

China's Preferences in the Establishment of an East Asian Free Trade Agreement: An ASEAN+3 FTA or/and an ASEAN+6 FTA?

By Ganjar Nugroho

Abstract

Which regional-wide Free Trade Agreement (FTA) in East Asia does China support to establish? An ASEAN+3 FTA or/and an ASEAN+6 FTA? The establishment of an East Asian Free Trade Agreement (EAFTA) will sustain China's economic growth and development, and serve China's strategy to be a regional pole in East Asia. Although China does not oppose the establishment of an ASEAN+6 FTA, it prefers a gradual and sequential process in the establishment of EAFTA: forming an ASEAN+3 FTA first and then expanding it to be an ASEAN+6 FTA. A sequential process allows China to drive the negotiation process and to assure its influence and become a regional pole in East Asia.

Keywords: China, East Asian Free Trade Agreement (EAFTA), ASEAN+3 FTA, ASEAN+6 FTA, sustainable economic development, regional pole.

Backgrounds

China's role has become crucial. It has become the largest trade partner for many East Asian countries and its relative powers has dominated East Asia.ⁱ China was more active in various regional and global forums. Its regional trades with East Asian economies grew tremendously and made it to be an economic engine.

At the same time, East Asian economies have been busy in proliferating Free Trade Agreements (FTAs). In 2000 East Asian economies were involved in only 7 FTAs. But, as Asia Regional Integration Center (2008) database showed, the number of FTAs that involved East Asia-15 statesⁱⁱ increased sharply and reached 116 FTAs as of September 2008 (34 FTAs is under implementation, 8 FTAs were signed, 41 FTAs were under negotiation and 33 FTAs were proposed/under consultation and study). Two competing regional-wide FTA proposals came up: China proposed an ASEAN+3 FTA and Japan proposed an ASEAN+6 FTA. However, despite the positive welfare impacts of the establishment of an East Asian Free Trade Agreement (EAFTA) (Kawai and Wignaraja, 2007), its prospect has not been clear yet. Moreover, both proposals seem to highlight the leadership rivalry between Japan and China.

China's commitment is critical in the establishment of an EAFTA. A Chinese economist and a chair of Joint Expert Group on an EAFTA Zhang Yunling (2006a, 2006b) wrote that

China supported the establishment of an ASEAN+3 FTA, but did not discuss the formation of an ASEAN+6 FTA.

This paper discusses about China's commitment in the formation of an EAFTA. It answers two main questions: Which EAFTA scenario does China support to establish, an ASEAN+3 FTA or/and an ASEAN+6 FTA? Why does China have such a commitment? It discusses China's regional foreign policy first and then the problems raised.

Post-1997 China: Becoming A Friendly Elephant

Reactionary, assertiveness and defensiveness were key attributes of pre-1997 China's regional foreign policy. The long-held victim mentality that China inherited from the "150 years of shame and humiliation" prevented it from being patient and neighborly in pursuing national interests. In its pursuit to be a regional hegemonic power, it disrespected international norms and rules and became offensive and bellicose (Medeiros & Fravel, 2003). Such moves generated the opposite result and retrieved the perception of China threat among East Asian economies. Instead of building closer relations with other East Asian countries, pre-1997 China reinforced a roadblock that impeded East Asian-wide regional cooperation and integration.

Post-1997 China reformulated its regional foreign policy and adopted good-neighborliness and friendly languages. It strengthened cooperation with other economies and began to positively approach international organizations. At various forums, Chinese leaders expressed their inclinations to regional and global cooperation, peace, stability and development; promoted mutual trust and friendly dialogue in order to foster peaceful international security environment. Two key terms "peace" and "development" become "the main themes of the present era" (Hu, 2007, p.11, ¶1) and are bannered on the website of the Ministry of Foreign Affairs (MFA) of China. As also stated by Wen Jiabao (2007b), China "foster[s] a peaceful international environment to develop itself and, in turn, promote world peace with its development" (¶9).

The opening-up and economic reforms—which started in the end of the 1970s—changed China's performance. Economic development became a high agenda, while export-

oriented trade has become an engine of the economic development. Domestically, despite many externalities, sustainable economic development and higher pride in international arena secures political hegemony for the Chinese Communist Party (CCP). They also pushed China to reformulate its foreign policy. Chinese leaders now believe that an open policy will promote further economic development. “Only an open and inclusive nation,” said Wen Jiabao (2007c), “can become strong and prosperous, while a nation that shuts its door to the world is bound to fall behind.” (¶6).

As reflected in Hu Jintao’s report to the 17th Congress of the CCP, Chinese leaders found that they did not have any other choice than to sustain sound and rapid economic development—and promoting balanced development between rural and urban areas and among regions—to cope the problems. Only by sustaining economic development can the CPP provide employment opportunities and increase economic welfare. The failure of economic development or the collapse of China’s economy would be a cogent evidence of the CCP’s incapability in managing China. Strengthening economic cooperation and developing friendly political relations with other countries, thus, has become necessary to maintain international environment conducive for economic development (Hu, 2007, p.5).

The Asian financial crisis induced China to realize the fragility of economic miracle in East Asia and the interdependence of East Asian economies. Although China was the least affected economy, the crisis still had a contagion effect to China’s economy. Its GDP growth rate decreased from 10.0 percent in 1996 to 7.8 percent in 1998; China’s export to East Asia-15 economies decreased for the first time in 1998, from US\$ 101 billion to US\$ 90 billion; its exports to the world grew only 0.45% in 1998 after increasing 21% in 1997; while the FDI inflow to China increased 8.5% in 1997, it stagnated in 1998.ⁱⁱⁱ These underscores the facts that China’s economy was linked to other East Asian economy and that China’s weak banking system and over-leveraged state-own companies could endanger its economic development.

The crisis made China cognizant of the necessity of peaceful and dynamic international environment for the sustainability of its economic development. Consideration over its long-term economic objective, which was formulated in the Ninth Five-Year Plan, i.e. quadrupling the per capita GNP of 1980 in the year of 2000 and double the GNP of 2000 in 2010 (Li, 1996,

¶3), encouraged China to reformulate its regional foreign policy and develop friendly relation with other East Asian economies. Only by having a conducive security, political and economic environment can China concentrate on its economic, socio-cultural and political development.

The 1997 Asian financial crisis provided an opportunity for China to actualize its good-neighborhood policy. China participated in a \$16 billion international package to bail out the Thai financial system by pledging to lend Thailand \$1 billion (“China will lend Thais \$1 billion,” 1997). Its decision to not devalue the *renminbi* (RMB)—which experienced drastic real appreciation against East Asian currencies—prevented the Asian crisis from becoming more severe (Lautard, 1999).^{iv} and safeguarded the crisis-hit countries from deeper competitive devaluation. The decision relieved the US and EU’s fear that a depreciation of the RMB would make Asian export became cheaper and lead to huge job losses in the US and EU. This also soothed trade friction that derived from China’s trade surplus (Lautard). The crisis, thus, became a turning point in China foreign policy. It shifted the focus to economic development and signified the turning of China’s foreign policy from political assertiveness to friendly and peaceful neighborliness. More than just becoming a good partner, China demonstrated its potential as a responsible regional leader.

