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Keywords: Institution of Privileges; Economic Privileges; Commercial Privileges; East Asia; China; Japan; Korea; Economy; Legal Regulation; Corporation

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Результаты, полученные в ходе анализа современных тенденций развития экономики азиатских стран, дозволили зробити висновок про настання періоду трансформації, пошуку нових ефективних інструментів соціально-економічного розвитку. Врахування впливу геополітичних чинників, особливостей глобалізації економіки та впливу корпорацій на економічну систему країни сьогодні змінюють принципи й тактику взаємодії держави та бізнесу.

Ключові слова: інститут привілеїв; економічні привілеї; торгові привілеї; Східна Азія; Китай; Японія; Корея; економіка; правове регулювання; корпорація.

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Привилегии в экономике ведущих стран Восточной Азии в XIX–XXI вв.: эволюция государственного регулирования и законодательного закрепления

Аннотация. Рассмотрение вопроса применения экономических привилегий наиболее целесообразно на примере трех сильнейших экономических держав Восточной Азии в настоящее время: Китая, Японии, Кореи. Во второй половине XIX века исторические судьбы этих стран были переплетены настолько сильно, что это оказало и по сей день оказывает важное системное влияние на многие сферы общественных отношений, а особенно сильно – на экономику.

В статье проведен сравнительный и историко-правовой анализ института экономических, в том числе, торговых привилегий и их роли в экономике некоторых стран Восточной Азии в XIX–XXI вв. Предпринята попытка выявления причин лидирующего экономического положения отдельных стран Восточной Азии (Китая, Японии, Южной Кореи) и закономерностей в области их правовой политики на основе анализа социально-экономического развития этих стран при наличии института привилегий в сфере экономики.

Результаты, полученные в ходе анализа современных тенденций развития экономики азиатских стран, позволили сделать вывод о наступлении периода трансформации, поиска новых эффективных инструментов социально-экономического развития. Учет влияния геополитических факторов, особенностей глобализации экономики и влияния корпораций на экономическую систему страны сегодня изменяет принципы и тактику взаимодействия государства и бизнеса.

Ключевые слова: институт привилегий; экономические привилегии; торговые привилегии; Восточная Азия; Китай; Япония; Корея; экономика; правовое регулирование; корпорация.

1. Introduction
The current geopolitical situation clearly reflects the existence of several influential economic powers, in particular, East Asian countries such as China, Japan, and South Korea. In recent years, China's economy in terms of nominal GDP has become the second largest economy in the world; in terms of this indicator, Japan is the fourth one, and South Korea is recognized as the leader in technological breakthrough and digital economy. This situation is a consequence of the legal and socio-economic policies of the states, including trade and economic privileges.

The study of economic privileges not only in individual countries but also within the framework of the eastern legal system requires deep analysis, since this topic has not been developed in terms of both analyzing archival materials and applying comparative methods in determining the role of the institution under consideration.

Identification of the reasons for the leading economic situation of these countries and patterns in the field of legal policy in order to predict the socio-economic development of the state based on the analysis of the institution of privileges is a complex historical, economic and legal scientific task.

2. Brief Literature Review
Researches in the field of privileges in East Asia can be divided into two groups: historical and legal studies and socio-economic studies.

Among the Russian authors, should be mentioned the works by A. S. Emelyanov, A. I. Tiganov and O. G. Larina (2012), O. G. Larina (2009, 2010), V. I. Afanasyeva (2006, 2007), K. A. Efremova and D. V. Streltsov (2010), V. M. Tikhonov and Kang Mangil (2011) etc. Specifically, economic privileges and their legal regulation in Asian states were studied by S. Yu. Sumenkov (2002), but these studies were rather piecemeal.

Among the foreign authors who studied economic policy of the mentioned countries in general, it is worth mentioning Kawai Atsushi (2019), Yong-Shik Lee (2019), Yu Won Dong (1992), Hamyoung Jeong (2012), Yan Cai & Eunmi Kim (2019), Daisuke Mori (2017), Stanley Lim Peir Shenq & Cheong
Mun Hong (2017), Kee Chun Han (1963), etc. Despite a sufficient number of scientific works in the field of economic and legal policy of China, Japan and South Korea, there exists a demand for comprehensive studies of economic privileges in these countries in the period of the 19th–21st centuries.

