK FTA, and the same applies for exports from Japan to Korea. However, the model showed a decline of exports from Japan and Korea to China, owing to the fact that the generic product component captured by the SITC codes contains both dominant and non-dominant products. This made it important to undertake a more refined estimation using data based on HS 2-digits and HS 4-digit classifications. The former narrows the focus to the states' most competitive export industries and sensitive agricultural products, while the latter is further refined to those competitive industries and sensitive industries without tariffs cuts or with a long transition period in RCEP. The final results of this analysis showed that the increase in competitive export industries was greater than that of sensitive industries. It can thus be concluded that China, Japan, and Korea can increase the export of competitive products under the CJK FTA, while continuing to protect sensitive agricultural products.

Finally, let us return back to the three questions posed in the introduction to this chapter. First, how might the CJK FTA reshape trade patterns among members and their global partners? The answer is that China, Japan, and Korea are likely to deepen

their trade ties with each other and strengthen connections with Southeast Asia and the Americas, but experience a short-term decline in trade engagement with Europe. Second, to what extent might the CJK FTA boost bilateral trade between China, Japan, and Korea compared to the RCEP? Obviously, there will be a surge trade exports and imports among RCEP members²⁸, that will increase the members' GDP. Meanwhile, the tariff reduction transition period for goods, especially for export-advantageous products, will be further shortened under the CJK FTA compared to RCEP, due to the benefits of economies of scale. The final question is, how will the CJK FTA affect protected strategic export sectors? Compared with the current advantageous export sectors, the profit margin for sensitive industries under the CJK FTA is likely to be smaller than under previous agreements, and therefore, member states can independently decide whether to include these sectors in the tariff reduction schedule of the CJK FTA.

The introduction of this chapter has already clarified the reasons why we adopted a partial equilibrium analysis instead of a comprehensive full-endowment analysis. In future research, an attempt to achieve more accurate estimated outcomes via the full-endowment counterfactual analysis will be made, by comprehensively considering the influence of GDP, factor endowments (e.g., labour, capital, and natural resources), technology level, and other subsidies and industrial policies in the trade relations under FTAs (see Sections 1.5 and 7.3).

²⁸ Given the need to limit the length of this thesis, this chapter only presented the estimated results of the exports from China, Japan, and Korea to each other; however, the analysis shows that there will also be a surge in exports from RCEP members to the CJK states.

Chapter 6 What role do the developmental states of China, Japan, and Korea play in the process of RCEP and CJK FTA?

6.1 Introduction

Chapters 3, 4, and 5 established the significance of RCEP and the CJK FTA for China, Japan, and Korea as developmental states in accordance with the three states' economic development requirements, and the estimation in Chapter 5 of the considerable benefits of the CJK FTA confirmed that such agreements are a suitable pathway for these states to achieve their goals. China, Japan, and Korea each face distinct domestic challenges in their development, highlighting structural imperfections when evaluated through the four principles of the DS model. These imperfections hinder their ability to fully address domestic economic stagnation solely through internal reforms. At the same time, the regional economic institutions that existed before RCEP were unable to resolve the contradiction between the demands of economic development and the constraints of limited tangible growth. However, the estimated outcome of the CJK FTA suggests that this offers a solution beyond the benefits RCEP provides, addressing the dilemma faced by China, Japan, and Korea. Building on the estimations in Chapter 5, this chapter explores what the developmental states of China, Japan, and Korea can achieve through the CJK FTA now that RCEP is in effect.

The first section of this chapter discusses the strengthening of the DS principles surrounding the current situation in China, Japan, and Korea since RCEP came into force. In Chapters 2 and 3, the economic development circumstances in China, Japan, and Korea before 2000 and for the two decades after 2000 have already been described. The current chapter primarily focuses on the shifts in circumstances post 2020. Since RCEP's inception, the three states have maintained a focus on industrial upgrading from traditional sectors to high-tech innovative sectors. Specifically, the main target for all the three states has been the development of digital products, big data, artificial intelligence (AI), and block chain, but China places more emphasis on the exporting and developing of the 'new three items' of electric manned vehicles,

lithium batteries, and solar panels (General Administration of Customs of the People's Republic of China 2022). China is currently transitioning from the conclusion of its 14th Five-Year Plan to the initiation of its next strategic cycle. Meanwhile, Japan and Korea have recently launched new development initiatives—the 'Open Innovation Startup Project' and the 'Innovation Platform Program,' respectively—aimed at overhauling their industrial structures. All three states are grappling with the challenges of maintaining stable economic growth, particularly in relation to the first and second principles of the DS model, which are economic development is regarded as the top priority to the government and primarily supported by the government-led policies. Simultaneously, each state has made supporting SMEs and private businesses a central policy focus. These efforts, designed to strengthen export capacity and drive economic development, align with the third principle of the DS model, which is the government holds a close relationship with business.

To help this target, a new institute in China named the 'Chinese Private Economic Bureau' has been established, and some Japanese and Korean innovation hub collaborations with government have also emerged to better analyse the new policy direction and support SMEs, in line with the fourth DS principle. Therefore, during this transformational period, as developmental states, China, Japan, and Korea are demonstrating more obvious signs of following the four principles of the DS model.

Following from this, and in combination with the estimated trade and industrial benefits of the CJK FTA, what role do China, Japan, and Korea play in trade cooperation? After experiencing the benefits of RCEP, despite the tense Sino-US relations, Japan and Korea reignited their motivation in 2024 to vigorously promote FTAs, including the CJK FTA, driven by the need for economic development (Chang 2025). As mentioned in Chapter 1, in May 2024 China, Japan, and Korea returned to the 'CJK leadership summit' after four and half years of abeyance, and the leaders have clearly stated their intention to facilitate the next round of CJK FTA negotiation at the earliest opportunity. In this context, the second section of this chapter discusses the following question: How does the CJK FTA help China, Japan, and Korea to meet their DS objectives? Based on the outcome of the RCEP, economic development and trade cooperation, industrial structure upgrading, the growth of SMEs, the greater maturity of domestic supporting institutions, and closer trade relations with Southeast Asia can be further advanced in the CJK FTA for the three states. Hence, the four elements of DS model—willingness, policy, enterprises and auxiliary institutions—in the developmental states are embedded within the CJK FTA.

6.2 Reinforced characteristics: Application of the four principles of the DS model

Leveraging RCEP, strengthened trade interactions have brought significant positive impacts to the economies of China, Japan, and Korea. This regional FTA not only brings about a fairly large consumer market for exports from the three states, but also promotes regional supply chain optimisation (Petri and Plummer 2020). Meanwhile, RCEP has unified certain rules and standards, enabling fair competition for Chinese, Japanese, and Korean products in ASEAN states. This compels enterprises from the three states to improve product quality. Additionally, ASEAN states' growing demand in emerging fields such as green industries, new energy, and smart manufacturing through the RCEP agreement is further motivating China, Japan, and Korea to optimise and upgrade their industries (Li 2023). Hence, this section highlights the changes that have occurred in the wake of RCEP and their implications for the development models of these states, as interpreted through the lens of the four core principles underpinning the DS model. The aim of this discussion is to ascertain what practical impact this FTA is having for China, Japan, and Korea as developmental states, to lead into the study of the likely effect of the CJK FTA for the three states in their DS objectives (see Section 6.3).

6.2.1 Economic growth as priority: China, Japan, and Korea are each in their own stage of industrial transformation

Over time, economic growth has continued to be the top priority for the governments of China, Japan, and Korea (see Section 2.3.3 and 3.2.1, 3.3.1, 3.4.1), and this goal has been verified again by the governments, including through their cooperation after 2020 (Zhu and Wang 2022). In the RCEP agreement, China places emphasis on promoting global economic development as the first target in Chapter 1 (Ministry of Commerce of the People's Republic of China 2020), indicating that the target is to 'establish a modern, comprehensive, high-quality, and mutually beneficial economic partnership framework to promote the expansion of regional trade and investment, drive global economic growth and development...'. This point is also stated in subsequent government reports, such as the 'Assessment Report on the

Impact of RCEP on the Regional Economy’ (2022), the ‘RCEP Regional Cooperation Effectiveness and Development Prospects Report 2023’ (2023), the ‘China-ASEAN Economic and Trade Cooperation Report’ (2024), and ‘Guiding Opinions on the High-Quality Implementation of the Regional Comprehensive Economic Partnership (RCEP)’ (2022). In these reports, the Chinese government offers the suggestion that enterprises and firms should seize this chance to integrate into regional economic cooperation, thereby further expanding the potential of regional trade and investment cooperation.

Meanwhile, economic recovery and development has become the most significant mission for Chinese central and local government after the decrease in the GDP growth rate during the pandemic (from approximately 2020 to 2022) (see, e.g. Chen and Ren 2022; Liu and Wang 2022). In the government’s 2023 report on its work, how to stabilise the economic situation and ensure economic growth is the first issue discussed (State Council of the People’s Republic of China 2023). In response to multiple factors at home and abroad as well as the impact of the pandemic on the economy, the Chinese government has stepped up its macro-control efforts, optimised pandemic prevention and control measures, and used the policy tools accumulated in recent years to stabilise the economy (Sun 2023). The emphasis on economic development has a well-defined source in the 18th CPC conference in 2013, when Chinese President Xi underlined that development is the base and the significance of solving every problem in China, while making economic development the central task is essential to rejuvenating the state (Xi 2013); these statements are still suitable for the current situation. During 2023 to 2024, Xi presided over every Central Economic Work Conference, published important speeches and important articles on economic development, and organised for the Political Bureau of the Central Committee to understand the mission of the Central Economic Work Conference (Central Committee Party Literature Research Office 2025). As the second-biggest economic entity in the world, economies of scale have helped China establish a relatively complete industrial system and expanded domestic demand. The resulting economic prosperity has enabled it to carry out its socialist modernisation goals (People’s Daily 2023), and therefore economic development is the top priority for China, especially in the current tense international situation between China and the United States.

This marks a slight departure from the pre-2020 period, during which the government also prioritised economic growth. Another important reason for economic growth being a priority for China now is that industrial transformation is at its most

critical stage (Jin 2025). This point is also revealed in the ‘Guiding Opinions on the High-Quality Implementation of the Regional Comprehensive Economic Partnership (RCEP)’. In this RCEP report, promoting the upgrade of manufacturing and enhancing industrial competitiveness by leveraging RCEP has become a focal point. This can be seen through statements like, ‘Guide and encourage enterprises to leverage the implementation of RCEP as an opportunity to ... improve quality standards, promote industrial upgrading, and strengthen their competitiveness in the international market’. This is because, as the report of the 19th Communist Party Congress made clear, the Chinese economic focus had already moved swiftly from high-speed development to high-quality development (Xi 2017), and the report of the 20th CPC conference stated that ‘high-quality development is the primary task of comprehensively building a modern socialist state’ (Xi 2022). This means that China has gradually started the reform of its supply-side structure, transforming from traditional industrial sectors to new technological sectors in line with the international division of labour, and at the same time exploiting core key technologies (Liu 2023). The importance of industrial transformation has been emphasised in Xi’s most recent conference speech, which focused on China’s need to implement the strategic tasks of accelerating the development of a modern economic system, promoting self-reliance in high-level science and technology, and accelerating a new pattern of development, in the context of a large number of internal and external restraining factors (Xi 2024). These are the highest priorities (Xi 2024). For China, economic recovery and industrial transformation have been two main aims for the government in recent years.