After beginning to engage ASEAN in the middle of 1990s, China leveled up its status from a consultative dialogue partner to become a full dialogue partner of ASEAN in 1996. The First Meeting of the ASEAN-China Joint Cooperation Committee (ACJCC) was held in Beijing on 26-28 February 1997, and agreed to promote deeper cooperation. In December 1997, China’s President Jiang Zemin and ASEAN leaders agreed to establish a 21st century-oriented partnership of good neighborliness and mutual trust between China and ASEAN (ASEAN Secretariat, 1997; Ministry of Foreign Affairs of the People’s Republic of China [MFA of PRC], 2002, ¶6). As also mentioned in the Ninth Five-Year Plan formulated in 1996 (Li, 1996), China was willing to be “a friendly elephant” and considered “neighbors as partners and with cordiality” (Cheow, 2005, pp. 61-63). Similar statements were made in various occasions. In April 2002, for example, Hu Jiantao stated, “[T]reating one’s neighbours with kindness and living with them amicably are considered as the bedrock of a successful

nation” (as cited in Wu, 2002, ¶12).

China also applied such changing attitude to security policy. At the fourth ASEAN Forum in July 1997, Chinese Foreign Minister Qian Qichen spoke about China’s new security concept. The concept was subsequently explicated in the 1998 China’s National Defense white paper and stated frequently in various forums (Information Office of the State Council of the PRC, 1998, chap.1). It challenged the Cold War old security concept, which was based on military alliances and arm-races, and aspired long-term peace and development. By promoting mutual respect for sovereignty and peaceful coexistence, strengthening economic cooperation and encouraging mutual understanding, post-1997 China declared its preference for peaceful rising (Beijing China Radio International, 1998). China lowered its assertive stance. Copying Japan, it maximizes its economic diplomacy to promote a peaceful environment that is essential for sustainable economic development. In addition, China can create opportunities to secure resources from its neighbor countries and convert the China threat perception into the China benign one (Cheow, 2005, pp. 61-63).

Chinese leadership change also contributed to such regional foreign policy change. During Deng Xiaoping era, China only partially engaged the international community. On one side, China joined into many international institutions and normalized diplomatic relations with many countries, but on the other side pursued its interest without respecting international norms and rules. It sought rights and privileges without accepting most obligations and responsibilities. Foreign policy making tended also to be personalized and centralized, which made China’s diplomats became under-trained and inexperienced (Medeiros & Fravel, 2003). The death of Deng Xiaoping in 1997 invigorated a drastic change in China’s foreign policy.

The third and fourth generations of Chinese leaders were more internationally oriented. Deng only made state visits several times. On the other hand, Jiang Zemin, Li Peng, Zhu Rongji, Hu Jiantao and Wen Jiabao frequently traveled abroad to promote China’s policies. More people and institutions have been involved in the foreign policy-making process, which consequently made the process became less personalized and more institutionalized (Medeiros & Fravel, 2003). It was during the third and fourth generation of Chinese leaders that China transformed its international diplomacy, peacefully resolved territorial disputes,

actively engaged the international community, and strengthened relations with other countries.

Participation in international institutions also taught China that it could pursue its interests through international institutions, by expressing its position on international issues or its expectation to other countries without violating international norms and rule or using coercive means. Its rising power improved China's bargaining position and allowed China to shape international institutions in order to obtain the outcomes it desired. In the case of ARF, China could influence other members to respect the One-China policy, consider the Taiwan issue as China's domestic issue and reduce international support to Taiwan's independence. It also used leader meetings during the APEC Summit to gain support from other members for China's WTO accession. Till the end of 1990s, China has participated in several institutions including the ARF, APEC, APT, Asian Cooperation Dialogue, ASEM and Council for Security Cooperation in the Asia-Pacific (CSCAP). China also hosted several summits, such as the APEC Summit in 2001, Asian Cooperation Dialogue and Boao Forum for Asia in 2002, and so forth.

Since 1997 China has promoted mutual trust and sometimes sacrificed itself to shoulder demanded responsibilities and restraint itself from taking more gains when dealing with other countries. For example, despite its power, it got only a half or less of the disputed territories when resolving territorial conflicts (Medeiros & Fravel, 2003); took the risks of reducing its export competitiveness by not devaluing the *renminbi* during the 1997 financial crisis; let ASEAN to sit in the driver-seat of the East Asian-wide integration process, and so forth. It reduces conflict, restraint itself, offers reassurance, participates actively, opens its market, fosters interdependence and creates common interest (Tan & Zhang, 2005). These portray China's leadership quality.

Post-1997 China: Becoming A Regional Pole

China's neighborliness, nevertheless, does not change its long-term interest and aspiration for becoming a regional and global pole. It only changed the way it substantiated its aspiration.. China bought other countries' respect through its friendly and responsible activisms, and with such respect—and indeed its powerful capabilities—China can enhance its influence to its

neighbors without force.

Through those activisms, in the short-term, China has been working to allay China-threat perception, maintain stable environment necessary to sustainable economic development, gain support for its one-China policy and prevent the re-implementation of containment and encirclement policies of the US and Japan. In the medium-term, China struggles to “make full use” of the first 20 years “period of important strategic opportunities” in the 21st century (Wen, 2007b, ¶6); and exposes more influence to East Asian economies and other countries in the world, not to exclude the US but to reduce US and Japan influences in East Asia. In the long term, China aspires for becoming a regional pole and one of the global poles, and promotes a multipolar world architecture (Hu, 2007, p.11).

China’s rising power, which allows it to gain more confidence and a great-pole mentality, drives it to be a regional pole. China has a huge population, vast land area, big amount of GDP, foreign currency reserves and trade value, and big number of military personnel, arms and equipments. Becoming a big—if not great—regional power means having a lot of and more resources and capabilities to shoulder burdens and responsibilities demanded by other East Asian economies and/or to assertively impose demands to them. By becoming a regional pole, China will make itself as an indispensable center of economic, politics and also security networks in East Asia. It will link other East Asian economies and make them relatively dependent to itself. It will determine the political and economic dynamics in East Asia region. Both its regional foreign policy and domestic policy will influence and have consequences to other East Asian economies.