3. The purpose of the paper is to carry out a comparative historical, economic and legal analysis of the institution of economic privileges and to identify their role in the leading economic situation of the countries of East Asia (China, Japan, South Korea) in the 19th–21st centuries.

4. Results

The institution of privileges has always been an important tool in public policy (Larina, 2009) which is especially evident in the economic policies of some East Asian states: China, Japan, and South Korea (Afanasyeva, 2007). This situation is a consequence of the legal and socio-economic policies of the states, including the field of trade and economic privileges.

The economies of the East Asian countries are inextricably interlinked. Starting with the protectorate of Japan in Korea and ending with the leadership of China as a foreign trade partner since the beginning of the 21st century. According to the research by Efremova and Streltsov (2010), in 2004, China became South Korea’s top foreign trade partner. If in 1991 (the year of normalization of South Korean–Chinese relations), the share of China in the South Korea’s foreign trade turnover was only 1%, in 2006, China’s share was already 22%.

In turn, Japan, being the most important strategic and economic partner of both China and South Korea, has a long history of close interaction with the economies of these countries.

Such economic relationships within the region under consideration were built on century-old historical and economic justifications. In the economic history of East Asia, the institution of privileges played an important role; it allowed individual countries to improve their economic domestic and foreign policies.

In Japan, a flexible domestic policy of granting trade and industrial privileges ensured the construction of a network of railways throughout the country, the development of steam locomotive building, light industry, including spinning and silk spinning by the end of the 19th century. Obviously, the unsuccessful military and economic external expansion, conflicts with Russia, China and Korea pointed to the need to search for a development resource and change their own development strategy. The Japanese government relied on technological development and a breakthrough based on the preservation of national values and traditions.

First measure, which was provided through the institution of privileges, was government support for large companies and industries. For instance, a strong government support for the private Mitsubishi Company provided Japanese hauliers with the ability to compete with Western companies. Giving special privileges to certain organizations was one of the ways by means of which Meiji leaders sought to develop modern industry. Companies such as Mitsui and Ono also received significant state assistance (Atsushi, 2019).

For China, the institution of privileges application was an important means of controlling the development of internal and external trade, they were also often used as a tool in political and military relations.

Work with archive materials allows us to identify a lot of examples of the role of trade privileges in the Chinese everyday economic life. For example, opium trade and special rights to it caused several wars (Agarkova & Larina, 2018).

In the 19th–20th centuries, in the trade of China, positive privileges on exemption from duties or permission to trade certain types of goods were the most demanded ones. Such privileges were of great importance for foreign merchants. The examples include such documents as An Appeal of the Ministry of Foreign Affairs to Sir Ernest Satow, the British Diplomatic Representative in Peking (Beijing), dated October 30, 1902, with a proposal from the provincial governor of Guangdong to consider issuing a license to import opium paste in order to improve the current situation; a letter from Sir John Newell Jordan, the Advisor at the British Legation in Peking (Beijing), to the Ministry of Foreign Affairs dated December 10, 1906 requesting to telegraph to Hunan a message stating that foreign entrepreneurs were granted a license to start a business in Changsha and that duties were not imposed on foreign goods imported into the city (Chan, 2018).

The legal framework for applying privileges in China was not developed in the 19th century; lawmakers regulated this sphere fragmentally when a social or economic need arose. A study of the
legal practices for granting privileges suggests that acts on granting privileges were often of a by-law nature, but sometimes privileges were granted in business correspondence.

International treaties on cooperation have become the basis of a system of legal documents regarding privileges in China, namely: The Treaties of Tientsin (Anglo-Chinese Treaty on peace, friendship and trade of June 26, 1858, Russo-Chinese Treaty of June 13, 1858, Franco-Chinese Treaty of June 9, 1885), The Treaty of Nanking (Anglo-Chinese Treaty of Peace, Friendship, Trade, Indemnification of August 29, 1842 (Hertslet & Parkes, 2012).

By the Tientsin Treaties, China has granted counteragent countries a number of economic and trade privileges. France gained privileged trade opportunities in the Guangxi and Yannan provinces bordering Vietnam (Chan, 2018). Other states obtained the right to duty-free trade in certain types of goods in certain provinces; also, they were allowed to open financial institutions for lending activities on special conditions.