Similarly, over the past two decades, facilitating global economic development has also been the main goal of the Japanese government via the RCEP agreement, and Japan also hopes that more enterprises and firms can engage in its FTA strategy (Takahashi and Urata 2023). In the ‘Diplomatic Bluebook 2023’ (2023), ‘Implementing Guidelines for Rules of Origin’ (2022), and ‘Utilization Reports by the Institute of Developing Economies (IDE)’ (2024), the Japanese government, and its departments, monitor the increased rates of FTA/EPA usage by enterprises and demonstrates its appetite for promoting trade liberalisation further. For example, in the ‘Diplomatic Bluebook 2023’, the Japanese government stated that it would ‘bolster free and open global economic systems by promoting economic partnership agreements, while maintaining and strengthening the multilateral trading system ... supporting the overseas business expansion of Japanese companies through promotion of public-private partnerships’. This focus arises from the surge in inflation during

2022, which made the Japanese government focus on economic growth again rather than its previous focus on social benefits (Kiuchi 2023). In the context of weakly effective economic policy, public support for Prime Minister Kishida and the Japanese government declined continuously from 37.6% at the end of 2021 to 33.1% in the end of 2022, with 71.1% not supporting Kishida's economic policy (The Jakarta Post 2022). Therefore, the Kishida government advanced its 'New Capitalism' policy which moved from social distribution to economic growth. This moved away from the previous 'Startup Development Five-Year Plan' and stimulated the confidence of foreign investment and trade partners through speeches at conferences, making them to believe that Japan was implementing a big change and was worthy of investment and trade (Kishida 2022). In the regular national congress in June 2024, Kishida promised that he would improve his policy and action in response to the public criticism that not enough has been done, and admitted that this was the critical period for Japan to establish a new type of economy. Focusing on the concerning levels of inflation, Kishida and the Japanese government planned to promote the measures for coping with this as soon as possible, making their biggest efforts to gain consecutive re-election during the second half of 2024, in the context of a decreasing support (Asahi Shimbun 2024).

Japan started its industrial transformation from September 2020, and Japanese scholars determined that RCEP could accelerate domestic industrial upgrading through this agreement's ability to provide more opportunities for cooperation and partnerships, which would improve the Japanese position in the supply chain (Itoh 2020; Oki 2023). After RCEP, the Japanese government set up a Digital Agency to progress digital transformation through departments and the private sector (Yokoi 2023). In the 'Startup Development Five-Year Plan', Japan straightforwardly depicted itself as promoting open innovation, which meant it intended to create more innovative technological products generally through large enterprises (Cabinet Secretariat, Government of Japan 2022). In other words, Japan is committed to fostering a world-class, cutting-edge technology, with the aim of enhancing its productivity and competitiveness in the global market. According to the newest research about the progress of digitisation, a high portion of Japanese enterprises have not yet started to innovate and are still 'preparing for the disruption' (Yokoi 2023). Given the slow motion of industrial transformation, the Japanese government has tried to cooperate with the United States to accelerate its rate, so as to 'maintain and strengthen the competitive edge in the area of advanced technologies' (Yomiuri

Shimbun 2024).

As a traditionally export-oriented state, economic development and foreign trade is the most important thing to Korea, and therefore the Korean government and its departments have strongly focused on the economic effect of RCEP to relevant industries (Kim and Lee 2022). After RCEP, the Korean government released the ‘RCEP Detailed Explanation Materials’ (2021) for helping domestic enterprises engage in RCEP. At the same time, the Korea Rural Economic Institute, the Korea Institute of Environment and Industry Technology, the Korea International Trade Association, and local research institutes have issued reports to study the economic benefits of RCEP for related industries and regions.

The year of 2022 was not only the first year for RCEP, but also for Korean President Yoon Suk-yeol. He prioritised the market economy for the purpose of using rapid growth to fix Korea’s issues (Kim and Vogal 2023). As Yoon’s inauguration speech stated, to build up a prosperous market economy in Korea is one of the top missions for today’s generation (Yoon 2022). For achieving ‘a new and co-prosperous Korea for all residents’, his goals include a ‘dynamic economy led by people and supported by government’ as well as ‘freedom, happiness, warmth and peace.’ During 2022, owing to the rising geopolitical tension and China’s slow economic recovery, the Korean economy experienced high inflation and inactive exports, resulting in a lack of momentum in GDP growth (Jung 2024; OECD 2022). Rising government and household debt in 2023 delivered a further blow to the Korean government (Jung 2024). After this, Yoon’s public support decreased to a low of 21%, compared with 53% when he took into office in 2022 (Kyodo News 2024). In the press conference held on the second anniversary of his government in May 2024, Yoon apologised for the Korean economic slowdown, and pledged to give his full attention to domestic economic growth next; as he said, the ‘economy is the most important thing to Korea’ (Hancocks 2024).

Around the same time, in August 2020, the Korean government announced its strategy for the innovative growth of digital industries, which was the predecessor of the Korean New Deal Program 2.0 of 2021, and was supported by the government’s enactment of the ‘Industrial Digital Transformation Promotion Act’ (Kim 2022). This meant that Korea put itself on a similar pathway as Japan in terms of exploring cutting-edge technology such as quantum computers, AI-involved algorithms, and intelligent semiconductors through digitalisation. However, the slowdown of

economic growth has revealed that Korea's industrial transformation is not going well; Korean enterprises, especially SMEs, have not been able to fully take advantage of AI technology, and Korea's AI literacy, and AI talent and research are still weak (Kim 2023). Even big enterprises, like LG, are still looking for the best way of benefiting from cutting-edge technology (Kim 2023). It can be concluded that the success of industrial transformation is the only way for Korea to increase its export competitiveness and escape from slow economic growth, but the current road to structural upgrading has not yet seen great results.

6.2.2 Government transformation policy: China's 15th five-year plan, Japan's Startup Development Five-Year Plan, and Korea's innovation-driven policy

Chapter 2 and 3 concluded that the national economies of China, Japan, and Korea were shaped by government-led policies prior to 2000, and that these policies continued to shape the states' FTA strategies after 2000. After 2020, both before and after the RCEP, China, Japan, and Korea have still relied on government-led policies—the second DS principle—to control and guide their economic development. This is because the three states, at this stage, have two common goals: economic recovery as the first and most important one, and industrial transformation or upgrading as the other. Chapter 3 included a discussion of the partial failure of the principles for Japan and Korea in this regard. However, just as their FTA strategies and relevant government policies have proven effective (see Section 3.2.1, 3.3.1, 3.4.1), RCEP has similarly compensated for the shortcomings of their domestic economic policies. By shifting the stage of economic development from the domestic sphere to the regional level, intense competition has compelled nations to fully commit to enhancing their competitiveness and thus bringing about economic development (see, e.g., Porter 1990; Nickell 1996; Rajnoha and Lesníková 2022). This has helped prevent excessive interference from domestic bureaucracies, corporations, and interest groups. Then, during the period from 2022 to 2024, the three states' governments released a series of policies around their goals, including China's 15th five-year plan, Japan's Startup Development Five-Year Plan as part of 'New Capitalism', and Korea's dual-driven policy including innovation. This subsection illustrates these policies individually for the sake of better analysing each state's current domestic situation.

China is in a transition period between 14th five-year plan and 15th five-year plan, and is seeking to shift from ‘high-speed’ development to ‘high-quality’ development in its industrial sectors (Asian Development Bank 2021). In 2022, after pandemic-controlled policy had been in place for two years, a number of issues arose, including insufficient demand, sharply reduced imports and exports, and an unstable industrial and supply chain. Focusing on those issues, China released policies like the ‘Outline of the Strategic Plan for Expanding Domestic Demand (2022–2035)’ (Central Committee of the Communist Party of China and the State Council 2023) and ‘Opinions on Promoting Stability and Improving Quality of Foreign Trade’ (General Office of the State Council 2022), providing the solutions of giving out coupons to stimulate consumption and ensuring the effective and fast infrastructure and processes required for the supply chain and foreign trade. To align with the policy of foreign trade and industrial upgrading, at the executive meeting in 2021, the Chinese State Council stressed that RCEP should be used to promote the manufacturing industry moving towards the medium and high-end, and to complete the upgrading of product quality (State Council of the People’s Republic of China 2021). Then, in 2022, the document titled ‘Guiding Opinions on the High-Quality Implementation of the Regional Comprehensive Economic Partnership (RCEP)’ was released by the Chinese Ministry of Commerce, requiring the National Development and Reform Commission, the Ministry of Industry and Information Technology, and all local governments to support manufacturing industry upgrading and high-end industry cooperation through the use of sufficient resources, technology, equipment, and networks (Ministry of Commerce, National Development and Reform Commission, Ministry of Industry and Information Technology, People’s Bank of China, General Administration of Customs, and State Administration for Market Regulation 2022).

The Chinese government has identified the traditional pillars of the industrial sector as the battle ground for high-quality development because the development of pillar industries can provide strong support for the Chinese industrial transformation project (Liu and Ling and Sun 2024). In 2023, the Chinese Ministry of Industry and Information Technology jointly issued plans for the stable growth of ten key major manufacturing industries—steel, non-ferrous metals, petrochemicals, chemicals, building materials, machinery, automobiles, electric power equipment, light industry, and electronic information manufacturing—with the aim of formulating policies and measures to achieve this stable growth. These sectors are the primary trade categories in China’s FTAs, including RCEP (Ministry of Industry and Information Technology

2023). On the other hand, it is also important to develop new pillar industries around new-generation information technology, new materials, and biological and high-end equipment manufacturing (Liu and Ling and Sun 2024). The publication of the ‘New Industry Standardization Pilot Project Implementation Plan (2023–2035)’ in 2023 provided a Chinese blueprint for exploiting competitive opportunities in the fields of quantum computing, life science, AI, and other cutting-edge technological industries (Lin 2024).

Based on this industrial development policy and the achievements of RCEP, the Chinese government further enhanced the connection between internal trade and external trade to achieve its targets (General Office of the State Council 2023). In 2020, the Chinese government announced its ‘internal and external double-circle economic model’ (General Office of the State Council 2020), which sets the determination of trade as a pillar of economic growth. And the guide titled ‘Measures to Accelerate the Integration of Domestic and Foreign Trade’ in 2023 added, in particular, a further five points: increasing the connection of trade regulation internally and externally; promoting the integration of channels internally and externally; improving conditions both internally and externally; reinforcing development in the key foreign trade areas; and lifting financial and fiscal support. Specifically, the first step involves boosting visibility in key areas such as bulk trade commodities, foreign contract projects, intelligent connected vehicles, e-commerce, and payment and settlement services. Secondly, the government is seeking to deepen international cooperation under the framework of RCEP and the BIR. Thirdly, it wants to break local protection to accelerate the formation of a unified national large market to promote domestic and foreign trade, and then support cross-border e-commerce and domestic and foreign trade integration enterprises. Lastly, it aims to strengthen the guarantee of infrastructure for foreign trade cooperation. For example, the development of policy for new energy cars in Chinese foreign trade is one of the most significant areas in Chinese economic development policy. The release of ‘Opinions on Supporting the Healthy Development of New Energy Vehicle Trade Cooperation’ in 2023 revealed the importance of this sector in China, which is the largest producer of and market for electric cars (Ministry of Commerce, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Finance, Ministry of Transport, People’s Bank of China, General Administration of Customs, State Administration for Market Regulation, and National Financial Regulatory Administration 2023). Central and local governments,

with all their departments, need to deliver comprehensive and multi-level support and guarantees for opening up the global market for cars.

Japan embarked on ‘New Capitalism’ in 2021, which put more emphasis on the government using social distribution for the purpose of ‘consistent and accepted economic development’, and this partly led to the slowdown of Japanese economy (Nakata 2022; Funabashi 2022). Kishida’s government then promoted a new form of New Capitalism in 2022, with more focus on attracting large amounts of foreign investment and increasing consumption demand, aimed at ‘growth’ and ‘distribution’ (Kishida 2022). In other words, the Japanese government’s new hope was to arrive at economic growth first and distribution second, not only driven internally but by all the global forces, including international organisations, governments, enterprises, and NGOs. However, as with the problems analysed in Chapter 3, the Japanese government cannot only rely on its domestic circumstances to reach its goals due to obstructive domestic forces. Therefore, RCEP revealed its importance for Kishida’s government. At the 27th International Communication Conference in 2022, when Kishida acknowledged the role of RCEP and other regional FTAs in the process of standardising trade and improving the supply chain, under Japanese ‘New Capitalism’ (Kishida 2022). METI, MOFA, and MAFF recognised RCEP’s role of increasing Japanese economic influence in the Asia-Pacific region and of establishing a reasonable regional economic system.