China took political advantages from its 1997 non-devaluation policy. *First*, after the repossession of Hong Kong in 1997, Beijing showed its capability in managing Hong Kong’s crisis-hit economy. The depreciation of Yuan would shake the stability of Hong Kong dollar (HK\$) and endanger the economy. This management capability was also intended to be a good example for promoting the reunification of Taiwan. *Second*, the decision displayed the strength of China’s economy and the sustainability of its development even in the mid of regional economic crisis. Between 1997-1998, China’s GDP still grew at 8.6 percent in average.^v This confirmed the perception of China as a regional economic power. *Third*, China

leveled up its position against Japan by criticizing Japan for not halting Yen depreciation and for not making required economic intervention to boost import demand from other East Asian economies—that consequently also reduced China’s exports to Japan and FDI inflows from Japan (Lautard, 1999). China’s non-devaluation policy obfuscated its unsupportive decision to Japan’s proposal of the formation of Asian Monetary Fund (AMF), which was in fact desired by other East Asian economies (Yu, 2001).^{vi} East Asian economies did not criticize China, but criticized the US and the International Monetary Fund (IMF) for their blocking rejections and also Japan for its “conformity” to US over the disestablishment of the AMF. In short, China positively responded international concern and won political compliment for its responsible decisions.

China in fact was minor compared to the US and Japan in terms of investment and foreign aid. In 2004, Chinese Foreign Direct Investment (FDI) flows to ASEAN was US\$225 million, while the US and Japanese FDIs to ASEAN were more than US\$5 billion and US\$2.5 billion, respectively (ASEAN Secretariat, n.d.). Japan Official Development Assistance (ODA) still also dominated ASEAN with 44.6 percent share or almost US\$2 billion volumes (ASEAN-Japan Centre, 2005). Some scholars said that China might significantly increase its FDI and foreign aid to ASEAN if it continues to grow. But, China’s relatively backward inland regions offer low production-costs and might fail such expectation (Glosny, 2006).

Nevertheless, China competes with the US as the preferred export destination for East Asian countries in terms of trade. China’s import from other East Asian countries (Japan, South Korea and ASEAN) increased sharply and reached US\$252 billion in 2005; while the US’s import from Japan, Korea and ASEAN increased slowly and was at US\$291 billion.. China also surpassed the US in becoming the largest trade partner of Japan with trade value of US\$237 billion in 2007 (IMF, 2008).^{vii}

Economy has been the core of China’s polarity. It is because, *first*, China has a big interest in maintaining its high-speed economic development and, *second*, economy has been the public goods in East Asia. Its import-demand moves and speeds up other economies’ economic wheels. Its economic development has created a bandwagon effect, inducing other East Asian countries want to ride the rising wave of China. Having good relations with China

will generate China's support in dealing with countries or economic blocs in other regions, such as European Union (EU) or North American Free Trade Agreement (NAFTA).

As in the case of China-ASEAN FTA (CAFTA), even though ASEAN was cautious with the China's FTA proposal, ASEAN could not refuse but conduct a quick feasibility study within a year and agree to sign the CAFTA. Such decision was not only made based on positive welfare effect that ASEAN would gain through the CAFTA, but also because refusing China's proposal would likely dampen China's enthusiasm to have further cooperation with ASEAN. On the other side, closer economic relations will make ASEAN reluctant to support an encirclement policy that the US and Japan might enforce toward China.

China's strategic approach to ASEAN has also political and security meaning. From historical experience, Southeast Asia was a strategic base for Western countries to invade China and put China under colonialization. During the Cold War era, Southeast Asia became a strategic component of the US—and Russia and Japan—to encircle China. Strengthening political and economic relations with ASEAN, thus, would mean breaking and precluding the ring of encirclement and containment on China. Through closer relations with ASEAN, China builds a strong footing in its backyard and constructs a “ring of political friendship” to deal with foreign pressure (Glosny, 2006, p.4).

Rising political influence allows China to deal with Taiwan without using force. China turned to favor peaceful reunification, but is not tolerant to Taiwan's independence declaration. There is high probability that China will use military force to attack Taiwan, if Taiwan declares its independence against China. Linking Taiwan's economy to China would increase the adverse risks of declaring independence that Taiwan has to face. An independence declaration will also interrupt Taiwan-China economic relations and endanger Taiwan's economy. Position as a regional pole allows China to influence other East Asian economies in order to be unsupportive to Taiwan's independence. East Asian economies found themselves in the position of having to declare support for China's One-China policy, by not accepting Taiwan's FTA proposal and being against any move by Taiwan towards a declaration of independence. It is not only because such declaration will disrupt the peaceful regional environment that all East Asian economies want to maintain, but also because they need to

maintain close relations with China.

Towards Japan, China could assertively express its harsh criticism on Koizumi's visits to Yasukuni Shrine, while ASEAN countries could not do because of their relative dependence on Japanese economy. There is no doubt that China's harsh criticism also contributed to the decision of former Japanese Prime Minister Shinzo Abe and current Prime Minister Yasuo Fukuda of restoring peaceful relations between Japan and China, and not visiting Yasukuni Shrine.

Regarding defense policy, as mentioned in the 1998 China's National Defense white paper, China considered the importance of arms control and disarmament for international security. However, it also favored "fair, rational, comprehensive and balanced" defense policies (Information Office of the State Council of the PRC 1998, chap.2, ¶9). This standpoint kept the possibility of Chinese military armament open by excusing for other countries' military armaments. With the US military supremacy, China found a justification for raising military budget and modernizing its military power. On one side, the military modernization could be perceived as a defensive measure to balance the US military power. But, on the other side, it consequently upgraded China as a major military power in East Asia region. Just in 2005, China contributed 50.2 percent of military personnel and 45.5 percent of military power to East Asia-15 region.^{viii} There is no doubt that China has become a security pole in East Asia.

Nevertheless, China does not replace the US security influence in East Asia. The Asia Pacific Area Network web site provides information about US security cooperation in Asia (<http://www1.apan-info.net>). Even after 1997, other East Asian countries and Taiwan still maintain their military relations with the US. The US held joint military exercises with the Philippines (Balikatan), with Thailand (Cobra Gold), with Japan (Yama Sakura) and in 2008 will hold ones with Malaysia (Keris Strike) and Indonesia (Garuda Shield). The US has also reconsidered its military embargo to Indonesia. Singapore built a naval base for US aircraft carriers at Changi and signed a Strategic Framework Agreement in 2005. Thailand supported US military operations in Afghanistan and Iraq by allowing the US to use its Utapao airfield. Malaysia established a counter-terrorism center and has participated in joint training exercises

(Glosny, 2006). Japan signed a missile defense pact and still maintains US military bases in Japan.

