

The new solution for One Belt One Road

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ABSTRACT. *People's Republic of China (China)'s economy is facing the crisis in 2020. With the slowing down annual GDP growth, as COVID-19 is impacting the country's consuming market, export and import activities with other countries. These factors are also impacting on China's One Belt One Road (OBOR). Since China needs a strong domestic market and healthy flow of foreign currency from import and export activities in order to continuing the investment in OBOR and other oversea investments. Therefore, China should seek for assistances from outside and potential international cooperation. China-Japan-Republic of Korea (South Korea) FTA and Trilateral Investment Agreement could be a source of assistance to OBOR project.*

KEYWORDS: *One Belt One Road (OBOR). China-Japan-Republic of Korea FTA. Trilateral Investment Agreement*

1. Introduction

We have to recognize that the annual GDP growth rate of China is keep decreasing from 7.8% in 2013 to 6.6% in 2018(Kaushik et al.). With the impact of COVID-19, GDP growth for 2020 Q1 in China is -6.8 % (China- Economic Indicators). Based on the past data, we could predict that China's economy is gradually slow down. Since China has already enjoyed the benefits from the global trade. United States of America (U.S.) has already started a trade war with China. Some cities have already showed backward economic growth domestically, especially in the Northeast part of China. Meanwhile, some provinces and cities are still hesitating of the future economic growth direction. As they want to abandon the labor intensive industries, but they are not able to transfer to the internet or high-tech manufacturing industries. In order to keep the investment in OBOR, China needs to develop more international cooperation. Because it will keep the economic growth domestically and maybe find more financial resources for domestic and overseas investments. Another reason is to spread the investing risk. As period before COVID-19 outbreak, some countries already owed China a large amount of money. Take Venezuela as an example, in 2018, Venezuela's GDP growth is -19.6 % (Kaushik et al.), the inflation rate comes to 2430.60% (Venezuela- Economic Indicators). When a country faces domestic economic crisis and political crisis, the risk of investment increases.

In recent days, Chinese Yuan(CNY) and U.S. Dollars(USD) exchange rate be-

comes a popular topic. In 2020, the exchange rate reaches the highest point since February 2020, which is 7.1964. Also, it is based on the fact that U.S. dollar index does not has large flotation since the outbreak of coronavirus crisis. But the sudden change of the exchange rate might cause more worries.(US Dollar Index Historical Rates (DXY)) As the fact we know, the exchange will impact the domestic consuming market and stock market potentially. This will ultimately impact the foreign currency reserve and banking system. As the major investment currency is USD. Th increasing exchange rate will require more CHY to exchange to USD.

With the impact of the COVID-19, the global import and export environment changes. In January and February of 2020, the exports amount only maintained in a level of 146.44 billions, which in December 2019 it was 238.65 billions. In April 2020, it recovered to the level of 200.28 billions. But the fact is, there are many countries are still in the COVID-19 crisis, as the estimation showed the global GDP growth is projected at -4.9 percent, and the major economies are still in suffer with COVID-19. As the GDP growth slowed down, China' export customers might have lower demand, this will impact on China's import and export situation.

In 2013, China, Japan and South Korea have almost reached an agreement to Free Trade Agreement(FTA), but due to some reasons, it postponed till 2019. In December 2019, three countries have agreed to accelerate the FTA. If FTA could be negotiated, a Trilateral Investment Agreement has signed in 2012 might also come to the stage.(Investment promotion and protection agreement between Japan, Republic of Korea and China). Due to the postponed FTA, we haven't seen three countries have specifically invest in a same country together. But if three countries can invest together, we can see a more stabilized OBOR project in the future.

2. Analysis

In 2018, China has imported 384.97 billions of goods from Japan and South Korea, it's a total of 19.2% of total import at 2018. On the export side, China has exported 256.27 billions of goods to Japan and South Korea, which is 10.5% of the total export. Japan has imported 198.85 billions of goods from China and South Korea, which is 28.3% of the total import. On the export side, Japan has exported 180.95 billions of goods to China and South Korea, which is 27% of the total export. South Korea has imported 161.09 billions of goods from China and South Korea, which is 32% of the total import. On the export side, South Korea has exported 192.65 billions of goods to China and South Korea, which is 33.2% of the total export(South Korea- Economic Indicators). As we could find from the data, three countries have a large portion of import and export to each countries. For Japan and South Korea, it's almost 1/3 of total import and export.(Japan- Economic Indictors) We could conclude the close trade relationship between three countries. If the FTA could be negotiated, the import and export tariffs of the three countries will further decrease, and thus will further increase the total import and export volume, which will help three countries economy. As the fact that three countries' GDP both rely on the import and export. FTA will increase the import demand from three countries. For instance, if China finds by importing Japanese and South Korean products

are cheaper, China will import more products from Japan and South Korea. Also due to the close geological locations, the traveling and shipping will be easier than cooperating with other countries.

