

Some thoughts on Northeast Asian FTA

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I. FTA Trends in Asia-Pacific Region

Since late 1990s, FTA movements have been accelerated in world wide, especially in Asia-Pacific region. Currently, three layered FTAs are developing at the same time: the bilateral, sub-regional and the larger regional. The number of FTAs as well as their share of world trade has been rising. There are almost 200 FTAs have been notified to WTO and are in force currently. Almost all WTO members belong to one or more FTAs and multiple memberships are rising. FTAs cover more than half of global trade.

In East Asia, a sub-regional FTA, i.e. AFTA was firstly initiated by ASEAN in early 1990. Then, from 2000, China, Japan and Republic of Korea (Korea) have all adopted their FTA strategies. China initiated its first FTA with ASEAN in 2000, signing framework agreement in 2002, and concluding the agreement for trade in goods in 2005. Japan concluded the Economic Partnership Agreement (EPA) with Singapore in 2002. Japan and Korea started their negotiation on a FTA in 2003. Since 2001, China, Japan and Korea have continued their joint study on economic cooperation and a possible trilateral FTA.

In East Asia, ASEAN+3 economic leaders decided to set up a study group to study the feasibility of East Asian FTA (EAFTA), and the Joint Expert group for Feasibility Study on EAFTA (JEG) presented their report to Economic Ministers in September, 2006. JEG recommended that EAFTA starts from “ASEAN +3”, and an independent EAFTA negotiation process to be launched in an early time, While at the same time, Japan proposed that EAFTA to be started from “ASEAN+6”, i.e. East Asian Summit members. In October of 2006, during the APEC leaders meeting, the United States made a bold initiative to launch FTA in Asia-Pacific region (FTAAP).

Thus, in the Asia-Pacific region, we have four potential formulas for the regional

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FTA: Northeast Asia FTA (NAFTA), EAFTA (13), EAFTA (16) and FTAAP. In theory, benefits from a larger scale FTA are bigger than those from a smaller one, and a larger FTA could overcome the “noodle bows” better created by overlapping bilateral or small sub-regional FTAs. However, in practice, the smaller one may be easier to start and complete.

II . China’s FTA Strategy

Immediately after its WTO accession, China adopted its regional strategy. China’s regional strategy is generally based on such assessments: WTO accession is essential for China’s global interests, but only WTO is not enough since the world market is also manipulated by all kinds of regional trade arrangements (RTAs). Thus, China needs to participate and promote its own RTAs. Further more, regionalism is much more than RTAs. It also helps political relations. As a country with more than 20 neighbors, China gives special emphasis on its regional relations and makes them as the first priority in its foreign policy.

China initiated its first FTA with ASEAN in 2000. Until now 4 FTA negotiations have been concluded or partly concluded:

- (1) China-ASEAN: early harvest program in 2003, FTA for trade in goods in 2004, negotiation for investment and service to be concluded in 2007
- (2) China Mainland-Hong Kong & Macao: CEPA in 2003
- (3) China-Chile: FTA signed in 2005
- (4) China-Pakistan: early harvest program in 2004, FTA signed in 2006.

There are 5 FTAs in the process of negotiations: China-GCC, framework agreement in 2004; China-New Zealand started negotiation from 2004; China-Australia, started negotiation from 2005; China-SACU, started negotiation from 2004; China-Iceland, negotiation just started.

There three are under study: China-Korea, study to be started; China-India, consultation for the study started in 2006; China-Korea-Japan, started the study from 2003; China-Japan, leaders expressed interest in 2006.

As a developing economy, the priority of China’s FTA strategy is to ensure the

market access, but also comprehensive in nature. For FTA with developing economies, China and its partners usually follows the gradual and easy first approach. However, all FTAs must be WTO-consist.

III. Northeast Asian FTA

Northeast Asian economies, mainly those of China, Korea and Japan have been highly integrated by a investment-production-service network. Japan and Korea are the major resources of FDI flow to China, while China becomes the major market for the two countries. This high economic integration should naturally lead to closer economic cooperation and arrangements.