Excluding the US from East Asia region and replacing Japan as the regional power, thus, are unimaginable either in the short or medium-term. Conspiring such activisms will instead revoke China's neighborliness policy and recall China threat perception. Japan, Korea and ASEAN countries do not want China to be a hegemonic power that exerts hegemonic behaviors in East Asia. Japan does not want its influence in East Asia evaporated, while Korea does not want to be overwhelmed by China. A peaceful rivalry between China, Japan and the US is more desirable to ASEAN because such international structure levels up its own political position. An intra-system rise, by reducing the US's hegemony and Japan's influence in East Asia, is thus the only possible option China has.

China and Two Tracks of East Asian Regional Arrangements

During the first Informal Summit of ASEAN+3 in Kuala Lumpur in the mid December 1997, Chinese President Jiang Zemin (1997) delivered a speech entitled *Join Hands in Cooperation and Build a Future Together*. As with other East Asian leaders, he promoted to further strengthen East Asian cooperation and envisage the prospect of East Asia's future development. The meeting became the first ASEAN+3 Summit and initiated the ASEAN+3 regional arrangement process.

China subsequently proposed an establishment of an EAFTA among ASEAN+3 countries in 2004, not a long time after concluding the CAFTA. The proposal immediately gained support from Malaysia that still had negative sentiment towards the US, but was cautiously considered by some others East Asian countries.

Sharing similar views with Indonesia and Singapore, Japan—that preferred multilateral, Asia-Pacific-wide and bilateral trade arrangements—did not positively respond to the proposal. After the failure of its AMF proposal, Japan became less enthusiastic in supporting the regional integration process. But, considering China's rising power and ASEAN's bandwagoning attitude toward China, and also the risk of being excluded and being dominated in the Chinese-led integration process, Japan decided to join the process. If China become the

founding country and the leader of the integration process, China will get privileges to set the norms and rules that all members should abide and the conditionalities that new prospecting members have to meet. This would allow China to maximize its interests and minimize negative effects of extending the memberships of the regional arrangement.

Preparation for the first East Asian Summit (EAS) that would be held in Kuala Lumpur in 2005 gave Japan a moment to deal with the issue. Instead of dealing with China alone, Japan Ministry of Foreign Affairs (MOFA) stated that Japan wanted to include “essential partners” such as Australia, New Zealand and India (2004, p.8) and was “much interested in inviting the US” (2005, art.VIII). It was in Japan’s interest to make the regional arrangement to be “in the nature of openness and inclusiveness” and “much wider in scope and range than the ASEAN+3 meetings” (2005, art.VIII). Malaysia’s rejection of the US’s involvement resulted in only the three latter countries being invited to EAS.

The main issue in the creation a regional arrangement is, thus, not about the aspect of integration, but about the memberships, which seems to confirm the political rivalry between China and Japan in East Asia region.

China, in fact, to some degree, shared similar consideration with Japan regarding US involvement. On 12 April 2004—before Japan communicated its issue paper on 25 June 2004—Vice Foreign Minister of China Wang Yi (2004) mentioned,

“US has very important interest and influence in East Asia region. ...In this matter, not only we have to follow the general regulation of regional cooperation and strengthen cooperation among the countries within the region, at the same time, we also have to pursue opened regionalism; do not exclude US and other countries outside of the region, put importance to emphasize them strengthening conversation and harmony, respect each others' benefit, keep seeking and widening any parts that gathers benefit”(¶18).^{ix}

Wen Jiabao (2005b), during the first EAS, confirmed such view. China accepts the idea of “open regionalism” (¶13) and welcomed Russia, the US, the EU and other countries and organizations outside East Asia region. China gave “due consideration to the legitimate interests of the non-East Asian countries in this region” (¶17), but also demanded the non-East Asian countries to give “their understanding of and support for East Asia cooperation” (¶17).

The above statement tacitly certifies China’s short- and mid-term intention to have two tracks of regional arrangement processes. China realizes that totally excluding the US will not

benefit China's position and will backfire on itself. But on the other hand, China is also seeking regional polarity in order to establish its leadership position and status in East Asia. The first track is a relatively closed or less opened East Asian regional arrangement process with ASEAN+3 countries as its participants; and the second track is an open regional arrangement that includes ASEAN+6 countries as the initial participants and welcomes other prospective participants, such as the US, the EU and other countries. In this way, China can comfortably and strategically deal with the two East Asian regional arrangement process.

Confirming the Chairman's Statement of the ASEAN+3 Summit in Vientiane in November 2004 (ASEAN Secretariat, 2004, art.11), China promoted ASEAN+3 process as "the main vehicle" and "the main channel for East Asian cooperation" (Wen, 2005a, ¶14; J. Yang, 2007, ¶5). With a deeper and wider framework, China wants the ASEAN+3 process to facilitate cooperation and integration in East Asia that are deeper than that of the ASEAN+6 process. Through this position, China does not only maintain and support of the value of ASEAN+3 integration process against the ASEAN+6 one, but also secures its interest of becoming a regional pole. Although Wen Jiabao (2003) stated "openness and inclusiveness" as one of the four principle of ASEAN+3 cooperation (¶10), instead of briskly expanding the members of the ASEAN+3 process, China prefers a "gradual process" (¶9) and supports ASEAN+3 only in "enhancing communication and dialogue" with the US, the EU and other countries or organizations outside the region (Wen, 2005a, ¶35). This means, for a certain period, China wants to maintain its privileges as a founding country and a regional pole, and limit the non-East Asian countries' influences in the ASEAN+3 process. The ASEAN+3 process will be opened to non-East Asian countries when China becomes powerful and confident enough in assuring its influence in East Asia.

On the second track, China supports the idea of open regionalism that EAS promotes. China encourages the EAS to be a smaller copy of APEC forum and posits it as the other existing extra-regional arrangements, such as Asia-Europe Meeting (ASEM), East Asia-Latin America Forum (EALAF) and Asia-Middle East Dialogue (AMED). In this way, China obscures its real intention in the ASEAN+3 regional arrangement and at the same time maintains amicable relations with other countries. Having such wide cooperation means

encouraging other countries “to play a positive and constructive role in promoting stability and development in East Asia” (Wen, 2005b, ¶18): an environment that China desires for its long-term economic development.

China chose to frequently make formal statements that China ‘seeks no leadership role in regional cooperation’ and supports ASEAN to be “the main driving force” for either the ASEAN+3 or EAS processes (Wen, 2005a, ¶35). Such statements are strategically meaningful in allaying China-threat perception and obfuscating China’s desire for regional polarity. In practice, China often behaved and wanted to behave like a driver in the process by proposing initiative. Beijing, for example, proposed itself as the second host of EAS, which was subsequently opposed by ASEAN and Japan. China also sponsored the formation of Network of East Asian Think-tanks (NEAT) in 2002, and proposed the ASEAN+3 FTA in 2004, urging the feasibility study on the FTA. Although China promotes public goods that other East Asian countries seek for, such activism still reveals China’s intention to influence the East Asian economic integration process. Becoming a regional pole is still an aspiration that China pursues.