Under this guideline, the Startup Development Five-Year Plan has been promoted. To achieve Japan’s goal of becoming the largest Asian startup hub and one of the world’s leading clusters of startups, this project has three significant pillars, which are related to human resources networks, larger investment, and open innovation. From the perspective of industrial upgrading, the plan notes that new industrial fields of deep technology, like agriculture and medicine, should be regarded as the core and priority sectors for the next generation of industries, and should also become the main goal for the Japanese government and its departments (Cabinet Secretariat of Japan 2022). Other sectors like digital products, big data, AI, and block chain are also important target sectors for the Japanese government. In addition, digital and green transformation are also key goals for Japan’s future (Permanent Mission of Japan to the International Organizations in Geneva 2023). To better develop cutting-edge technologies, the Japanese government has passed a series of economic security acts and published supplemental guidelines to help enterprises safeguard their inventions and information (Sonoda & Kobayashi Intellectual Property Law 2024). At the same

time, absorbing a large amount of foreign investment is another mission. In addition to the goal in five-year plan, MOFA and the overseas office of the Japan External Trade Organization (JETRO) are taking several measures to encourage savings generated from inward FDI, and has set up 126 diplomatic missions to increase the chances of attracting FDI (Sonoda & Kobayashi Intellectual Property Law 2024). Sufficient FDI stock is essential for Japan to purchase resources and nurture researchers in order to develop the most advanced technologies.

Although RCEP does not establish comprehensive or binding principles specifically targeting cutting-edge technologies, environmental protection, or the digital economy, this FTA requires members to promote e-commerce cooperation, cut tariffs for clean energy products, and protect intellectual property rights, which represents progress compared with prior economic institutions (Umezaki 2022). In reality, for Japan, the CPTPP, RCEP, CEPA and other multilateral and bilateral FTAs and RTAs, which represent 80% of Japan's trade, are still promoted. As part of its aim for a 'free and open trading system' expressed in Japan's Trade Policy Review during 2022 to 2023, the Japanese government attempted to expand its cooperation from traditional fields to non-trade related concerns, such as data flows and agriculture, and from its current partners to more African states. At the same time, digitalization can enable Japan and its trade partners to strengthen cooperation through AI and other advanced technologies. In the OECD Ministerial Council Meeting in the middle of 2024, Kishida highlighted the need to use FTAs to strengthen cooperation to enhance economic resilience, protect critical technology, and secure supply chains (Kishida 2024). Japanese FTA policy, including RCEP, is a key to developing this state's domestic economy, driving industrial upgrading, and amplifying its influence in the Asia-Pacific (Urata 2023; Oba 2022).

Even though a similar structure can be seen in both the Korean and Japanese new industrial transformation policy surrounding innovation in economic growth, Korea's innovation-driven policy started in 2018, earlier than Japan's. In addition, one of its most important drivers was to revitalise the growth of SMEs through technological innovation, aiming to reduce reliance on the Chaebols, which were acting as the primary hindering force (see Section 3.3.2), and to build a more diversified and resilient economic structure (Gress 2022). Taking advantage of the Innovation Platform Program (IPP), which combines all resources into a comprehensive ecosystem, the Korean government wanted the innovation of technology to deliver the motivation for economic growth and the fourth industrial revolution (Kim and Choi

2019). At the same time, the Korean government hoped to integrate into the global value chain through FTAs, including RCEP, and to optimise its industrial structure and enhance the competitiveness of SMEs (Ministry of Trade, Industry and Energy 2020). After Yoon came to power in 2022, the economic policy direction of the Korean government shifted to a market orientation, through market selection and tax cuts to boost the economy, technology, labour employment and to attract investment. However, the overall slowdown of the economic situation during 2022 to 2023 made this policy ineffective (Korea Times 2024). The market-oriented economic policy was the subject of local criticism, and thus there have been some shifts, evident in Yoon's recent speeches, towards a focus on a policy of economic growth. For example, in the Korea-China-Japan business summit in mid-2024, Yoon admitted that RCEP and other FTAs have had a positive impact on enterprises' communication and development, and on regional economic cooperation, and that the government should treat RCEP with more passion (Yonhap News Agency 2024).

Meanwhile, in practice, the Korean government has utilised a series of policies to support its general economic policy in the past two years. From the perspective of industrial development, the Korean government has relaxed the tax for digital and green carbon industries (Invest Korea 2024). At the same time, innovation industries are still the key for Korea's economic development, and it has continued to maintain the sandbox system to cultivate the ecosystem for these industries put in place by the previous Moon government. Yoon's government has also helped enterprises to transfer their innovative technology to the new generation through a tax reduction system (Invest Korea 2024). From the perspective of core advanced industries, chips, batteries, carbon neutrality, and hydrogen energy are the most significant of these supported by government finance (Ministry of Economy and Finance 2023). Due to the unified rules of origin, the higher standard of products, and the greater convenience for enterprises, RCEP and other FTAs are a beneficial choice for Korea to strengthen its position in emerging technology industries (Lee 2022).

Given the importance of RCEP and other FTAs to Korea's economic development, the country must further promote exports and ensure stability in the import of essential inputs (Sohn 2001; Li and Duo and Hong 2025). Yoon has announced that the government will implement policies to develop and support export-oriented enterprises. These initiatives aim to ensure that their products meet international standards, thereby preventing standardisation issues from complicating foreign trade (Xu 2023). In addition, Yoon presided over export strategy meetings in 2022 and

2023, targeted on Korea becoming the world's fifth largest exporter through the establishment of a cross-sectoral export promotion support system (Yonhap News Agency 2022).

In sum, RCEP implementation and the industrial policy adjustments of China, Japan, and Korea are being carried out in parallel. As a result, the three governments regard RCEP as an important opportunity to achieve their objectives. For China, the government hopes to advance its manufacturing industry to the medium-high end by means of strengthening the competitiveness of domestic enterprises in regional cooperation. For Japan, RCEP provides an effective opportunity to attract more FDI into innovative high technologies. For Korea, this state also wants to integrate into the supply chain and occupy a high-end position via RCEP, as well as pursuing innovative technologies. Hence, RCEP plays a positive role in regard to the second DS principle for China, Japan, and Korea.

6.2.3 Nurturing and supporting the development of SMEs and private enterprises

The original third principle of the DS model is about the close relations between government and industrial sectors, including companies and interest groups. In Chapter 3, there was a discussion about the dysfunction of this principle in Japan and Korea owing to the issues of Japan's Keiretsu and its bureaucrats, and Korean Chaebols. Now, to further expand exports, the governments of China, Japan, and Korea are planning to create a diverse environment through supporting the development of private enterprises and SMEs, so as to stimulate the economy.

In the Chinese guidelines for the high-quality implementation of RCEP, domestic enterprises are encouraged to expand the export of manufacturing products and equipment products, and the import of core technology, raw materials, and key components. Meanwhile, the central and local governments are encouraged to support these enterprises to effectively utilise cumulative rules of origin, origin facilitation measures, and cross-border mobility facilitation (Ministry of Commerce, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Finance, Ministry of Transport, People's Bank of China, General Administration of Customs, State Administration for Market Regulation, and National Financial Regulatory Administration 2022). In these guidelines, the Chinese

government urges the Ministry of Commerce, customs administration, and local governments to provide supporting services to enterprises, by means of setting up an FTA public service platform, strengthening the service function of overseas business agencies and exhibitions, offering training, and tracing the enterprises' progress (Ministry of Commerce, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Finance, Ministry of Transport, People's Bank of China, General Administration of Customs, State Administration for Market Regulation, and National Financial Regulatory Administration 2022). This policy accelerates the cooperation between governments and enterprises further. In addition, Chapter 3 of the RCEP agreement clearly indicates that SMEs are the key focus in understanding the rules for determining the origin of goods eligible for preferential tariff treatment, which demonstrates the willingness to nurture SMEs in member states under this cooperative framework (Ministry of Commerce of the People's Republic of China 2020). Based on these supporting policies, domestic enterprises and firms have responded positively, which was illustrated in Section 4.4.3.

Within its promotion of RCEP, the Chinese government decided to further explore the potential of private firms. In 2023, the Chinese government released the 'Opinions on Promoting the Development and Growth of the Private Economy', which symbolises that the Chinese central government has shifted its focus to some extent from SOEs to the private sector. This action, in fact, reflects the fact that private sector firms paid 59% of enterprise tax, accounted for 65% of total GDP, and represented 92% of all Chinese enterprises in 2021 (Jiang 2023), and thus have already been the pillar of economic development in China. Specifically, this report was aimed at protecting the rights and benefits of private enterprises to help them avoid default by local governments, difficulty in obtaining financing from banks, and pressure from public opinion, and to encourage the expansion of overseas exports from private enterprises (National Development and Reform Commission 2023). At the same time, the Chinese government sought to attract these private enterprises into the state's strategy for development, meaning that it supported them to undertake research tasks in the fields of industrial software, cloud computing, AI, industrial internet, gene and cell medicine, and new energy storage, for the purpose of industrial transformation (National Development and Reform Commission 2023). To support these policies, auxiliary tools are being offered such as tax rebate policies, allocating research and development expenses, offering small and micro loans, providing land,

and granting the right to independent title selection to the private sector (National Development and Reform Commission 2023).

Assisting the growth of the private sector has thus now become the primary approach for the Chinese government relevant to economic development. In the most recent central economic working conference of 2024, the work plan for the New Year was to promote the development and growth of private enterprises, and implement a number of measures regarding market access, access to production factors, fair law enforcement, and the protection of rights and interests.' (Liu and Wang 2024). In the middle of 2024, the Ministry of Commerce put forward a set of best practices aimed at enhancing the implementation of RCEP, including 28 recommended practices for local governments to further enhance RCEP utilisation and deliver benefits to all enterprises (Ministry of Commerce of the People's Republic of China 2024). At the same time, local governments, who echo the central government, released policies relevant to breaking protectionism and providing support. For example, the '30 measures' from Guangdong province provide for a fair competition policy system, improvements to the supervision system, and recommendations for advantageous investment projects; they also encourage participation in research for major strategic projects, and offer help in training technical engineers and craftsmen for private companies (Guangdong Provincial People's Government 2024). Other provincial governments have similar policies. This comprehensive government policy support leads to better results for the private sector, in terms of national key high-tech industries such as manufacturing, scientific research and technical services, and information transmission software and information technology services, with the proportion of private economic entities in these fields increasing from 95.9%, 91.9%, and 92.4% in 2019 to 96.1%, 94.4%, and 92.4%, respectively (Kong 2024). In the future, more and more preferential policies will be targeted at the private sector in China.

As discussed in Section 3.2.3, the overreach of bureaucrats in Japan's economy, particularly through the Keiretsu system, has hindered the development of SMEs, leading to a decline in market dynamism. This issue has been alleviated to some extent by the implementation of RCEP. The Japanese RCEP guidelines, published in 2022 by JETRO, point out that the central and local governments, departments, and customs support convenient services to enterprises through accelerating custom clearance speed, protecting trademarks and intellectual property, and supporting cross-border transfer of information for business development purposes (Japan

External Trade Organization 2022). This commitment to support enterprises in FTAs conforms to the Japanese government's general policy. Later, the Kishida government's 'New Forms of Capitalism' policy emphasised the correlations between public and private sectors, and focused on the relations between government and enterprises (Men 2023). Kishida determined that the enterprises and their owners should contribute back to society, meaning that the public and private sectors should collaborate on major strategic projects, such as technological innovation, digital transformation, and climate change. Under this ideological guidance, and with big enterprises as the base, SMEs became the new emerging entity supported by government. The Japanese 'Startup Development Five-Year Plan' obviously reflects the government's plan for SMEs, including its intention to invest 20 billion yen into enhancing the investment ability of SMEs, and helping them to develop by providing more basic facilities, capital loans, and relevant services (Cabinet Secretariat, Government of Japan 2022).

Chapter 14 of the RCEP agreement focused on how to help SMEs increase their ability to gain benefits, revealing the importance of SME development (Ministry of Foreign Affairs of Japan 2020), and Japan is also continuing to move ahead in this direction. In a 2024 press conference, Kishida again emphasised that SMEs are a top priority in the planning of Japan's new economic stage, and contain 70% of employees (Prime Minister's Office of Japan 2024). A series of favourable policies, such as training managers, establishing communication organisations between enterprises and local governments, coordinating fair competition among enterprises, and helping enterprises achieve digital transformation, have publicly shown the government's robust determination (Ministry of Economy, Trade and Industry 2023).