For the Qin Dynasty's China, Korea was a vassal and an economic donor over a long period of time. The situation changed when Korea signed the Treaty of Ganghwa Island with Japan in Korean (Japan-Korea Treaty of Amity in Japanese) and became a donor to the Land of the Rising Sun. Precisely at that time, during the period when Korea entered the world economic arena, there were two main principles prevailed in the Korean state politics: the opponents of economic modernization followed the principle «we will defend the truth and expel the heresy», while the advocates of active trade with other countries hold the view of «tondo sogi», i.e. «Eastern way - Western technology» (Tikhonov & Kahn, 2011).

Concerning that time, Kim Dae-jung, ex-president of South Korea, wrote that the theory of special Asian values is nothing more than a myth put forward by the opponents of the process of Asian countries' modernization (cit. by Asmolov, 2017). Based on the principle of economic liberalism, he built the appropriate policy for several decades, the results of which we can observe now.

As already indicated, for Korea, economic relations with Japan moved to a new level after signing the Japan-Korea Trade Treaty (Ganghwa Island) in 1876 and additional agreements thereto. This Treaty started a number of so-called unequal treaties: from 1883 to 1902, agreements on trade and economic cooperation with the USA, Great Britain, France, Russia, Italy, Austria, Belgium, and Denmark were signed. The treaties provided a number of economic privileges including trade ones for the foreign states.

The Ganghwa Treaty of 1876 granted all Japanese nationals the right of extraterritoriality, opened three ports for trade with Japan, allowed the Japanese currency to be used on a par with the Korean one, and protected the Japanese merchants on the Korean territory.

Later, two more ports were opened for the commercial activities; merchant ships received the right to be repaired in all Korean ports. In addition, an economic privilege was established in the form of non-payment of last (weight) duty from Japanese vessels (Piskulova, 2012).

Even before the establishment of the Japanese protectorate, more than 30 large Japanese companies worked successfully in Korea, while Korean enterprises could not compete with the Japanese ones (Kim, 1999).

According to the Japanese Ministry of Agriculture and Trade, on January 1, 1899, in Pusan (Busan) there were 950 Japanese who were engaged in trade activities and completely seized the monopoly of import and export of goods from this Korean port city (Kim, 1999).

As Yu Won Dong pointed out, the Korean government, under pressure from the Western powers and Japan, began issuing concessions in the mining industry to the foreign entrepreneurs at the end of the 19th century. In July 1895, American entrepreneurs obtained a concession for the development of all kinds of deposits in Unsan County of North Pyongan Province. Over the next five years from 1896 to 1900, the Korean government granted concessions to G. Burn-Mardock, J. Alex (British), Walter (German), Tatsuro Fukutsi, Tanaka, Kihahiro Okura (Japanese) and others (Dong, 1992).

At the end of 19th and the beginning of 20th centuries in the capital and some major cities, in addition to capitalist manufactories owned by the Korean owners, the first joint Japanese-Korean and other foreign enterprises started their work. In December 1900, a Japanese-Korean electric lighting company was founded in Pusan. In 1902, a joint rice-cleaning enterprise started work in Pusan. In 1903, a tobacco factory, owned by two Englishmen and a Greek, opened in Incheon. In all open ports, there were Japanese rice processing enterprises, and in Busan and Incheon there were the American ones. The Japanese owned numerous distilleries. Due to the extremely underdeveloped industry, the number of workers in Korea was completely insignificant at the beginning of the colonial period (Pak, 1967).
The beginning of the 20th century is a period when the economic and political systems of Japan and China are inextricably interlinked due to the establishment of a Japanese protectorate on the territory of the Korean Peninsula.

According to V. M. Tikhonov and M. Kang, the scholars in the field of history, the introduction of the Japanese protectorate regime in Korea played a significant role in the growth of Japan’s economy, because it gave Japan a privileged market for its goods, the right to push the Korean producers out, and buy land for next to nothing; Korea supplied rice, legumes, and cotton raw materials for the Japanese industry (Tikhonov & Kang, 2011).