China’s FTA policy, thus, should be based on these characters of China’s regional foreign policy.

China’s FTA Strategy

In 2000, former Chinese Ambassador to APEC Wang Yusheng stated,

“Trade and investment liberalization would be beneficial to establishing and opening up good trade and investment environments. It raises challenges for China, but it also provides an opportunity to China for deepening and speeding up Reform and Opening-up policies and to China’s economic construction. It would be beneficial to China’s economy to integrate with the world economy” (as cited in Z. Yang, 2004, p.5).

In May 2007, Chinese Vice Minister of Commerce Yi Xiaozhun said,

“Regional trade cooperation is heating up across the world as many countries, pressured by economic globalization, have to seek ways to facilitate their trade. ...If you are not part of regional trade arrangements, you stand to lose” (as cited in “China, India to advance...,” 2007, ¶8,10).

Such statements reflected China’s commitment to pursuing and concluding FTAs with

other economies, either inside or outside East Asia.

As other East Asian economies, China was late in pursuing FTAs. It started to propose FTAs after confirming its membership seat in the WTO in 2000. As mentioned by China's Minister of Foreign Trade Shi Guangsheng, China was busy with multiple bilateral negotiations required by the WTO accession process. China hoped that with the membership it would be able to rely on the WTO. However, the failure of the 1999 WTO talks in Seattle made China realize it could not rely solely on the WTO and should follow other countries in pursuing FTAs (Hatakeyama, 2002).

China's FTAs include trade in goods, services and investments. Reduction and elimination of tariff rates, abolishment of non-tariff barriers and trade facilitation are covered in the agreements of trade in goods. As China is bound in all its tariff lines to the WTO, China's FTAs tend to cover most of trade products and retain pre-existing tariffs with non-FTA members. The FTAs include the standard rules of origin and reciprocity requirement.

As Table 1 demonstrates, China had 22 FTAs as of September 2008, with 7 FTAs were under implementation and were signed, 5 FTAs were under negotiations and 9 FTAs were in the status of proposed/under consultation and study. Currently, China is involved in 7 intra East Asia-15 FTAs and 15 extra East Asia-15 FTAs. Four FTAs involves Australia, India and New Zealand. This indicates China's positive attitude towards open regionalism.

Table 1. China's FTAs by Status and Geographical Orientation^{a/}, as of September 2008

	Intra East Asia-15	Extra East Asia-15
Under implementation	China-ASEAN CECA ^{b/} China-Hong Kong CEPA China-Macao CEPA China-Thailand FTA	Asia Pacific Trade Agreement (APTA) China-Chile FTA China-Pakistan FTA
Signed		China-New Zealand FTA
Framework Agreement Signed/FTA Under negotiation		China-Australia FTA China-Iceland FTA
Under negotiation	China-Singapore FTA	China-South African Customs Union FTA China-Gulf Cooperation Council FTA
Proposed/Under consultation and study	ASEAN+3 FTA China-Japan-Korea FTA	ASEAN+6 FTA Shanghai Cooperation Organization FTA China-India RTA China-Costa Rica FTA China-Norway FTA China-Peru FTA

Notes:

^{a/} By Geographical Orientation: Intra East Asia-15 includes Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam, China, Japan, Korea, Hong Kong, Taiwan.

^{b/} For abbreviations: FTA (Free Trade Agreement); RTA (Regional Trade Agreement); CECA (Comprehensive Economic Cooperation Agreement); CEPA (Comprehensive Economic Partnership Agreement).

Sources: Asia Regional Integration Center (2008).

The eight under implementation/signed FTAs include the ones with ASEAN, Thailand, Hong Kong and Macao, New Zealand, Pakistan and Chile; another one is Asia-Pacific Trade Agreement (APTA) that contains Bangladesh, India, Korea, Lao and Sri Lanka as its member parties. Having a plurilateral FTA with ASEAN and a bilateral FTA with Thailand are, as often said, more political than economical. But, they also have direct and indirect economic benefits for China. Concluding the Closer Economic Partnership Agreement (CEPA) with Hong Kong and Macao has crucial economic impact for China. Both cities, especially Hong Kong, function as trade entrepot and sources of direct or indirect investment. Through both cities China may reap many economic benefits from its gradual integration into the global economy.

Under the APTA, China gave preferential tariff to Pakistan by lowering 893 tariff lines under 8-digit category to 18.5 percent in November 2003. China and Pakistan then agreed to launch a feasibility study of the China-Pakistan FTA in December 2004 and also FTA negotiations in April 2005. Under an Early Harvest Agreement, China and Pakistan would cut their import tariffs within two years, starting from 1 January 2006. China and Pakistan would reduce tariffs on 52 goods, under the 4-digit category. The two parties also agreed to have trade facilitation and economic cooperation (Zhang, 2007). This FTA is the first FTA that China concluded with a South Asian country and, thus, widens the access to the South Asian market. Considering the political rivalries between Pakistan and India, this FTA could push the establishment of an FTA between China and India.

Chile's positive behavior towards China could make an FTA with Chile would be easy to understand from a political perspective. Chile is the first Latin American country that completed bilateral negotiations on China's accession to the WTO, classified China as a

“market economy” (Breslin, 1999: 1189)^x and negotiated an FTA with China. The China-Chile FTA negotiation started in November 2004, was concluded one year later and implemented in July 2006. The tariffs of 97 percent goods will be reduced and eliminated within 10 years (Ning & Liang, 2006). Chile is the largest source of copper and copper ores for China and the FTA would serve as a stepping-stone for an FTA with MERCOSUR and other Latin American countries, like Brazil and Argentina.

China is also in FTA negotiations with extra East Asia-15 countries. China began FTA negotiations with New Zealand in December 2004, urged the conclusion of the negotiation and signed the FTA in April 2008. With Australia, China signed the FTA framework agreement in October 2003. Australia then recognized China’s market economy status in April 2005, and launched FTA negotiations a month later. The 10th round of negotiations progressed slowly, but then continued with the 11th round in June 2008 (Australian Government-Department of Foreign Affairs and Trade, 2008). New Zealand and Australia are not China’s main trade partners as demonstrated by their 2 percent shares in China’s total trade in 2005. However, China’s trade with the two countries has grown quickly at more than 30 percent per year since 2003. Dealing FTAs with New Zealand and Australia can also be a training field for further FTA negotiations with other developed countries, such as the US and EU, in the future.