Under the Japanese government's RCEP guidelines, prefecture governments are also encouraged to adopt measures to promote the emergence and growth of SMEs in their local area. Fukuoka Prefecture's business support policies, for example, include holding entrepreneurship workshops and seminars on starting a business, providing project guidance and financial preparation (through the ISSIN program), and issuing gift certificates to consumers (Fukuoka Prefectural Government 2023). Saitama Prefecture has provided support in increasing the opportunity for SMEs to supply goods to the Prefecture, increasing financing and subsidies for SMEs, and further researching support policies with the industry (Saitama Prefectural Government 2012). Both have a policy to support SMEs engaging in FTAs like RCEP. Based on these supporting policies, Japan is slowly recovering from its high inflation and the

stagnation of economic growth. According to the preliminary report of the 2023 Basic Survey on Small and Medium Enterprises, the average annual total revenue of enterprises increased by 15.9% compared to the previous year, average annual profit increased by 12.4%, average added value increased by 9.7%, and the average number of employees increased by 8.3% (Ministry of Economy, Trade and Industry 2024). However, some measures also reflected that Japan has not completely recovered from stagnation; for example, the rate of business investment had decreased by 0.3% from the previous year (Ministry of Economy, Trade and Industry 2024).

Similar to China and Japan, there has also been a major focus on nurturing SMEs and the private sector more broadly in Korean economic policy, to mitigate the adverse effects caused by Chaebols (see Section 3.3.2). The Korean government and local governments have provided guidelines and a training platform for SMEs for understanding and utilising the rules and standards of RCEP, as well as decreasing removing tariffs from trans-border products, like e-commerce (Korea International Trade Association 2022). After RCEP, in 2022, Yoon's key policies when he first came to power illustrate his ambition for private sector-led growth to be the pillar of Korean economic growth, with the incentives of tax and reductions in tax for reserve income dividends being used to support the private sector (Jung 2024). Released in 2023, the '2023 SME Policy Capital Financing Announcement' expressed the government's intention to deliver financial support to SMEs, especially in the field of key innovative technologies and for entrepreneurship, with a total amount of available funding up to 6.16 billion dollars, of which 13.86 million dollars was earmarked for use in innovative fields (Financial Services Commission 2023). These funds were mainly provided for the following three key focus areas: fostering joint venture entrepreneurship between the public and the government, promoting the large-scale and innovative growth of SMEs, and supporting rapid recovery and increasing the number of small business workers and self-employed people (Ministry of SMEs and Startups 2022). Based on the large amounts of financial support announced in 2023, further adoption of policies and new regulations emerged in 2024. According to the 'Korean 2024 Economic Policy Direction', the government would rely on laws and regulations to help improve the productivity of SMEs and establish a growth roadmap for venture enterprises, as well as providing the private sector with better land-use regulation and unimpeded business practices (Ministry of Economy and Finance 2023).

Local governments in Korea have provided assistance with finance, technology,

and training in exporting, and training in tax. All provinces, including South Jeolla Province, North Chungcheong Province, and South Chungcheong Province have their own SME support systems, and these are not just for the purpose of supporting local SMEs entering into FTAs, including RCEP. Services include the provision of specialized consulting rooms for complex cases, financial support, product exhibition promotion, human resources support, and various support centres. At the same time, different provinces have different goals for the development of SMEs. For example, North Chungcheong province hopes that the boosting of SMEs can lead to a recovery of the provincial economy, aimed for up to a 4% rate of growth (Chungbuk Business Agency n.d.). Korea is an exporting-oriented state, with imports and exports occupying over 70% of GDP, and the majority of its SMEs are also in the business of imports and exports. Compared with 2023, exports from SMEs in the first half of 2024 increased by 9.9% (Korea International Trade Association 2024), although revenue fell in May (Korea Customs Service 2024), which represents the instability of economic recovery. From the perspective of numbers, exporting SMEs increased by 2.4% in 2023 compared with 2021, and the value of total exports has been gradually increasing from the second half of 2023 (Ministry of SMEs and Startups 2024).

In conclusion, RCEP is a means of advancing the the governments' consensus around the nurturing of SMEs, and actions related to this will lead to a more favourable and positive domestic business environment, as well as a healthy government-business relationship. For Japan and Korea, particularly, this will help to break through the dilemma brought about by the relationships of bureaucrats with Keiretsu, and the domination of the Chaebols, as discussed in Chapter 3. As economist Michael Porter proposed, geographically concentrated firms and institutions can enhance productivity, drive innovation, and stimulate the creation of new businesses through both collaboration and competition (Porter 1990), and the growth of SMEs is beneficial for economic development in China, Japan, and Korea through helping to maintain benign business circumstances.

6.2.4 The establishment of the Chinese Private Economic Bureau, the New Japanese-Style Capitalism Promotion Department, and the Korean Ministry of SMEs and Startups

Based on an analysis of the situations in China, Japan, and Korea before and after 2000, there was already a set of supporting government institutions and departments in place to achieve the objectives of these developmental states. However, the governments have also established new, up-to-date institutions in line with the requirements of FTAs. For supporting the private sector and SMEs, the governments of China, Japan, and Korea have established relevant organisations and departments providing support and have also assisted them through the release of relevant policies. New organisations and departments include the Chinese Private Economic Bureau, established in 2023, the New Japanese-Style Capitalism Promotion Department, established in 2021, and the Korean Ministry of SMEs and Startups, established in 2017. In addition, there have been some departmental and institutional reforms that better promote the upgrading of industrial structures. Finally, as discussed in Chapter 3, the lack of a strongly functioning, unified institution for managing economic affairs in China, at least from the perspective of FTAs, has been solved by establishing FTZs in pilot cities.

The purpose of the Chinese Private Economic Bureau is mainly to track, understand, and analyse the development of the private economy; to coordinate and organise the formulation of policies and measures to promote the development of the private economy; and to formulate policies to promote the development of private investment (National Development and Reform Commission 2023). These objectives coincide with the high standards and requirements of the regional markets that China has mentioned in relation to RCEP, including to enhance the competitiveness of enterprises. At the same time, they also establish a regular communication and exchange mechanism with private enterprises, providing coordination to solve major problems in the development of the private economy, and coordination to support the private economy to enhance its international competitiveness (National Development and Reform Commission n.d.). In addition, in order to support the innovation of technologies and industrial structure transformation, a National Science and Technology Innovation Commission (2021), National Data Policy Commission (2022), Major Projects Office of the Ministry of Science and Technology (2022),

National Intelligent Manufacturing Development Center (2021), and National Biomedical Innovation Center (2022) have been established to help the innovation of cutting-edge technologies in China²⁹.

Apart from the Private Economic Bureau, and in order to better implement the positive impact of RCEP and other FTAs on China's economic development, industrial transformation, and corporate profits, the central government has given local governments the power to pilot and innovate in economic policy and management through the FTZs, which is equivalent to giving local governments greater discretion (Tong and Zhang 2022; Liu and Qu and Zeng 2021; Zhao and Ding and Su 2022). The problem of power conflicts between the central and local governments in traditional economic affairs has been alleviated at the level of FTAs. The FTZs have improved administrative efficiency by simplifying administrative approval procedures, implementing 'one-stop services' and e-government services, and reducing the costs of enterprises in the zones (Li and Zhang and Wang 2020; Chen and Liu 2019; Zhao and Sun 2021). At the same time, in response to the problem of large local differences, the FTZ of each pilot city has a targeted industrial structure and regional characteristics.

Kishida set up the New Japanese-Style Capitalism Promotion Department from 2021, and it has a similar function to the Chinese Private Economic Bureau, with the goal of sustainable development and innovation, especially through SMEs (Men and Qi 2023). At the same time, the Japanese government also strengthened the functions of the Small and Medium Enterprises Agency and the Local Revitalization Office, which are responsible for analysing relevant economic affairs and publishing policies promoting SMEs and the private sector (Ministry of Economy, Trade and Industry n.d.). In relation to technological innovation, a Digital Agency (2021), National Center for Smart Manufacturing (2021), National Quantum Technology Center (2022), National Institute for Artificial Intelligence Research (2022), Green Growth Strategy Headquarters (2021), and Future Industry Research Institute (2023) were set up to address all cutting-edge technologies fields, including digitisation, AI, quantum, and green technology³⁰. Focusing on FTAs, and similar to China's FTZs, Japan has set up seven Comprehensive Special Zones (CSZs) and 10 National Strategic Special Zones

²⁹ See Chinese official government website, like https://en.ncsti.gov.cn/AboutUs/AboutNCSTI/?utm_source=chatgpt.com

³⁰ See the website of 'Japanese government'

(NSSZs), which have the same functions as China's FTZs (Office for Promotion of Regional Revitalization n.d.).

In 2017, the Korean Ministry of SMEs and Startups was established, based on the previous SMEs-focused agency, for the purpose of better maintaining financial and technological support, and exploiting domestic and international markets (Ministry of SMEs and Startups n.d.). Other existing institutions, like the SME Innovation Centers and the Korean Venture Investment Corporations also provide supplementary assistance to SMEs. The Korean government has also established some new departments and institutions in innovative technology fields, including a Ministry of Digital Innovation (2022), National Innovation Office (2021), Future Industry Bureau (2023), Carbon Neutrality and Green Technology Development Center (2022), Smart Manufacturing Promotion Agency (2021), and National Biotechnology Institute (2022), for the national targeting of industrial structure upgrading³¹. From the perspective of foreign trade and FTAs, the Korean government has established nine Free Economic Zones (FEZs) for handling relevant trade affairs (Korea Free Economic Zones n.d.).

Obviously, more well-timed and strategically established institutions have provided Japan and Korea with more mature safeguards for their economic policies. In contrast, for China, which inherently lacks strong management mechanisms, the FTZ pilot zones established under FTA policy, including RCEP, have appropriately alleviated issues such as local governments prioritising their own interests and the inefficiency caused by fragmented administrative departments. This has been achieved through the high external competitive pressure and the concentrated deployment of departments within the FTZs. Therefore, combined with Section 4.4.2 and 4.4.3, it can be concluded that RCEP to some extent contributes to easing the partial dysfunction of DS principles, stimulating the resurgence of the developmental state model in the three states, and assists in fostering the sustained growth and transformation of the economy and industries in China, Japan, and Korea.

³¹ See the website of 'Korea net'

6.3 Analysis of the role of the CJK FTA in the economic development of China, Japan, and Korea

RCEP and the current economic development strategies of China, Japan, and Korea are mutually reinforcing and closely interconnected, as demonstrated in the last section. To some extent, RCEP promotes domestic strategy development. For example, this agreement places significant emphasis on SMEs in Chapter 14, encouraging the three states to prioritise their pivotal role in national economic development both now and in the future, and to deliver a set of supporting institutions later. However, both the effect of RCEP on economic benefits and its utilisation rate are limited, due to the limitations of the agreement (see Sections 4.4.2 and 4.4.3). Hence, the estimated trade and industrial equilibrium effects of the CJK FTA, as presented in Chapter 5, offer evidence for the CJK FTA as a space for China, Japan, and Korea to further cooperate. This section, drawing from the estimated economic effects data and the domestic economic policies of China, Japan, and Korea, outlines potential outcomes within the CJK FTA that could leverage each state's characteristics as a developmental state.

6.3.1 The target of obtaining benefits can be fulfilled by the CJK FTA

For China, Japan, and Korea, domestic economic development has been the first priority in the past few years, as a result of the turbulence of their GDP performance. According to one study, the establishment of the CJK FTA will increase the trilateral states' GDP from 0.5% to 3% over time (Xiang 2024), larger than the increase from 0.5% to 1.5% from RCEP (see Section 4.4.3). Obviously, China, Japan, and Korea will take advantage of the CJK FTA after RCEP to continuously lift their economies, achieving a GDP growth goal of 5.2%, 1.9%, and 1.4%, respectively. Figures 5, 7, and 9 in Chapter 5 show the partial equilibrium effect of trade under the CJK FTA, and showing that the trade volume between China, Japan, and Korea after the CJK FTA policy is implemented could surge by around 100% to 700% immediately, as Table 20 below shows.