Legislative consolidation of certain privileges for business in the context of globalization can significantly affect the level of socio-economic development of different territories. Today, many countries are struggling to make the conditions for doing business the most favourable on their territories. Such measures increase tax revenues, reduce unemployment, allow improving the level of technological development, contribute to the growth of quality and standard of living. Currently, more and more investments are required to make profit. Production is becoming more and more capital and knowledge intensive (Witt, 2012).

According to McKinsey research, the number of companies in the Asian region, included in the 5,000 largest companies worldwide, increased from 37% in 2005-2007 up to 43% in 2015-2017. It should be noted that the Asian companies developed well during the period of plentiful investment but the effectiveness of their further activities is noticeably lower than those of the North American companies. Thus, the decline in profitability observed in the economy (Figure 1) was largely due the decline in the profitability of Asian companies (McKinsey, 2020).

Profitability is largely determined by the amount of investment (Figure 2). Thus, the Asian companies still lag behind the North American ones in the field of domestic services and energy production (McKinsey, 2020).

Figure 2 shows that the technological sphere is the most profitable in all the countries under consideration (China, Japan, South Korea); moreover, in China, the financial services sector is quite effective; in Japan, the capital goods sector is the most effective one. The above trends were specific for 2017. Currently, in 2020, they are already beginning to change, and each country has its own peculiarities of transformational processes.

Figure 1: Decline in the world corporate profitability for the period from 2007 to 2017
Source: McKinsey, 2020
Korea has achieved significant results in the field of socio-economic development. Over the past 50 years, GDP per capita has grown so rapidly in South Korea that its status changed from the recipient country to the OECD donor country. For six consecutive years, South Korea held a leading position in the Bloomberg Innovation Index, giving way to Germany only in 2020 (Jamrisko & Lu, 2020). South Korea ranks the 5th in the Doing Business ranking (IBRD & WB, 2020); it also ranks the 5th in terms of research and development costs (Figure 3), Japan ranks the 3rd and China is the 2nd. Most researchers agree that the South Korean economy has transformed as a result of political reforms aimed at opening the country to foreign markets. Nowadays, export-oriented policy has made South Korea one of the top 10 largest exporters (Sudakova, 2019). Tax preferences and the rise in the quality of education allowed South Korea to increase the share of exports in GDP from zero to more than 50% of GDP (Rahn, 2017). At the end of 2019, Samsung was ranked the 1st in the rating of leading companies in terms of research and development costs, having spent a record USD 16.6 billion a year (Pulse News, 2020). Samsung is the 2nd after IBM in the number of patents, obtaining about 70% of the total number of patents granted in South Korea.

South Korea’s dependence on exports negatively affected the economy in 2019 during the period of the trade war between China and the United States. The imposed sanctions hit the economy of South Korea and the government began to develop measures aimed at minimizing negative impacts and finding effective tools to stimulate its development. Improvement of the quality and standard of living has become a new guideline for the current policy. Nowadays, in conditions of instability and economic decline, the achievement of this goal is being carried out by increasing public expenditures, however, in the long run this method is proven to be ineffective and will not allow obtaining the desired results (Lee, 2020). Thus, many researchers evaluate the measures taken as insufficient. As a result, in 2020, Korea’s GDP per capita growth is expected to be only 2%, which will be the lowest in 10 years (Ferrier, 2019).

Japan’s economy has also been struggling with arising challenges since the end of 2019. In October 2019, an increase in sales tax led to a decrease in consumer spending, investments, and a decrease in the confidence index. In the fourth quarter of 2019, Japan’s GDP decreased by 6.3% compared to the third quarter. That was the sharpest decline since 2014. A weakening labour market also indicates a slowdown in Japan’s economic development (Kalish, 2020). Despite the expected small growth of the Japanese economy in 2020, an aging Japanese population (one third of population is over 65) and a low birth rate will lead to the need to transform the pension system in

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| Performance, based on average economic profit created, 2015–17, $ billion | Energy and materials | Domestic services | Capital goods | Consumer | Financial services | Tech driven | Total |
|---|---|---|---|---|---|---|---|
| North America | –82 | –6 | 32 | 78 | 3 | 220 | 245 |
| Europe | –56 | –33 | 31 | 45 | –59 | 49 | –23 |
| Rest of world | –34 | –14 | –8 | –0.2 | 4 | 1 | –51 |
| Asia | –112 | –161 | –44 | 5 | 43 | 64 | –205 |
| China | –88 | –125 | –64 | 2 | 62 | 24 | –189 |
| Japan | –6 | –5 | 23 | 3 | –17 | 12 | 11 |
| South Korea | –4 | –13 | –1 | –0.3 | –1 | 19 | –1 |

**Figure 2:**

Corporate profitability in various sectors of the economy

Source: McKinsey, 2020
the future; the government will have to look for new sources of replenishment of the pension fund to cope with the increased load.