China negotiates FTAs with Gulf Cooperation Council (GCC) and South African Custom Union (SACU). The GCC consists of 6 countries—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates—that have reserves of 45 percent of the world’s oil and contributes 20 percent of world oil exports. Despite the slow negotiation progress after 2006, having an FTA with the GCC, would not only for widen market access in the Middle East, but also assure an oil-supply that China needs for its economic development. The SACU FTA negotiations started in 2004 and would serve as an entry point to the African market.

China is also conducting feasibility studies on several FTAs with South Korea, India, Costa Rica, Norway, and Peru. With other East Asian countries, China has completed a feasibility study of an ASEAN+3 and ASEAN+6 wide FTAs, but has not been able to bring the results to the negotiation table due to political and economic issues.

Those 13 signed/implemented and negotiated FTAs indicate the fast progress that China made in pursuing FTAs. Ironically, China has not had any FTA talks with its key trade partners, i.e. the US, EU and Japan. It does not mean that China does not have interest in establishing those FTAs, but it is the US, the EU and Japan that are reluctant to recognize China's market-economy status. China's strong intention and patience on its accession to the WTO and its experienced trade negotiators should be adequate resources for negotiating the FTAs. Besides, China has taken the initiative to propose regional FTA with Japan and Korea, but did not get a positive response from Japan.

The composition of FTAs above implies that China does not only spend its energy on FTAs with East Asian economies, but also with non-East Asian economies. China works to integrate itself into the global economy and does not limit its activism in only East Asia region. The decreasing trend of the East Asia region's share in China's exports (IMF, 2008) means that China cannot rely on East Asia as an export market. At the same time, China need to reduce its trade dependence to the US and EU's markets by widening and deepening trade relations with many countries.

China uses the FTA talks as parts of economic and political diplomacy. Its economy is hungry and thirsty for concerning key resources, such as oil, natural gas, and iron. Through FTAs, China attempts to deepen cooperation in energy and mineral resources with Australia, the GCC countries and Central Asian countries. China is also exploring and discussing FTAs with Argentina that is rich in oil, with Brazil for its iron ore, with Iran for its crude oil and natural gas, and also with other resource rich countries.

Four economic and political motivations lead to China's FTA strategy. *First*, similar to what being pursued in the WTO accession, China wants to widen market access for its quickly growing export industry through the FTAs establishment. *Second*, the creation of FTAs can quell the China threat perception, facilitate economic and political cooperation with other countries and improve China's influences. *Third*, establishing FTAs helps China in meeting its needs for key mineral and energy resources. *Fourth*, the creation of FTAs demonstrates China's commitment to trade liberalization and encourages further domestic economic reforms, which in the long-term will allows China's economy to grow on the basis

of efficiency and comparative advantage.

These four motivations are part of China's principal economic and political interests: ensuring the sustainability of its economic growth and development, and becoming a regional pole in East Asia.

China-ASEAN FTA

After ensuring a place in the WTO, Chinese Premier Zhu Rongji proposed the establishment of an FTA between China and ASEAN at the ASEAN-China summit in November 2000. An ASEAN-China Expert Group on Economic Cooperation was established to study the impact of China's accession to the WTO and the prospect for bilateral economic cooperation in March 2001. The expert group concluded that the China-ASEAN Free Trade Agreement (CAFTA) would encourage economic integration between ASEAN and China particularly, and among East Asian nations generally. During a meeting of senior ASEAN and Chinese economic officials in Brunei in the mid-August 2001, China enthusiastically proposed a 7-year phase-in period of tariff reduction and other measures, from 2003-2009 (Thayer, 2001). After cautiously studying the proposal, ASEAN agreed to establish a free trade area at the ASEAN-China summit in November 2001.

The Framework Agreement on Comprehensive Economic Cooperation between the two parties was agreed upon in November 2002. The CAFTA will integrate ASEAN and China's economies by eliminating import tariffs within 10 years, beginning in 2010. It would become the world's largest FTA, with 1.7 billion consumers, a \$1.23 trillion worth trade and a combined gross domestic product (GDP) of US\$2 trillion. A feasibility study conducted by ASEAN Secretariat told that the CAFTA would increase ASEAN's exports to China by 48 percent and China's exports to ASEAN by 55.1 percent. The FTA would increase ASEAN's GDP by 0.9 percent or by US \$ 5.4 billion while China's real GDP expands by 0.3 percent or by US\$ 2.2 billion in absolute terms (ASEAN Secretariat, 2001).

The CAFTA proposal was in fact more political than economic. *First*, China wanted to quell the China-threat perception that was disseminated among ASEAN countries by opening its economy earlier to ASEAN than to other WTO members. The early harvest program that

China offered attracted ASEAN's interest and made China different from Japan—which still protects its agricultural sector. With the program, China offered to reduce and eliminate agricultural products tariff-rates within the period of 2003-2006. For Cambodia, Lao, Myanmar and Vietnam, China extended its most favored nation (MFN) treatment even though the countries did not have WTO memberships; gave special and differential treatment and flexibility in implementation by letting the countries to implement CAFTA in 2015. These policies would only bring minor economic impact to China but performed China's political and economic good will to ASEAN countries (ASEAN Secretariat, 2002, art.6). *Second*, The CAFTA was proposed soon after Japan started an EPA negotiation with Singapore. China needed to purchase a higher political leverage in Asia region and limit Japan and the US's influence in the region. Such agreement caused a domino effect and provoked other countries to have similar accord with ASEAN (Cheow, 2005). Japan proposed an EPA to ASEAN one day after the CAFTA agreed. It signed a Framework for ASEAN-JAPAN Comprehensive Economic Partnership (AJCEP) one year later (The Ministry of Foreign Affairs of Japan [MOFA of Japan], 2003) and launched bilateral negotiations with some ASEAN states after August 2005. In October 2006, the US President George W. Bush announced an Enterprise for ASEAN Initiative (EAI) and prospected bilateral FTAs with ASEAN countries (The White House, n.d.). The US concluded an FTA negotiation with Singapore in 2004.

China's Northeast Asian-Wide FTA Initiative

China also engage its Northeast Asian counterparts. Just after signing the China-ASEAN FTA, China proposed a trilateral China-Japan-South Korea FTA during the ASEAN Summit meeting in Phnom Penh in November 2002. Besides the positive potential impact of a Northeast Asian-wide FTA to its general welfare (Zhang, 2006b), China hoped the FTA could also quell the China-threat perception among Japan and South Korea. As recorded in 2001, Japan took provisional safeguard measures over welsh onion, shiitake mushroom and tatami-rushes imports from China, which was triggered by the increasing imports of agricultural products from China (Kuno, 2006). Having an FTA with Japan and South Korea will also strengthen the structure of economic relations between them and consequently provide a

stronger guarantee for a long-term conducive environment that China's economic-development needs.