Table 20 Growth rate of trade values after the CJK FTA for China, Japan, and Korea

	Trade value increase rate after the CJK FTA
China	Around 140%
Japan	From 360% to 690%
Korea	From 204% to 342%

Data source: Section 5.3.3.1

Figures 18, 20, and 22 in Chapter 5 indicate that the GDP of the three states would be immediately increased by approximately 2% to 10%, as summarised in Table 21 below.

Table 21 Growth rate of GDP after the CJK FTA for China, Japan, and Korea

	GDP increase rate after the CJK FTA
China	2%
Japan	2.6%
Korea	Around 10%

Data source: Section 5.3.3.3

Due to the design defects of the model itself, the results presented here represent a situation of completely free trade, which means that the values shown are higher than the actual values would be. Nevertheless, these results still show that the economic benefits for the three states of the CJK FTA are very considerable, which is reflected in the desire of the leaders of the three states to continue to promote the CJK FTA negotiation at the 2024 summit.

Apart from geopolitical issues, the worries for China, Japan, and Korea about the CJK FTA relate to its potential effect on sensitive sectors. This is especially the case for Japanese and Korean agricultural products because the only sensitive industries in China are some small items, none of which currently has a tariff of more than 50%. In reference to this issue, the estimates presented in Chapter 5 for detailed industrial sectors suggest that Japan and Korea can maintain tariffs on sensitive products due to limited increase in the value of sensitive industrial products in the CJK FTA.

The estimated results presented in Figures 37 to 42 in Chapter 5, which draw on HS 2-digit classifications, show that the growth rate of advanced industries under the CJK FTA is greater than nearly all sensitive sectors. For example, empirical calculations reveal that the growth rates of advanced industrial products in China, Japan, and

Korea significantly surpass those of sensitive goods, ranging from approximately 300% to 800%. Figures 43 to 48, which use HS 4-digit classifications, show that the advantageous products not included in the RCEP tariff reduction schedule exclude sensitive items, which face exceptionally high tariff rates ranging from 500% to 2,600%. Therefore, for Japan and Korea, whether to choose free trade for sensitive industries has become a flexible option. Cooperation between states under FTAs can still bring some benefits if they choose to liberalise further. However, if this cannot be opened up due to domestic pressure or product incompatibility—such as for keeping votes from Japan’s rural areas as traditional base for Japan’s LDP (Lin 2016) and comforting the Korean Federation of Agricultural Producers (KFAP) and the National Agricultural Cooperative Federation (NongHyup)—the CJK FTA and RCEP can still focus on cooperation between advantageous industries, as well as cooperation in the future development of the digital economy, new energy products, and high-tech products.

In Section 6.2.1, it was noted that the Chinese, Japanese, and Korean governments have published a series of guidelines and reports to help enterprises and firms to effectively utilise RCEP for expanding exports. Governments and departments have also mentioned the importance of RCEP multiple times, and have provided additional supports through implementing policies and establishing auxiliary institutions. To further expand foreign trade turnover, Chinese, Japanese, and Korean governments will continue to showcase the benefits of the CJK FTA, and publish relevant guidelines for enterprises and firms. As developmental states, the three states’ governments will make use of existing domestic resources for free trade, such as FTZs (or FEZs for Japan and CSZs for Korea) or the enterprise information-sharing platform established by local governments, to vigorously promote the participation of enterprises in the CJK FTA. Overall, the establishment of the CJK FTA will contribute to the growth of GDP and exports in China, Japan, and Korea, and can still exclude the sensitive agricultural products of primary concern in trade between these states. Under this situation of maximising the benefits from the CJK FTA, China, Japan, and Korea, as developmental states, will make the greatest efforts to promote the agreement across enterprises and firms, allowing for further maximisation of benefits and the achievement of economic development.

6.3.2 Further promotion of industrial structure upgrading in the CJK FTA

According to the statistics produced in Chapter 5, exporting by advanced industries, based on HS 2-digits classifications, has a large potential for expanding further under the CJK FTA. Figures 37 to 42 show a potential for an increase in cooperation ranging from 500% to 2,200% for China, Japan, and Korea for machinery (HS 84), electronic equipment (HS 85), organic chemicals (HS 29), plastic (HS 39), and mineral fuels (HS 27). Among these five items, machinery and electronic equipment are already the top two exports for each pair of the three states, while still having broadened scope for improvement ranging from 800% to 2,150%. From the individual state perspective, China would export slightly more to Japan than Korea in the five items, with increases from 1,202% to 1,822% for the former, and 891% to 1,363% for the latter. Japan's exports to Korea would grow more than those to China, with mineral fuels having the lowest exports to Korea (981%) but still outperforming the highest exports to China, which are machinery (785%). For Korea, the situation is similar to that of Japan: there would be more imports with increases in the range of 1,423% to 2,149% to Japan from Korea, and increasing imports, with growth ranging from 648% to 1,005% to China. Obviously, when also considering Figure 36 in Section 5.3.3.1, China is estimated to get the biggest benefits in exports under the CJK FTA, while Japan and Korea would be better integrated with each other in trade. At the same time, the original export advantage of the industries is expected to be further strengthened in the CJK FTA, which also increase the key industrial advantages of the three states.

Section 6.2.2 clearly illustrated that industrial structure upgrading has become a priority of government-led economic policy in China, Japan, and Korea as developmental states. RCEP, as the pathway for the three states to enter into a giant regional market, has motivated enterprises and firms, improving the standard of production and quality of products, and fostering innovation in cutting-edge technological products for the purpose of occupying the middle-high end of the supply chain (Gong and Liu 2024, Chen 2021). The CJK FTA, building on the basis of RCEP, will continue to amplify this advantage. In the context of the five advantageous export industries based on HS 2-digit classifications, certain subordinate industries fall under the category of high-tech products, including automatic data processing machines (HS 8471), electrical transformers (HS 8504), semiconductor devices (HS 8541), and electronic integrated circuits (HS 8542). This

expanding trend would happen especially for China with the other two states, because the former and the latter two have complementarity in specific products within these product sectors. Meanwhile, some advantageous industries include ingredients of and fuels required for innovative products, such as petroleum oils (HS 2710), heterocyclic compounds (HS 2933), and silicones (HS 3910). If the agreement of the CJK FTA enhances the liberalisation of these products further than RCEP between the three states, the intensification of trade flows can lead to the development of those industries. As mentioned, the estimated outcomes show that the major products which contains these subclass items will increase to a large extent under the CJK FTA, therefore it is reasonable to assume that the governments of China, Japan, and Korea will further promote the upgrade of the relevant industrial structure.

Figures 43 to 48 show a rate of growth of between 715% and 6,400% relevant to cutting-edge technological products in the CJK FTA as estimated by the gravity model. In RCEP, these products belong to the protected categories, without tariff reductions or with a long transfer period. Among China, Japan, and Korea, the highest export growth rate is for trade from China to Japan, and from Japan to Korea; this is owing to the strong role of mid-end manufacturing in China, and the primary position of Japan in high-end technology in Northeast Asia, as mentioned in Section 3.2.2. At the same time, under a cooperative framework filled with trade opportunities and the challenges of industrial upgrading, Korea is also likely to stimulate domestic enterprises to accelerate the speed and intensity of their industrial upgrading. This further demonstrates that the CJK FTA can help mature the industrial chain in the Northeast Asian region.

RCEP and the CJK FTA are suitable for national developmental plans in China, Japan, and Korea. Hence, the three states' governments should continue to use policies that support industrial upgrading under the CJK FTA, by means of further decreasing tax for relevant enterprises, setting aside more special funds, streamlining extra approval processes, advancing innovation platforms, improving deeper digital infrastructure, and advancing toward a more strategic tilt in government procurement (see Section 6.2.2). In the meantime, the FTZs (or CSZs for Japan and FEZs for Korea) also provide opportunities. For example, the Guangxi FTZ in China has already invented 169 provincial innovations in its five years of operation, has attracted 23 foreign enterprises and produced low-carbon transformation projects such as new energy and chemical materials, the digital economy, high-end advanced manufacturing, the cross-border supply chain industry, and photovoltaic and offshore

wind power. This has contributed to an annual increase in foreign trade for this province of around 20% (China News Service Guangxi 2024). In the future, more FTZs established for the CJK FTA can incentivise the emergence of more innovation, and through the positive influence from internal and external circumstances, the goal of industrial structure transformation of the three states can be effectively progressed.

6.3.3 The CJK FTA offers a trajectory for nurturing SMEs and private firms

The CJK FTA can advance the RCEP agreement on business given that China, Japan, and Korea support the development of SMEs and other private firms, as well as breaking the monopoly of conventional enterprises in the market. As discussed in Sections 6.3.1 and 6.3.2, there is plenty of room for improvement in trade values and specific industrial volumes, and this kind of expansion of foreign markets delivers more opportunities to SMEs and private firms to engage with the international market and to go beyond the limits of their domestic circumstances imposed by conventional enterprises. At the same time, the increase of trade values in specific industries gives rise to the emergence of a large number of new firms in various industries, for the purpose of sharing the benefits from foreign free trade. As Section of 4.4.3 noted, there has been a surging trend in the release of certificates of origin to enterprises after RCEP, and more new firms are likely to seize the chance of obtaining benefits under the CJK FTA.

In addition, foreign trade activities mean that SMEs and private firms have to compete with international firms, thus promoting their product quality and technology. At the same time, through the interaction with overseas customers or partners, these emerging enterprises can learn about international advanced technology and management experience, that will bring benefits back to their own development. Therefore, given the greater expected growth under the CJK FTA, a large number of emerging enterprises are likely to appear and compete internationally, helping to eliminate insufficiently well-managed enterprises, and creating a new batch of strong pillar enterprises for China, Japan, and Korea.

This trend aligns with the requirements and the current economic policies of China, Japan, and Korea. As developmental states, they are able to nurture SMEs and private firms by attracting FDI, building and upgrading information-sharing platforms, and

participating in or hosting international exhibitions under the CJK FTA. Firstly, central and local governments should further emphasise to SMEs and private firms the importance of conducting business within this cooperative framework. Based on the experience of RCEP, the governments have a stronger sense of how to better lead, drive, and train SMEs to integrate into the CJK FTA, while those enterprises will better understand how to use the standards and regulations of the CJK FTA to acquire more benefits. Secondly, the locally owned information-sharing platforms are likely to be effectively utilised by SMEs and private firms to obtain more scientific guidance about engaging in foreign business under the CJK FTA, because this can enhance their competitiveness in the international market. Lastly, successful international trade will improve the brand image of SMEs, thereby establishing long-term customer relationships and further strengthening their market position.

In addition, it will be even more effective for governments to take advantage of matched FTZs (or CSZs and FEZs) to help SMEs and private firms. In the FTZ, the convenience of imports and exports is supported by specific policy preferences, streamlined customs processes, minimal restrictions on foreign investment, flexible finance systems, innovative experimental platforms, and the benefits of industry clustering. At the same time, the cities hosting FTZs also provide more diversified markets and a freer investment environment, as well as technical and talent support for SMEs in the zone. On the basis of RCEP, efforts have already been made to nurture and support the development of SMEs and private firms in China, Japan, and Korea (see Section 6.2.3), but the process of scaling up and implementing government policies is still evolving. Therefore, the CJK FTA can help the three states accelerate the establishment of a new, healthier government-business relationship. This is particularly crucial for Korea, as breaking the economic monopoly of the Chaebols is essential.

6.3.4 Deeper cooperation of China, Japan, and Korea with Southeast Asia in the CJK FTA

As developmental states, China, Japan, and Korea prioritise economic development as their main objective, and establishing and strengthening trade ties with more partners across the world is one of most important ways to expand foreign markets and increase trade values. This is also the reason for the three states choosing to

participate in RCEP. The CJK FTA, while fundamentally a trilateral FTA, can also serve a similar function. Theoretical approaches to international trade and economic regionalism, such as trade creation and trade diversion effects (Viner 1950) and spillover effects (Krugman 1991), illustrate that one FTA would not only cover its own members, but would also cause indirect effects for non-member states and regions. The estimation presented in Chapter 5 looked not only at the impact between China, Japan, and Korea, but the size of the impact between each pair of states. Due to the need to limit the arguments presented in this thesis, only the influence of China, Japan, and Korea under the CJK FTA is shown here, meaning China, Japan, and Korea were taken as the origin, and radiating to 56 other states. Therefore, this applies to the three main points outlined below.