Three countries have achieved some progress in promoting the cooperation. In the areas like, environment, sub-regional development, tourism, etc. The cooperation also has been witnessed, either on the central government level or on the local government level. In 2003, a joint declaration on promotion of tripartite cooperation among three countries was signed. Although the train for Northeast Asian cooperation is moving, but it moves very slowly.

For the immediate and long term interests of three countries, it needs to initiate Northeast Asian FTA (NAFTA) process. China is active to promote the regional cooperation by calling for an early Northeast Asian FTA. FTA in Northeast Asia started with a Korea and Japan initiative. Their FTA negotiation started from 2003, but has been halted for some time due to the difficulty. China and Korea agreed to start the FTA feasibility study in 2005, but progress seems slow. China and Japan has not put FTA on their agenda yet. Japan calls for a bilateral investment agreement first, but China hopes to negotiate a close economic partnership agreement including trade, investment and service. The joint study group on the trilateral FTA submitted to the Trilateral Summit Meeting in 2003 "a report and policy proposal on strengthening the trilateral cooperation" evaluating mainly the economic effects of a feasible trilateral free trade agreement, with a conclusion that the trilateral free trade agreement would bring about substantial macroeconomic effects favorable to the three countries, but it seems no political consensus made yet. A joint study on possible modality of trilateral investment arrangements was also conducted and the Joint Study Group held several

meetings, with the common understanding that the promotion of trilateral investment would increase dynamism of the three countries' domestic economies, strengthen trilateral economic cooperation. The Joint Study Group Report suggested that a legal framework should be explored concerning the trilateral investment.

As for NAFTA, there are three approaches to consider, neither seems easy:

- (1) To start the process after all three bilateral FTAs to be finished, and then to a trilateral FTA. This approach needs time since only Korea-Japan FTA has started the negotiation, but great difficulty to conclude, no time table for conclusion, while the timing of the other two are not clear yet.
- (2) To launch an independent process for NAFTA in an early time since the joint study group has finished its study already. But its difficulty lies in a weak social and political support.
- (3) To start with a trade and investment facilitation agreement and a trilateral investment agreement in 2007 or 2008, which can set up the foundation for NAFTA in the future.

It seems that the third approach is more feasible.

Another consideration is to consolidate it with EAFTA process. In the JEG report, experts recommended to launch an EAFTA process in 2007 and start the negotiation in 2009. If this would be accepted by the "10+3" leaders, it will establish a larger regional FTA than NAFTA that integrates three Northeast countries into one framework. Northeast Asian countries could either to negotiate their FTA along with this process and conclude it in an earlier time, or just participate the EAFTA process in which they play the key role in promoting the process and ensuring the high quality.

In general speaking, Northeast Asia cooperation should follow a functional approach, i.e. cooperation focusing on issues (areas). This is easier way to start and make progress. However, this functional approach has its limitation since pressure still there for considering long-term view and also the crucial role in participating and promoting East Asian framework (currently '10 plus 3'). At the same time, the major efforts for Northeast Asia cooperation in the near future can also be more focused on

projects such as, regional designing and working on infrastructure, telecommunication, energy , as well as business network establishment.

This can be also better coordinated in the areas like the sub-regional cooperation, like Tumen River development program, China-Russia border close economic ties, new emerging ROK-DPRK Kaisen industrial development zone etc. The cooperation between the local cities and communities on port linkage, resource development, urban management etc. has been developed more actively than the central governments. The community building for the region usually finds its momentum in this “grass root” movements.

We should encourage the Northeast Asian cooperation beyond the trilateral level. There are two key areas that have great potential: one is energy cooperation with the participation of all Northeast Asian countries, China, Russia, Japan, South and North Korea, as well as Mongolia. Energy cooperation should be designed as a comprehensive strategy with energy development, energy use and energy network. It time to initiate Northeast Asian energy leaders meeting. Another is sub-regional development, for example, developing the joint border development area with trade and investment facilitation arrangements.