China’s economy is also in a transition period and is transforming under the influence of the US trade war. At present, China is moving from a focus on investment to a focus on domestic consumers. It is stimulation of domestic consumption that is now the main development tool for the government. In 2020, technology companies targeting the Chinese and US markets will have to focus on one of the markets in order to remain successful since the gap between these markets is widening: supply chains, data flows, and standards being developed are changing. Transformation processes in the Chinese economy lead to moving foreign companies’ capacities partially to other countries (Vietnam, India, etc.). Assessment of the national security of foreign investment, which provides an analysis of those areas and companies in which the share of foreign investment is large and which can significantly affect activities in a particular sector of the economy, has become one of the most significant changes in the state policy. Thus, in China, modern business is built taking into account not only economic but also geopolitical factors (Orr, 2019).

At the moment, the forecast for China’s economic development is generally uncertain due to the hard economic situation in the world, worsening trade wars and decrease in domestic mining and production in China.

Sebastian Horn, Carmen M. Reinhart and Christoph Trebesch (2020) analyze the influence of China on other economies of the world in the 21st century, indicating the fact that China has become one of the main creditors for business development and is actively developing a system of international loans. Moreover, according to their study, the volume of loans issued exceeds the loans issued by the World Bank, IMF, or all OECD creditor governments together.

It is hard to overestimate the influence of political aspects on the market of the Asian region and the economy of China, Japan and South Korea. The governments, with the help of corporations and the banking sector, are largely guided not just by economic motives, but by the

Notes: 1 stands for 2016, and 2 stands for 2015

Figure 3:
World’s top 10 leading countries in R&D investment
Source: UNESCO Institute for Statistics (2019, June)
geopolitical situation, first of all. Regime in China has been debated by many researchers. For example, as of 2001, in 70% of the 6,275 large- and medium-sized state enterprises classified as «corporatized», the members of the party committee were members of the board of directors (Kling, 2006). An interesting study by John Hampton (2012) is devoted to the kleptocracy in the China’s policies in which the issue of privileges is considered from the position of stationary versus roving bandits in power. All the above-mentioned leads to the conclusion that the business is forced to look for the most convenient conditions for the implementation of its activities under the given political conditions.

5. Conclusion
As the study showed, without the use of the institution of economic privileges at various stages of their development, the states of East Asia could not effectively fulfil geopolitical and strategic tasks they faced.

State and legal regulation of economic relations in China, Japan and South Korea in the 19th and 20th centuries, including those in the field of privileges in international and domestic trade, contributed to creating conditions for economic growth and world leadership. That happened due to the political regime and the policy in the field of monopolies in China, due to the geopolitical features and breakthrough economic policy in Japan, as well as the historical and legal features associated with Japanese expansion and tensions with North Korea and South Korea. Despite a number of common features, each of the countries under consideration had its own special backgrounds for economic growth.

In the economy of the 19th century, the Asian strategy was aimed at surviving in the conditions of foreign aggressive policy of European states and internal crisis phenomena.

Tense political relations within the Asian region (Korea, being a vassal of Qing for a long time, missed its opportunity to gain independence by making a treaty with Japan in 1876) were complicated by the need to repel external expansion: the UK, France, Russia, and the USA actively lobbied their interests in these countries, sought trade privileges and political power. The Opium Wars weakened China greatly. The Treaties of Tianjin of 1885 with France, Russia, England, and the United States deprived China of the right to carry out its own economic policy for many years.

According to K. A. Efremova and D. V. Streletsov (2010), in recent years, in the East Asian region there has been an increase in intra-regional ties as well as the economic, financial, and technological strengthening of the People’s Republic of China.

Indeed, gradually in the 20th and 21st centuries, the increasing economic dependence on each other of the countries under consideration forced their governments to choose a flexible course in the economy, which ensured the political and economic stability of the East Asian region.

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