Firstly, Figures 5 to 10 in Chapter 5 show that Southeast Asia would receive more imports from China, Japan, and Korea under the CJK FTA, with growth ranging from 100% to 1,600%. In this region, the top five ASEAN states that would import more from China under the CJK FTA would be Myanmar, Laos, Cambodia, Brunei, and Vietnam, constituting 1,600%, 1,500%, 820%, 733%, and 260 respectively. Comparatively, Myanmar, Laos, Thailand, Brunei, and Indonesia occupy the first-tier position for Japan's exports under the CJK FTA, equalling 844%, 792%, 747%, 616%, and 528% respectively. For Korea, Laos, Vietnam, Myanmar, Cambodia, and the Philippines would account for 930%, 820%, 810%, 760%, and 616%, respectively, in the positive trade growth group. The remaining ASEAN states are also all in the positive growth list of China-Japan-Korea, and the average growth rate is over than 100%. In reverse, and due to the limitations of this thesis, it is not possible to show all the results, but the growth rate of ASEAN's exports to China, Japan, and Korea is also at the top of the list. In addition, Figures 24 to 29 show that this contribution of increasing imports accounts for increases in the domestic GDP of ASEAN states of 0.5% to 21%, with a greater impact from China in particular. This illustrates that the radiation effect of the CJK FTA towards Southeast Asia is significant and can substantially strengthen exports and imports between Northeast Asia and Southeast Asia. In other words, Southeast Asia will further open its market because of RCEP and under the CJK FTA, which can help deepen the regional industrial chain in the entire East Asian region.

Secondly, Japan and Korea can strike a balance on investment and cooperation between Southeast Asia and China in the CJK FTA. From the 1970s and 1980s, Japan and Korea have embarked on investing into Southeast Asia, and the degree of this has

strengthened since the 2000s. This investment has been aimed at establishing a low-end industrial chain to relocate Japan and Korea's manufacturing (ASEAN n.d.). Now, under a series of frameworks, such as 'ASEAN Connectivity 2025', RCEP, and the recent 'Indo-Pacific Strategy', and official reports like the 'Korea-ASEAN Strategic Partnership Plan' and the 'ASEAN-Japan Action Plan', this kind of investment is not only increasing but is also gradually shifting towards infrastructure, the digital economy, and financial services. Within the enhanced investment, more Japanese and Korean companies overseas' subsidiaries are located in the ASEAN states, undertaking local procurement and sales. However, most Japanese and Korean enterprises have still kept half their subsidiaries in China, because of its advantages of lower expenses due to distance and a larger market. For example, the sales from Chinese manufacturing subsidiaries represented 46% of total Japanese sales in 2020, compared with 38% from ASEAN subsidiaries. Chinese subsidiaries procure 20% of their inputs from Japan, which means that industrial agglomeration in China is thriving (Ministry of Economy, Trade and Industry 2023). In recent years, China has increased its investment in building Southeast Asia's infrastructure through the BRI, and it now imports more raw materials from Southeast Asia. Hence, combined with the benefits that the three states will get from the CJK FTA, Japan and Korea can complete their production chains by striking a balance between Southeast Asia and China for diversifying risks, China can further build up its complete industrial chain by regional cooperation, and ASEAN states are also able to develop their economies.

Lastly, EU states would decrease their imports from China, Japan, and Korea in the short term after the CJK FTA is implemented; however, this would also encourage China, Japan, and Korea to boost productivity to compensate for this gap, as Europe is an important partner for Northeast Asia. In turn, this is also beneficial for promoting the growth of domestic SMEs. The reason for this decline, illustrated in Figures 5 to 10 in Section 5.3.3.1, is the limited production capacity, which results in shifting exports to the Asia-Pacific region where distance costs are lower. In the CJK FTA, by expanding exports to Southeast Asia, China, Japan, and Korea can deepen understanding and cooperation with Southeast Asia, so as to expand production scope by importing more resources from this region and locating their manufacturing bases in this region. This would improve productivity and eventually make up for part of the missing export trade to Europe. This is a reasonable assumption because the current procurements and sales in the EU from Japan and Korea are only less than half of those in ASEAN countries and China, which reflects the fact that ASEAN states and

the Asia-Pacific region are the priority of primary concern to Northeast Asia.

As discussed in Section 4.4.1, all three states are seeking closer and deeper trade relations with Southeast Asia and other parts of the world, like South America, Europe, and Africa. This will help the three states amplify their economic capacity. The CJK FTA, based on RCEP, can be regarded as a good opportunity for the three developmental states to achieve this goal. In sum, the endogenous and spillover effects demonstrated in Sections 6.3.1 through to 6.3.4 that will be generated by the CJK FTA can further support the development goals of China, Japan, and Korea by building upon RCEP. This FTA has the potential to enhance regional economic cooperation, drive industrial upgrading, foster more SMEs and private firms, and create higher-standard trade and investment circumstances, thereby helping the three states to continue their economic development.

6.4 Conclusion

This chapter analysed data presented in previous chapters, especially the estimated results in Chapter 5, along with the current national policy of the three states after RCEP. This illustrated the interaction between China, Japan, and Korea, as developmental states, in advancing FTAs. In the few years after RCEP's establishment, China, Japan, and Korea have published a series of policies and have set up relevant institutions for supporting industrial structural upgrading and nurturing SMEs and private firms, to trigger domestic economic development. Such government moves are very much in line with the function and purpose of RCEP, making the relationship between the governments and the regional free trade agreement mutually complementary. That means, during RCEP's implementation, China, Japan, and Korea have been eager to attain the objectives of economic recovery after the pandemic, industrial transformation, and bolstering of SMEs, which can also be understood as remedying the partial failures within the DS principles. This regional FTA emerged at the right moment and assisted these governments.

But the function and effect of RCEP is still currently limited, and the CJK FTA can further boost this potential for China, Japan, and Korea, as shown by the quantitative analysis in Chapter 5 and the qualitative analysis presented in this chapter. Based on RCEP, the CJK FTA can play a role in facilitating the following: 1) the governments

of the three states can get bigger tangible benefits from the CJK FTA; 2) this FTA will help accelerate the speed and expand the scope of industrial structural upgrading to more innovative industries like the digital economy; 3) SMEs and private firms will gain additional positive influences from the CJK FTA, and this FTA will spur more firms to emerge and participate, and 4) Northeast Asia will engage in deeper cooperation with Southeast Asia and, subsequently, Europe, beyond RCEP.

Chapter 7 Conclusion

7.1 Brief introduction

This conclusion serves to organise and synthesise the outputs across the chapters of the thesis. The following Section 7.2 first reviews the central argument of the study, systematically tracing the research process from Chapter 1 through Chapter 6 to provide a coherent and comprehensive understanding of the overall inquiry. Subsequently, Section 7.3, building upon the findings accumulated throughout the thesis, presents the major theoretical contributions to the literature on developmental states, as well as the specific empirical findings regarding China, Japan, and Korea, particularly in relation to their economic development through RCEP and the CJK FTA. Finally, this chapter outlines prospects for future research, reflecting on the methodological limitations encountered during this study and the constraints imposed by restricted access to fieldwork and empirical data during the pandemic. These considerations are intended to encourage further scholarly exploration and refinement in this important area of inquiry.

7.2 Reviewing the arguments: A Detailed Analysis

The study has addressed the following primary question: How can a trilateral FTA among China, Japan, and Korea fulfil their developmental state objectives since the implementation of the RCEP agreement? In reviewing the theories and literature, Chapter 2 argued that current IR theories, especially Neorealism, Constructivism, and Neoliberalism, are not suitable for fully explaining the situation of Northeast Asia or, in other words, the relations between China, Japan, and Korea. This is because these theories fail to account for the high degree of economic interdependence among these states that is being driven by solely internal factors.

Neorealism's emphasis is that limited cooperation between states can be easily broken as a result of geopolitical tensions, and it cannot fully explain the reality of RCEP, which includes China, Japan, and Korea who have set aside territorial and

historical disputes. Despite ongoing disputes, trade cooperation has become increasingly closer under the RCEP, a development that cannot be adequately explained by theories emphasising no or little cooperation. Constructivism also cannot effectively explain cooperation between the three states. Specifically, the establishment of RCEP is grounded in a context marked by a lack of shared social identity and ongoing disharmony caused by the territorial and historical disputes among China, Japan, and Korea. However, these tensions exist alongside increasing trade interdependence that has developed among these states. Neoliberalism, although it comes closer to reflecting the core of Northeast Asian economic relations, treats all states similarly in international cooperation rather than recognise the specific state structuring of China, Japan, and Korea as developmental states, which drive their economic development. Although RCEP represents the first FTA involving China, Japan, and Korea that advances their trade cooperation, it is not the first regional institution to include them. Earlier frameworks such as APEC and the EAS, despite having been established for decades, have not generated a spillover effect from economic cooperation to mitigate geopolitical disputes. So, it is necessary to study their cooperation at a domestic level. As government-led economies, these three states, which have performed robustly in economic development in global terms, have all experienced a similar process of a slowdown in development growth, and an FTA strategy has been one of the main approaches used by the three states to get economic benefits and achieve the target of recovery since the 2000s. In the current stage of slow economic recovery, how can China, Japan, and Korea make use of the characteristics of developmental states to achieve their goals from FTAs? This argument not only keeps pace with DS theory but also illustrates the core of Northeast Asian relations.

Most scholars who analyse developmental states tend to focus on the role of governments, society, and the dynamics of government-business relations in different cases but rarely seek to cast light on the tangible benefits those states can get from an economic action or policy (see, e.g., Wade 1990; Evans 1979 and 1995; Woo-Cumings 1999; Kohli 2004; Zhang 2017; Ricz 2022). Indeed, various theories have been developed based on the uniqueness of government, society, and government-business relations in the DS cases of China, Japan, and Korea. However, this thesis focuses on the role of developmental states in using FTAs and the benefits they gain. Therefore, it disregards the minor differences among the three states and adopts the most traditional principles of the DS model for analysis, namely: 1)

economic development as the first priority for government; 2) government-led industrial output; 3) the tight relationship between government and business; and 4) supporting institutions for implementing policies. Through the study, we can firstly conclude why China, Japan, and Korea have been developmental states since the beginning of their economic growth. Then, we can see how the partial dysfunction of the DS principles in these three states since 2000 has in some way contributed to later ineffective economic growth, as detailed below.

For Japan, political forces and vested interest groups with different positions and interests have sometimes impeded the government's policies and reforms, and bureaucrats have also intervened between the government and traditional enterprises. This shows that the failure of the second and third principles in Japan has led to the failure of the government to focus only on economic development and the need to consider the interests of relevant parties when conducting policy research. As a result, the Japanese economy cannot be revived through internal policies alone due to their limited efficiency, but the external market can be expanded through FTAs to enhance the vitality of enterprises and support SMEs. This can help Japan achieve the goals of economic development and industrial upgrading.

For Korea, Chaebols and their monopolistic enterprises in key industries have led Korea's government to a passive position and have resulted in stagnation of Korea's market, while there has also been a lack of sufficient supporting institutions domestically. Korea's problems stem from DS principles two and three. The excessive market monopolies of Chaebols and heavy collusion between Chaebols and government have led to the failure of previous attempts to reform the Chaebol system and support startups; this has led to sluggishness in the Korean economy. As a highly export-oriented state, Korea needs to take advantage of foreign markets through FTAs to break through the restrictions that startups face locally.

For China, there has been a lack of a unifying institution or organisation managing local regions with significant differences in development and culture for implementing the policies of the central government. This has contributed to the dysfunction of the fourth principle. FTZs, which provide one-stop services to enterprises and firms, have been supported in pilot cities, and this also can give full play to regional characteristics to maximise profits through FTAs.