China, Japan and South Korea are important business partners to others. The advantageous areas of three countries are complemented. As China's advantageous industries are labor intensive industries and digital fields. Japan's advantageous industry is manufacturing, examples could be car manufacturing and other all kinds of manufacturing, as Japan produces 80 percent of the world's precision small motors. (He) South Korea's advantageous industries are major electronic parts, like semiconductors and computer parts. Three countries could both earn advantages from others. Japan and South Korea will have the opportunity to enter the Chinese market which is one of the most active markets in the world. China will have the opportunity to learn the skills and technology from Japan and South Korea.

But it is narrow if we conclude that three countries only get profits from usual business activities. The sign of FTA could also represents more cooperations. Such as the trilateral investments. Japan has proposed the plan of investing in Africa and South Korea has already invested in Vietnam and other South East Asian countries. Both two countries showed the interests and experiences in oversea investments. Therefore, as the basis of FTA, further relationship as Trilateral Investment Agreement could be imagined.

Consider the stock market value of three countries. The stock market in China (Hong Kong SAR is not included) valued 6.3 trillions in 2018, which ranked second worldwide. Japan's stock market worth 5.3 trillions in 2018, which ranked third worldwide. It is worth to notice that Hong Kong SAR's stock market worth 3.8 trillion in 2018 which ranked fourth. South Korea's stock market worth 1.4 trillion in 2018 which ranked eleventh worldwide. It is obvious that if China, Japan and South Korea worked together, Japan and South Korea will offer enough financial resources for the potential investment, which the Trilateral Investment Agreement might become the reality, as the concept already mentioned which is China, Japan and South Korea +X. This "X" represents any countries that three countries might invest in together (Market capitalization of listed domestic companies (current US\$) - Country Ranking).

The foreign currency reserves could also represents a country's financial resources. Since most of the investments will require enough foreign currency reserves. As the data showed, China ranked first place worldwide, with a total of 3399.9 billions in January 2020. Since China's daily export and import. It requires a lot foreign currency to continue the export and import activities. Also, almost 1/3 of the China's foreign currency are U.S. federal debts. Japan has a total foreign currency reserves of 1387.4 billions in January 2020 which ranked second place worldwide. South Korea has a total foreign currency reserves of 409.7 billions in January 2020 which ranked ninth place worldwide. (Picardo) Three countries have abundant financial resources that could invest into OBOR countries and have the ability to afford certain risks, since the strong domestic economy and financial resources.

The political relationships between China, Japan and South Korea also reaches a

new level. As The Prime Minister of PRC, Prime Minister of Japan and President of ROK met in Chengdu in December 2019. Three leaders have agreed that they will more closer relationships and accelerates the FTA Agreement. In front of the global crisis, three countries also worked together as China's exports medical equipments to these two countries. Data showed 41.4% of the exported medical equipments went to Japan and South Korea, which showed the cooperations of trilateral countries has increased. China is also negotiated the reopen of essential business activities with South Korea, such as allowing people who are in the needed areas to enter the country without quarantine, as long as they have the certificate of the COVID-19 Test(China- Economic Indicators).

But it is worth to notice the relationship between South Korea and Japan might be a hinderance to the agreement, since two countries were involved in the trade war in July, 2019. The historic problems from the World War II might influence the Japan's relationships with China and South Korea. Also, Japan has territory disputes with China and South Korea. The failure of signing the FTA agreement in 2013 can be mainly attributed on the territory disputes between China and Japan. So the main hinderance for the signing of FTA is the historic problems have left since the World War

3. Conclusion

With the increasing risks of OBOR project, increasing the worldwide economy instability and gradual slowing Chinese economy. The economic cooperation between China, Japan and South Korea becomes more important. The regional economic activity might become more important by the impact of COVID-19, since intercontinental communication is limited by the travel restrictions by each governments. If FTA could be made, it will increase the regional economic vitality and regional cooperation. Such cooperation could also be the advantage to Asia, then to the world. It means a unified and stable market in East Asia, where investors from other countries can trust. China, Japan and South Korea FTA could also be a solution for the likely world economic regression in an extent. Also the Trilateral Investment Agreement could be a new source to OBOR project which will also benefit for the countries that are involved in OBOR, since they might get larger amount investments and infrastructure assistance from Japan and South Korea in addition to China. With the conclusion that the cooperation between China, Japan and South Korea would improve the regional cooperation and relationship, which further stimulate the domestic economy and decrease the oversea investments' risks.

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