

1. Introduction

The Global Economic Crisis and Trade in Northeast Asia

The global financial crisis that originated in the United States last year did not take much time to turn into a global economic crisis affecting the real economy worldwide. The GDP of most countries contracted significantly in the fourth quarter of last year and the first quarter of this year. It was, however, trade that suffered the most. Trade volumes have declined further than production levels in many countries. The short-term impacts of the crisis on Northeast Asian economies, and their trade in particular, have also been quite enormous, even though the levels of damage varied between China, Japan and Korea. Furthermore, given the intensity of the crisis, it may also bring about significant changes in global trade patterns in the long-run.

Most recently, we are beginning to witness some positive signs towards a recovery, even though those signs still appear fragile. Against the backdrop of uncertainties in the wake of the global financial crisis and growing worldwide regionalism, it seems important to assess the impacts of the crisis on the trade patterns of the three Northeast Asian countries and consider future directions for them to increase intra-regional trade and enhance economic cooperation in Northeast Asia.

The Second Phase of Joint Research on CJKFTA: What are the issues?

This report is to present the results of the Trilateral Joint Research by the Representing Research Institutions in China, Japan and Korea on an FTA between the three countries. The Action Plan for Promoting Trilateral Cooperation among China, Japan and Korea, decided at the Trilateral Summit in December 2008, includes a clause titled Joint Studies on the Trilateral FTA, stating that Joint Studies started in 2003 will reach the conclusion phase in the year 2008, and *further in-depth studies will begin in 2009* by the three institutions. Under the plan, we have jointly started the phase two study on a CJK FTA this year.

In embarking upon the new phase, we have identified the assessment of the impacts of the recent Global Economic Crisis on trade in Northeast Asia, as an important issue of research. As indicated above, the crisis has had significant implications for the economies and trade in the region both in the short- and long-run. The trend in regional trade patterns and the policy demands for intensifying intra-regional trade are fundamental issues for considering an FTA between China, Japan and Korea (CJK FTA).

The joint research teams have selected trade facilitation as another research issue on a CJK FTA. From

2003 to 2008, joint research on a CJK FTA in the first phase covered almost all the important issues on FTAs, other than trade facilitation (see Appendix). Trade facilitation in regional trade agreements is a comparatively new issue, and has increasingly drawn the attention of policy makers in trade and investment. Naturally, a prospective CJK FTA will have the characteristics of a regional agreement, which will place a focus on both cooperation and liberalization aspects. The review and study on trade facilitation measures in an FTA will address the issues.

Structure of the Report

The second and third sections cover the global economic crisis and the road to recovery in Northeast Asia, and trade facilitation and a CJK FTA, respectively. Some remarks follow on the progress in other East Asian region-wide liberalization initiatives. Four specific policy recommendations to the leaders and governments conclude the report.

2. Global Economic Crisis and the Road to Recovery in Northeast Asia

After a brief review of the impacts of the global financial crisis on world economy and trade, this section examines its impacts on trade in China, Japan and Korea by comparing the recent trade data with the trends prior to the crisis. Then comes an analysis on the changes in the trade patterns of China, Japan and Korea with major trading partners before and in the wake of the crisis, seeking to find out the structure of their exports in terms of broad economic categories. Lastly, some implications conclude the section.

Impacts of the Global Financial Crisis on Trade in China, Japan and Korea

The world's trade in goods had a tendency to increase more rapidly, even though it used to fluctuate more widely than the world's industrial production, before the global financial crisis. However, in the wake of the global financial crisis, the fall in world exports was much more severe than that of the world's industrial production. In February 2009, world exports declined by 30.0 percent on a year-on-year basis, while the world's industrial production decreased by 13.6 percent.

Most forecasting institutions predict that the impact of the global financial crisis on the world economy and trade will become severe and generally more devastating for advanced economies. According to the World Bank, global GDP is expected to contract by 1.7 percent in 2009, which would be the first decline in world output on record, and volumes of world trade in goods and services are expected to drop 6.1 percent in 2009, with a significantly sharper contraction in trade volumes of