Unfortunately, Japan Prime Minister Koizumi did not positively respond to the proposal. He replied, "We should consider an FTA among our three nations from a medium-to long-term perspective" (as cited in Kojima, 2003, ¶24). Japan Ministry of Foreign Affairs (MOFA) (2002) subsequently adopted such position into Japan's FTA strategy: Japan will pursue FTAs other countries, including China, over the mid to long-term on the base of FTAs with South Korea and ASEAN.

The process towards a Northeast Asian FTA stagnated after the political crisis between Japan and China erupted. Japanese Prime Minister Koizumi's visits to Yasukuni Shrine provoked nationalism spirit and criticism among Chinese. China subsequently chose to exploit the issue in order to discredit Japan's international image and deflect the threat perception over China—and also distract Chinese people's attention over China's domestic issue.

China, nevertheless, did not lose its willingness to build closer relations with Japan. Hu Jiantao, in 2002, said that China did want to see the political conflict because "it would be detrimental to China and Japan and would affect stability and development in Asia" (as cited in Qin, 2005, ¶3). He also greeted Japanese Prime Ministers Shinzo Abe and Yasuo Fukuda's initiative of reconciliation. During a meeting at the ASEAN Summit in Singapore on 20 November 2007, Wen Jiabao and Yasuo Fukuda agreed to launch the first session of Sino-Japanese high-level economic dialogue aimed to set up a strategic mutual beneficial relationship in economy and trade between the two countries (Ministry of Commerce of the People's Republic of China [MOFCOM of the PRC], 2007b). Unfortunately, although China, Japan and South Korea have agreed to have action agenda on trilateral investment arrangement, the initiative of a Northeast Asian FTA establishment has not found its ground yet.

China and Its Commitment to the Establishment of an EAFTA

In the 7th ASEAN+3 Summit that was held in Bali in early October 2003, Chinese Premier

Wen Jiabao (2003, ¶9) made four proposals, one of which was to study the feasibility of EAFTA. One year later, during the 8th ASEAN+3 Summit in Vientiane in November 2004, he expressed the necessity “to push steadily for the establishment of the East Asia Free Trade Area (FTA)” for economic development and integration in East Asia. “China,” he stated, “is ready to take the initiative to launch the feasibility study of East Asia FTA and host the first expert group meeting in Beijing in April 2005” (Wen, 2004, ¶19).

Through the Network of East Asian Think-tanks (NEAT) that China sponsored, the establishment of EAFTA was urged to be “the top priority of East Asia cooperation.” Scholars who worked for the NEAT suggested that the research on EAFTA should be launched immediately, as should the formation of a task-force which would carry out the research and finish a report of feasibility study within two years (NEAT, 2003, ¶7).

East Asian leaders subsequently exchanged views on the establishment of an EAFTA. As noticed in the Chairman’s Statement of the 2004 ASEAN+3 Summit, they welcomed the decision made by the ASEAN+3 Economic Ministers to set up an expert group to conduct a feasibility study on EAFTA (ASEAN Secretariat 2004, art.11).

The Joint Expert Group, which was chaired by a Chinese economist Zhang Yunling (2006a), concluded that an EAFTA would be the core part in the ASEAN+3 institutional building. Based on a series of ASEAN+1 FTAs and the existing ASEAN+3 framework, an EAFTA would include “ASEAN+3 countries first before opening up to other countries.” Other countries, such as Australia, New Zealand and India, would be incorporated “in an appropriate time” (p.15). The Joint Expert Group proposed to ASEAN+3: (1) to launch the independent process to prepare for EAFTA in 2006; (2) to create working groups to do preparatory work for EAFTA negotiations in 2007-2008; (3) to start EAFTA negotiations in 2009; (4) to conclude the negotiations by 2011; and (5) complete EAFTA by 2016, with special flexibility for Cambodia, Lao, Myanmar and Vietnam by 2020 (pp. 12-16).

However, Japan did not warmly respond to the EAFTA proposal. It feared of being dominated by China and of being pressured by China and ASEAN to open its agricultural market. In response, Japan proposed an ASEAN+6 FTA—or more exactly, Comprehensive Economic Partnership in East Asia (CEPEA)—in 2006. As mentioned in Japanese METI

(2006) publication, Japan planned to start the FTA negotiation in 2008 and conclude it in 2010. Despite Japan's proposal of ASEAN+6 FTA, China was still consistent in pushing the establishment of ASEAN+3 FTA. Wen Jiabao (2007a), during the 10th ASEAN+3 Summit that was held in Philippines on 14 January 2007, mentioned that East Asian countries "should accelerate the process toward free trade between ASEAN and China, Japan and the ROK [Republic of Korea]" (¶15).

As reflected in its Chairman's statement of the 2007 ASEAN+3 Summit, ASEAN could not make a choice over whether to support China's EAFTA proposal or Japan's CEPEA proposal.^{xi} ASEAN understood that supporting China's proposal would marginalize Japan and vice-versa. It needed both countries as locomotives for its economic development. Political rivalry between China and Japan increased ASEAN's political position so that the two countries compete with each other to provide economic benefits to ASEAN. However, postponing the establishment of EAFTA or CEPEA would delay the economic benefit of free trade arrangement that ASEAN could potentially gain. Waiting out the process and facilitating exchange of views between China and Japan is the only approach ASEAN can take.

China, indeed, has interests in pushing the ASEAN+3 FTA process, more than supporting the ASEAN+6 FTA proposal. Both East Asian-wide FTAs will deepen integration between East Asian countries, reduce the China-threat perception and consequently fertilize a conducive-environment for China's sustainable economic development. With both EAFTAs, China also reduces the imbalances from the US-led hub-and-spokes architecture; it will give China (and East Asia region) a more powerful voice in multilateral bodies, such as the WTO, when having negotiation with other regional economic bodies, such as the EU and NAFTA.

An ASEAN+3 FTA will give more political benefits to China than an ASEAN+6 FTA. China has bigger power shares in the ASEAN+3 FTA than in the latter, meaning that it will be easier to drive the negotiation process of the first FTA than that of the latter. Dealing with ASEAN+3 FTA first allows China to focus its resources to manage the negotiation so that the EAFTA can be a comprehensive FTA and meet its interest. With an ASEAN+3 FTA, China will have bigger bargaining power to negotiate with prospective great power India—which is relatively protective against China ("India mulls FTA with China," 2007; "FTA with China

not a priority: Govt., 2008).^{xii} India will face the risks of being excluded from East Asian regional trade arrangement if it does not liberalize its market in a faster pace.