The thesis then explains why, except for RCEP, the current regional economic institutions in East Asia have not played a significant positive role in tangible

economic development for China, Japan, and Korea. These institutions—APEC, APT, and the CPTPP, were chosen by East Asia for economic cooperation. However, only RCEP has been successful in this regard, becoming the first regional FTA to achieve substantial trade cooperation that includes China, Japan, and Korea. Due to its tariff-reduction principles, it makes a tangible contribution to economic benefits for these states. This multilateral FTA reduces tariff barriers for most products between China, Japan, Korea and states in the Asia-Pacific region and promoted the free flow of goods in East Asia. Meanwhile, RCEP has also helped the three states to mitigate the effect of partial dysfunction of the DS principles, such as through the development of SMEs, and is alleviating the pressure faced by the Japanese and Korean governments from domestic bureaucracy and traditional large enterprises.

As mentioned in Chapter four, the other regional institutions are focused on serving as communication platforms (APEC) or shifting their concentration gradually to broader issues such as environmental protection and gender equality (APT and EAS). However, although RCEP tariff reductions clearly demonstrate the commitment to cooperation between China, Japan, and Korea, and the performance of domestic enterprises in each state two years after its implementation highlights the impact of nurturing emerging enterprises and promoting industrial structure upgrading in RCEP, an analysis of the scope of cooperation, conditions for collaboration, and industrial development trends under RCEP reveals that there remains significant potential for further cooperation in a future trilateral FTA.

Owing to the inability to achieve domestic economic reform and the limitation of existing regional institutions, can the CJK FTA fill the gaps in RCEP to help China, Japan, and Korea gain more benefits and support their economic recovery? How much trade potential is there between them? Chapter five delivers the answer. The gravity model is used to estimate the growth rate of aggregate trade and industrial trade between the three states under the CJK FTA under RCEP. Judging from the results, China, Japan, and Korea would all mutually experience the greatest percentage increases, while other RCEP members, particularly ASEAN states, would also import more goods from China, Japan, and Korea, while the trade connections with the EU show a decreasing trend. Northeast Asia and Southeast Asia could increase trade volumes through this FTA, which also means that for China, Japan, and Korea, the external market would be further expanded, which is not only conducive to the growth of GDP and the rise of enterprise competitiveness, but also means that the regional industrial chain becomes more mature, and each state can find its own

position. Looking at industries in detail, advantageous product exports would increase very substantially, while sensitive agricultural products exports would not perform as well, and therefore tariffs on these sensitive agricultural imports could be retained, while cooperation in machinery and electronic equipment could be increased. In addition, the products without tariff exemptions or with 20-year transition periods in RCEP from the most advantageous and the most sensitive sectors are estimated to have potentially high growth rates, making it clear that there is room for improvement in the CJK FTA compared to RCEP in traditional trade sectors. According to the estimation, China, Japan, and Korea, as developmental states, can not only seize the chance for growing their economies further through the FTAs, but could also strengthen their dominant industrial positions and continue to expand production, owing to a larger external market that can be created through RCEP and the CJK FTA.

Chapter 6 then came back to the developmental state model, tracing its applicability in the current political and economic situation in Northeast Asia. This discussion demonstrated that the performance and policy of governments and enterprises through and after RCEP have reflected strong characteristics relevant to the four principles. In the past five years, the governments of China, Japan, and Korea have promulgated a series of policies and plans to upgrade industries and support SMEs and private enterprises, including through emerging domestic institutions, and have positioned economic development as the top priority. In these development plans, implementing RCEP is key. After RCEP, the CJK FTA would further expand trade volumes to promote the speed and strength of industrial structure upgrading, as well as strengthening private sector cooperation with governments to promote the integration of emerging enterprises and FTAs, to help enterprises enhance their competitiveness and remain robust.

7.3 The findings

7.3.1 Major findings

There have been several studies about the DS model focused on different states in

various regions, such as Brazil (Schneider 2015; Ricz 2014; Bresser-Pereira 2015), South Africa (Omano 2010), Saudi Arabia (Steffen 2010), and Taiwan (Wade 1990). But China, Japan, and Korea, which account for 30% of the world's total economic output, are the most representative cases of developmental states, because they have completed the entire process of economic development from take-off to temporary recession. As the most classical developmental states, the new means of economic development in China, Japan, and Korea deserves to be studied; that is, the development model under FTAs. This thesis argues that the FTA can positively support the economic policy of developmental states, while developmental states get more benefits from FTAs by means of adjusting and managing trade-related industries. In the past, scholars have often focused on studying developmental states from the perspective of internal national factors, such as a government's willingness, policy implementation, and the state's actions (see, e.g., Wade 1990; Evans 1979 and 1995; Woo-Cumings 1999; Kohli 2004; Zhang 2017; Ricz 2022). Alternatively, they have analysed FTAs in relation to the benefits that all economic entities can derive from these agreements, and FTAs have been regarded as a useful tool for developmental states to choose (Pempel and Urata 2006). However, no scholars have combined the characteristics of developmental states with the tangible benefits brought by FTAs, nor have they explored in detail the specific extent to which developmental states can benefit from FTAs as an economic policy. This thesis explored the performance of China, Japan, and Korea as the most representative cases for FTAs, filling this academic gap.

During the study, the theory of developmental states has been found useful not only for analysing the relationship between politics and the economy within states but also for explaining the cause of national economic stagnation. At the same time, a state that has developed through government-led economic growth is likely to experience economic slowdown if certain functions later become dysfunctional or fail. Similarly, it may face failure when attempting a full transition to a market-driven economy, Korea is one notable example of this. Additionally, when certain functions within a developmental state become dysfunctional, a more reasonable solution is to rely on external forces, such as regional institutions, to advance the trade volume of export-oriented industries, which occupy a big part of the economy in China, Japan, and Korea. However, these regional institutions should be practical and directly contribute to economic growth, such as trade agreements that provide impetus for the government and relevant departments to implement new economic plans.

From the quantitative analysis of the CJK FTA, it is clear that the impact of one trade agreement is not only affecting the members of that agreement but the whole world. The analysis also verified the trade diversion effect in FTAs. Therefore, negotiations for FTAs are approached cautiously and attract significant attention from many other states. This is because once an FTA comes into effect, it can lead to economic gains or losses for non-member states that were engaging in trade with the member states before the FTA began. Although, in the long term, these affected non-member states may eventually find alternative solutions, there would still be considerable adjustments in the short term following the implementation of such a policy. At the same time, if governments try to adopt FTAs to expand trade volumes, they will also face the challenges of industrial structure adjustment and domestic enterprises facing intense competition. This requires governments to take countermeasures, such as the development of supporting policies and institutions, to protect some necessary industries and enterprises.

7.3.2 The findings for China, Japan, and Korea

The essence of relationships in Northeast Asia beneath the surface has been determined by economic benefits. Although this region is filled with contradictions in terms of territory, historical issues, and publicly hostile sentiment, the establishment of the RCEP and other forms of cooperation are still welcomed by governments. Specifically, in the situation of economic slowdown and depressed social sentiment, developing the domestic economy has become the top priority for governments in this region, outweighing the importance of addressing other conflicts, because political stability depends on legitimacy rooted in economic growth. Despite their inability to cooperate on ideological and political security affairs, Japan and Korea still cannot completely decouple from China's economy amid the heightened tensions in China-US relations. They are unable to transfer their manufacturing base to Southeast Asia completely because of the continuing problems of weak infrastructure and diversified environments in different ASEAN states that are difficult to manage uniformly.

During the past two decades, China, Japan, and Korea, as developmental states, have experienced the process of economic development being boosted by government-led development models, and the reason for their later economic

stagnation can be transparently explained by the partial dysfunction of the principles of the DS model (for the four principles, see Section 7.1). For China, diversified geographic characteristics and cultures in different locations mean that it is hard to set up a unified institution to vertically manage all places, which reflects a dysfunction of principle four. In Japan, there are the problems of monopolistic enterprises and ineffective government policies, which fall under principles two and three. The situation of Korea is rather similar to that of Japan, with problems related to principles two and three concerning monopolistic enterprises and government policies.

In the face of these challenges, China, Japan, and Korea have strengthened their characteristics as developmental states. Chapter 6 set out the actions of each of these governments for developing the economy in the few years after RCEP. The three states have released domestic and foreign economic planning policies and improved the relevant institutions and auxiliary platforms at the central and local levels. To nurture emerging enterprises, some favourable measures such as tax rebate policies, small and micro loans, and management training have been provided to these firms by governments, to help reach the target of industrial structure upgrading. Chapters 4 and 5 showed how some institutions, like APEC, have failed to strengthen trade correlations or effectively achieve economic development in Northeast Asia. In contrast, the model estimation in Chapter 5 demonstrated that the CJK FTA, based on RCEP, will be able to help China, Japan, and Korea reach their economic goals. Since 2000, China, Japan, and Korea have adopted the FTA strategy as the primary way to relieve their stagnation and further develop their economies, and have made concessions in RCEP, which is the first regional FTA including the three states together.

This passion for FTAs lays a foundation for further trade cooperation, and the estimated results in Chapter 5 also show that there will be more benefits for the three states arising from the CJK FTA, particularly for advantageous industries. At the same time, these advantageous industries include some high-tech industries, like automatic data processing machines (code 8471), and the larger external market created by the CJK FTA will stimulate more production and increase the rate of upgrading of this industry. In the current period, China is seeking to occupying the middle-high end of the supply chain as its main pursuit, while Japan and Korea also have different advantages in cutting-edge technological industries, such as industrial robots for Japan and service robots for Korea (see Thurbon and Weiss 2023). In this way, the complementarity in technological industries in recent years, especially

between China and the other two states, has to some extent outweighed their competition.

In addition, and as noted earlier, the trade diversion effect allows the CJK FTA not just to influence members, but also non-members. According to the estimated exporting values under the CJK FTA, Northeast Asia and Southeast Asia would strongly increase their trade volumes with each other, while Europe seems likely to receive less trade than ever with China, Japan, and Korea. Is this, perhaps, a clue to the possible picture of East Asian economic interaction in the future. In any case, it is a good starting point for analysing this further.

7.4 Implications for further research

After discussing the arguments, output, and findings of this thesis in the first part of this chapter, this section addresses the restrictions of the study and makes recommendations for future analysis. Firstly, the main body of this thesis was concluded earlier in 2025, and therefore does not include the impact of U.S. global tariffs imposed on countries including China, Japan, and Korea in April 2025. As a result, it lacks an analysis of the potential influence of these tariffs on regional trade cooperation within the RCEP and the future's CJK FTA. In addition, this thesis, as a result of covering a large region and three states, is unable to shed light on the role of states' parties, factions within the party, and local forces in foreign economic policy, and cannot address the function of interest groups in the negotiation of FTAs, because of lacking the relevant information. In terms of its analysis method, the thesis utilised a partial equilibrium approach, which can only demonstrate the short-term effects of policy on individual states, rather than a full-endowment equilibrium approach that captures the long-term global impact. The former approach was taken due to the current limitations in personal capacity to progress a more complex economic model like the latter one. Specifically, the first of the limitations enables a more in-depth exploration of the role of structural social forces in shaping the economic policies of relevant states. This contributes to a more robust development of the theory of developmental states, going beyond a simplistic reliance on the four principles. Furthermore, it facilitates a more effective integration of political and economic analysis. It also allows for better integration between politics and economics. The second one is from a more professional macro-economic angle, with the analysis of

full-endowment equilibrium allowing for the examination of the effects of both GDP and welfare in states, and the final change in the division of labour in a global market, that could result from the establishment of the CJK FTA.

Therefore, in future research, there are three types of analysis that could be done. Firstly, researchers could additionally extend their analysis to interpret the internal impact of the CJK FTA and RCEP through the perspective of the social structure in a specific state. This could be based on the current study's examination of economic benefits, for the purpose of getting a more comprehensive result. Secondly, relevant data such as GDP, value chain, and social welfare data could be introduced to conduct a deeper comprehensive analysis on the impact of the CJK FTA based on the research presented in Chapter 5. Thirdly, if relevant social relations could be found, such as officials involved in the negotiations, the substantive influence of the government, relevant enterprises, and interest groups in the past negotiation rounds could be traced through the form of interviews. On the other hand, lessons from the RCEP negotiations can inform discussions on defining the timeline and milestones for tariff-cut flexibility in the CJK FTA, as well as the potential role of a mediator such as ASEAN. (Comment 1.2) These spaces for further exploration could be addressed in the future.