Even though China prefers an ASEAN+3 FTA, it does not oppose the establishment of an ASEAN+6 FTA. Opposing an ASEAN+6 FTA will consequently mean marginalizing Japan, which China still needs for sustaining its economic development. An opposition to ASEAN+6 FTA would also signal a refusal to further strengthen cooperation with Australia, India and New Zealand; violate China's own campaign and promise to be a good neighbor. Consistent with the China's regional foreign policy that already discussed above, China supports a gradual and sequential process in the establishment of EAFTA: forming an ASEAN+3 FTA first and then expanding it to be an ASEAN+6 FTA.

Such standing is implied from the FTA talks that China has with Australia, New Zealand and India. China is not allergic to FTAs with Australia, New Zealand and India. Moreover, Chinese economist Zhang Yunling who led the ASEAN+3 feasibility study is also involved in the ASEAN+6 FTA feasibility study that Japan organizes (personal communication, July 17, 2008). This consequently means that if an ASEAN+3 FTA can be establish, the formation of an ASEAN+6 FTA might be only a matter of time.

Afterwords

Economically, the creation of an EAFTA will, in the long term, sustain China's economic growth and development. The creation of an EAFTA will widen market access to the East Asian market and generate welfare improvement in China, encourage further domestic economic reforms, Politically, the formation of an EAFTA is a part of China's strategy to be a regional pole in East Asia. The formation of an EAFTA will allay the 'China-threat' perception, reduce trade dependence to the US and the EU, facilitate deeper economic and political cooperation with other East Asian countries, display China's responsibilities, neighborliness and leadership capabilities, indirectly prevent Taiwan's independence, scale up its regional influence, and give a more powerful voice in international world.

China commits to the formation of an EAFTA, either in the form of an ASEAN+3 FTA or an ASEAN+6 FTA. It only wants to sequence the trade regionalism process so that it can

keep assuring its influence and becoming a regional pole in East Asia. This sequencing policy does not violate China's commitment to be an open and inclusive country. A sequential process allows China to drive the negotiation process and to assure its influence and become the regional pole in East Asia. The more China's power grows, the more confidence China deals with and strengthens cooperation with other powerful countries. With the positive impact of WTO accession and its commitment to trade liberalization and to comprehensive FTA, China does not worry that it will lose out in both ASEAN+3 FTA and ASEAN+6 FTA arrangements. Expanding the ASEAN+3 FTA to be ASEAN+6 in appropriate time will even widen China's influence and subsequently increase its leverage in East Asia region.

China's strong commitment illuminates the prospect of an EAFTA. The prospect of an EAFTA has also become more likely as the feasibility studies on both an ASEAN+3 FTA and an ASEAN+6 FTA have been conducted in parallel. On one side, China supports the sequential creation process of an ASEAN+3 FTA and an ASEAN+6 FTAs; on the other side, Japan agreed to involve itself in the creation of an ASEAN+3 process.^{xiii} With both powerful countries on the stage, ASEAN will follow and an EAFTA will be more likely in the future. Political wills from all East Asian countries will materialize the envisioned EAFTA in the medium- or long-term.

Chinese Premier Wen Jiabao stated, “[*It is necessary*] to push steadily for the establishment of the East Asia Free Trade Area” (2004, ¶19), because “[*o*nly an open and inclusive nation can become strong and prosperous, while a nation that shuts its door to the world is bound to fall behind” (2007c, ¶6).

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ⁱ Among East Asia-15 economies, China shared 64% population, 66% land area, 53% PPP-GDP, 49% net FDI inflows, 50% military personnel, 45% military spending in 2005. Data were compiled and calculated from World Bank (2008); For Foreign trade data, see International Monetary Fund (IMF) (2008); For

military expenditure data, see “Military: world wide military expenditure” (n.d.).

ⁱⁱ East Asia-15 includes Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam, China, Japan, Korea, Hong Kong, Taiwan.

ⁱⁱⁱ Data were compiled and calculated from World Bank (2008); IMF (2008); and United Nations Conference on Trade and Development [UNCTAD] (2008).

^{iv} The decision in fact was also for the sake of China’s economy. The decision demonstrated the stability of Yuan and defended the stability of Hong Kong dollar (HK\$). The failure of the HK\$ peg system would make the Yuan become more vulnerable to speculation, due to its close linkage to HK\$, and affect China’s economy. Chinese companies in Hong Kong were important sources of funding for infrastructure projects in China. They were involved in Hong Kong stock market, which dropped 50 percent between August 1997 and March 1998. Letting the drastic fall of their shares on Hang Seng stock exchange meant also jeopardizing China’s own economic development (Lautard 1999, pp. 291-293).

^v Data were compiled and calculated from The World Bank (2008).

^{vi} It was hoped that the AMF could be an alternative to the insensitive IMF and Japan could lead the process. The establishment of the AMF might not only tackle the 1997 crisis, but also prevent the potential future crisis. However, four factors contributed to China’s lack of support to AMF. *First*, suspiciousness of Japan’s true intention; *second*, doubtfulness of a need for regional monetary fund because of the IMF; *third*, incredulity over the benefit of the regional monetary arrangement for China; and *fourth*, China’s attention on global solutions to solve its decreased export (Yu, 2001).

^{vii} These data, however, include Japan, South Korea and ASEAN’s exports of raw materials and intermediate goods to China, which are being processed in China and subsequently exported to the US (and the EU). This means that China also needs other East Asian economies; the importance of the Chinese market for East Asian countries is not also independent from the US market.

^{viii} Data were compiled and calculated from The World Bank (2008) and *GlobalSecurity.org*’s “Military: World Wide Military Expenditure.”

^{ix} I would like to thank to Alice Lee for translating this passage from Chinese.

^x A “market economy” status is important to prevent safeguards measures that can be applied to China. As on China’s accession to the WTO, the EU refused to recognize China as a “market economy”. China’s exports consequently would be compared to goods from the most comparable market economy and unfairly cheaper goods could be subject to the imposition of extra import duties (Breslin, 1999).

^{xi} In January 2007, the chairman of ASEAN+3 Summit stated, “We welcomed the East Asia Free Trade Area (EAFTA) as a fruitful avenue of integration. At the same time, we noted that we should continue to examine other possible FTA configurations such as the East Asia Summit (EAS). In this connection, we welcomed the outcome of the feasibility study by the Expert Group on the EAFTA, which was spearheaded by China” (MOFA 2007, ¶9).

^{xii} Having FTA is not a priority for India due to the deep divisions within the government and industry. India does not want to include agriculture in the FTA. Tariff rate of pepper commodity, for example, will be lowered to only 50 percent by 2018 (“India mulls FTA with China,” 2007; “FTA with China not a priority: Govt., 2008).

^{xiii} In the 11th ASEAN Plus Three Summit in Singapore in 2007, the ASEAN+3 leaders made a joint statement that mentioned, “the ASEAN Plus Three Process would remain as the main vehicle towards the long-term goal of building an East Asian Community” (MOFA of Japan, 2007a, p.3).