Overall, this thesis answered in the affirmative the question of whether China, Japan, and Korea, as developmental states, can get economic benefits and attain their DS objectives—such as economic recovery and development and industrial structure transformation—from a trilateral FTA beyond RCEP. With the deterioration of the developmental states narrative in Northeast Asia (Yu and Shi 2008; White 1998; Krugman 1994), this thesis delivers evidence that China, Japan, and Korea are still developmental states in accordance with the current economic policy trend, and their willingness for industrial structure transformation makes them different from other developmental states like Brazil (Schneider 2015; Ricz 2014; Bresser-Pereira 2015). At the same time, within the context of a decreasing rate of growth in the global economy, FTAs remain a good alternative way to mitigate economic recession and continue economic growth for a developmental state. The developmental states should further actively participate in bilateral and multilateral cooperation between states or regions, especially given current global economic circumstances. The fact that they are adopting different strategic approaches for various industries within FTAs to achieve maximisation of benefits also represents a new development in this theory (as demonstrated for the cases of China, Japan, and Korea in Chapter 6). Finally, the

estimation of the performance of various industries may give a hint to these states, which are eager to achieve their goals, about how to design their cooperative pathway under the CJK FTA and RCEP for the purpose of getting the maximum benefits and avoiding substantial risks for their fragile sectors.

Appendix

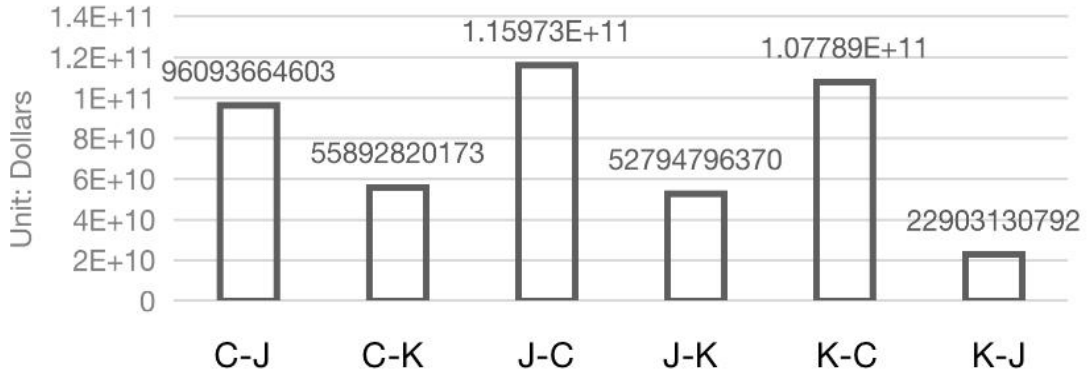
Appendix Figure 1 Descriptive statistics for aggregate trade

Variable	Obs	Mean	Std. dev.	Min	Max
Tradevalueus	34,793	3.44e+09	1.57e+10	0	4.79e+11
Comlang_off	34,793	.0575403	.2328755	0	1
Dist	34,793	6998.23	4915.955	59.62	19629.5
FTAIj	34,793	.3885264	.4874223	0	1
exp_imp	34,793	1582	913.0925	1	3163
exp_time	34,793	314.7651	181.019	1	627
imp_time	34,793	313.9583	181.2546	1	627

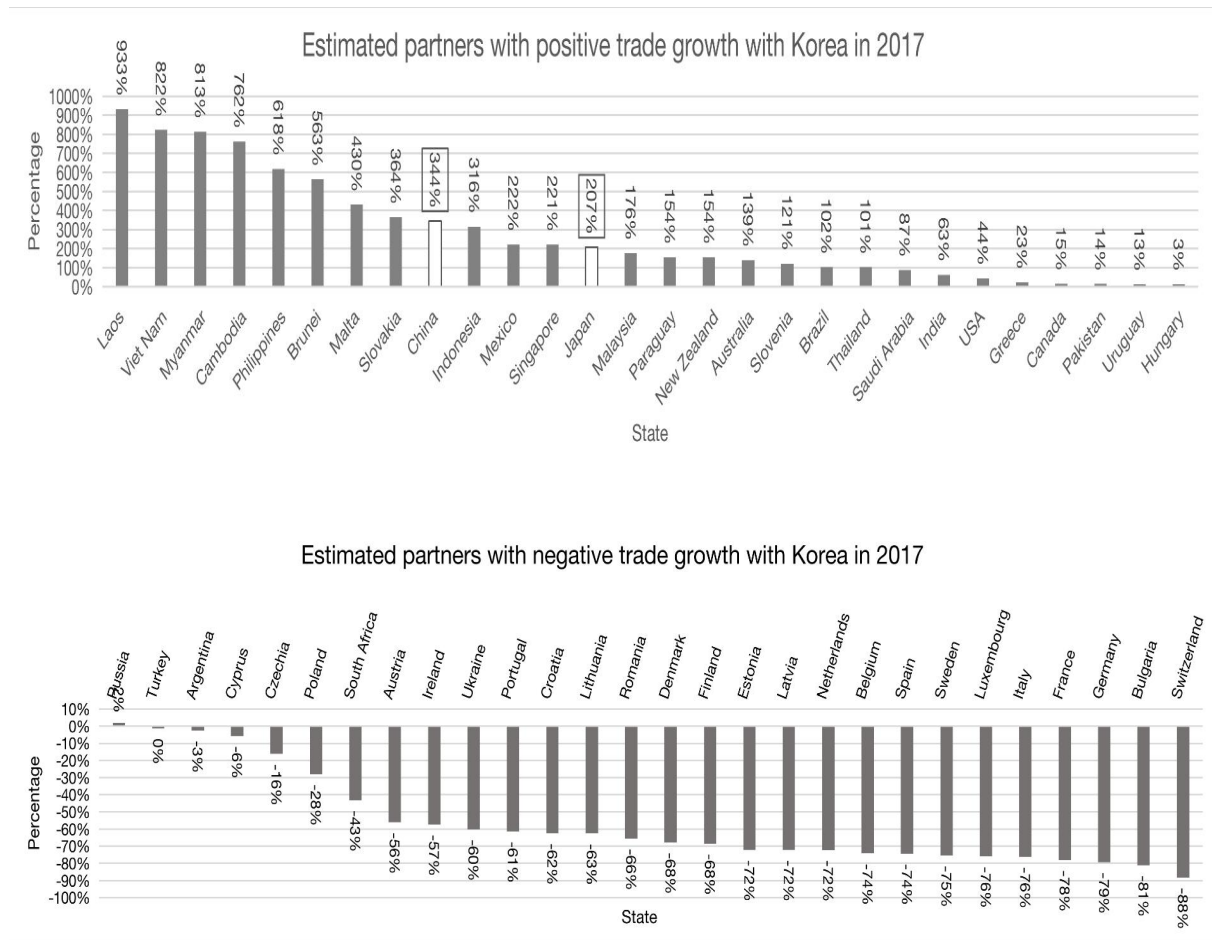
Appendix Figure 2 States as exporters and importers with potential for trade growth based on a constrained baseline

Exporter	exval	Importer	imval
Argentina	19.2259	Argentina	-1.15121
Australia	19.53236	Australia	.4896997
Austria	20.55471	Austria	-.1463133
Belgium	21.17843	Belgium	1.420067
Brazil	20.41843	Brazil	.2996227
Brunei Darussalam	13.1404	Brunei Darussalam	-4.989708
Bulgaria	18.40477	Bulgaria	-1.189725
Cambodia	16.70383	Cambodia	-3.7059
Canada	20.09289	Canada	.5468491
China	23.3177	China	2.55131
Croatia	17.33683	Croatia	-1.811056
Cyprus	15.83654	Cyprus	-2.091112
Czechia	20.21963	Czechia	-.0789627
Denmark	19.99592	Denmark	.0751496
Estonia	17.49797	Estonia	-1.914639
Finland	19.75877	Finland	-.5242597
France	21.95118	France	1.8873
Germany	23.08253	Germany	2.887463
Greece	18.66705	Greece	-.5389134
Hungary	19.83336	Hungary	-.4206652
India	20.96829	India	1.093661
Indonesia	20.21657	Indonesia	-.1157919
Ireland	19.75273	Ireland	-.7258805
Italy	22.0143	Italy	1.913178
Japan	21.62072	Japan	1.513789
Korea	21.61615	Korea	1.132531
Lao	14.35444	Lao	-5.387245
Latvia	17.3664	Latvia	-1.86538
Lithuania	18.1188	Lithuania	-1.449558
Luxembourg	17.56123	Luxembourg	-2.500521
Malaysia	20.4376	Malaysia	.1101471
Malta	15.78523	Malta	-2.317728
Mexico	19.12694	Mexico	.1886684
Myanmar	16.04275	Myanmar	-3.544203
New Zealand	18.1885	New Zealand	-1.486277
Netherlands	21.74812	Netherlands	2.038257
Pakistan	18.31818	Pakistan	-1.226422
Paraguay	15.55355	Paraguay	-3.760975
Philippines	18.54737	Philippines	-.8024917
Poland	20.60501	Poland	.8508584
Portugal	18.86432	Portugal	-.5567911
Romania	19.11235	Romania	-.4779594
Russian Federation	21.26362	Russian Federation	1.068792
Saudi Arabia	18.13506	Saudi Arabia	.2456363
Singapore	20.72816	Singapore	.7586177
Slovakia	19.22806	Slovakia	-1.110782
Slovenia	18.41962	Slovenia	-1.368131
South Africa	19.10986	South Africa	-.1676664
Spain	21.12908	Spain	1.351403
Sweden	20.53366	Sweden	.4185919
Switzerland	21.0197	Switzerland	.7470689
Thailand	20.80336	Thailand	.3681993
Turkey	20.43763	Turkey	.8348973
USA	22.53378	USA	2.895195
Ukraine	18.96036	Ukraine	-.7863577
Uruguay	16.16953	Uruguay	-2.891669
Viet Nam	20.35485	Viet Nam	0

Appendix Figure 3 Estimates of increased trade values for China, Japan, and Korea in 2016



Appendix Figure 4 Estimates of partners with positive and negative trade growth with Korea in 2017



Appendix Figure 5 Descriptive statistics for industrial trade (SITC)

Variable	Obs	Mean	Std. dev.	Min	Max
Values	257,033	4.18e+08	3.09e+09	.07	2.45e+11
Comlang_off	257,033	.0630191	.2429979	0	1
Dist	257,033	6613.057	4920.038	59.62	19629.5
FTAij	257,033	.3681239	.4822962	0	1
Code	257,033	5.119152	2.664052	1	9
exp_imp	257,033	1562.691	923.9743	1	3179
co	257,033	5.119152	2.664052	1	9
time	257,033	6.078803	3.164186	1	11

Appendix Figure 6 Descriptive statistics for industrial trade (HS 2-digit)

Variable	Obs	Mean	Std. dev.	Min	Max
Values	220,229	2.33e+08	1.82e+09	.02	1.21e+11
HS	220,229	38.79288	30.97681	4	85
Comlang_off	220,229	.0709852	.2568007	0	1
Dist	220,229	6237.003	4866.004	59.62	19629.5
FTAij	220,229	.3940989	.4886574	0	1
exp_imp	220,229	1587.517	940.0184	1	3191
time	220,229	6.099106	3.159221	1	11
co	220,229	5.520699	2.584204	1	9

Appendix Figure 7 Descriptive statistics for industrial trade (HS 4-digit)

Variable	Obs	Mean	Std. dev.	Min	Max
Values	156,535	7.04e+07	6.87e+08	.01	5.03e+10
HS	0				
Comlang_off	156,535	.0819433	.2742792	0	1
Dist	156,535	5529.288	4719.148	59.62	19629.5
FTAij	156,535	.5267704	.4992844	0	1
exp_imp	156,535	1541.72	901.2081	1	3074
time	156,535	6.161798	3.151286	1	11
co	156,535	6.347424	2.852485	1	10

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