

China's Commitment in the Creation of an East Asian Free Trade Area (EAFTA):

An ASEAN+3 FTA or/and an ASEAN+6 FTA?

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Abstract

A Strong and growing economic and evolving political powers have allowed China to become an important player in East Asia. At the same time, East Asian economies have been busy in proliferating Free Trade Agreements (FTAs) and considering the creation of East Asian Free Trade Area (EAFTA), either in the form of an ASEAN+3 FTA and an ASEAN+6 FTA. China's commitment is one of determining factors in the establishment of an EAFTA.

China strongly commit to the formation of an EAFTA, either an ASEAN+3 FTA or an ASEAN+6 FTA. The creation of an EAFTA will, in the long term, sustain China's economic growth and development based on efficiency and comparative advantage. It is a part of China's strategy to be a regional pole in East Asia. It 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 does not oppose the establishment of an ASEAN+6 FTA. An opposition to an ASEAN+6 FTA will deteriorate China's economic relations with Japan, Australia, New Zealand and India. It will also display China's hegemonic aspirations, call for a re-imposition of US containment policy towards China, and endanger China's economic growth and development.

China 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 the regional pole in East Asia.

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

Backgrounds

China's role is undoubtedly becoming crucial in the East Asia region. China is dominant in many areas at regional level. In 2005, China's PPP-adjusted-GDP, population number, land area, foreign trade, FDI net inflows, military personnel and military expenditure were incomparable to other East Asian economies. China has become more active in various regional and global forums. Its regional trades with East Asian economies grew tremendously and gaining a bigger share within East Asian intra-regional trade. China has become an economic engine, substituting Japan's role as the East Asian economic engine. With its strong and growing power, China determines the future of East Asia.

At the same time, East Asian economies have been busy in proliferating Free Trade Agreements (FTAs). In 2000 there were only seven FTAs that involved East Asian economies. However, the number of FTAs quickly increased and reached 112 FTAs as of August 2007 (38 FTAs were concluded, 45 FTAs are under-negotiation, 29 FTAs were being proposed). Twenty-three of them were between East Asia-15 economies. The creation of East Asian Free Trade Area (EAFTA), either in the form of an ASEAN+3 FTA and an ASEAN+6 FTA, was also proposed and has been widely discussed. Kawai and Wignaraja, for example, made a CGE modeling and showed the positive welfare impacts of an EAFTA. They also argued that East Asian countries should take a sequential approach to the establishment of an ASEAN+3 FTA and an ASEAN+6

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FTA.¹ Despite the positive welfare impact of an EAFTA, its prospect has not been clear.

China's commitment also became a determining factor in the creation of an EAFTA. Zhang Yunling, a Chinese economist and chair of Joint Expert Group on EAFTA, implicitly argues that China supports the establishment of a high quality ASEAN+3 FTA. On the base of the existing ASEAN+1 FTAs, he recommends to East Asian countries to start the EAFTA negotiations in 2009 and conclude them in 2016.² Unfortunately, he does not discuss about the formation of an ASEAN+6 FTA.

This paper discusses about China's commitment in the creation of an EAFTA. It answers four questions: does China commit in the creation of an EAFTA? How far does China commit to the creation of an EAFTA? Which EAFTA scenario does China support to create, an ASEAN+3 FTA or an ASEAN+6 FTA? Why does China have such a commitment? It answers those questions from geopolitical perspective.

China's Regional Foreign Policy: 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.³ In its pursuit to be a regional hegemonic power, it disrespected international norms and rules and became offensive and bellicose. Such move, instead, achieved 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," became "*the main themes of the present era*"⁴ and have also been bannered on the website of the Ministry of Foreign Affairs of China. China, as Wen Jiabao said, "*foster[s] a peaceful international environment to develop itself and, in turn, promote world peace with its development.*"⁵

There is no doubt that the opening-up and economic reforms—which started in the end of the 1970s—have changed China. Economic development has been a high agenda on China's short-, medium- and long-term agenda, while export-oriented trade has been an engine of the economic development for almost two decades. The need for sustainable economic development has also encouraged 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,*"

¹ Masahiro Kawai and Ganeshan Wignaraja, *ASEAN+3 or ASEAN+6: Which Way Forward*, a paper presented at the Conference on "Multilateralising Regionalism", Geneva, 10-12 September 2007, 32, http://www.wto.org/english/tratop_e/region_e/con_sep07_e/kawai_wignaraja_e.pdf (accessed September 26, 2007).

² Zhang Yunling, "China and East Asian Economic Integration and Cooperation," *Journal of Economic Development* 31, no. 2 (December 2006): 169-184. Zhang Yunling, *How to Realize EAFTA: Views from Joint Expert Group*, a power point presentation delivered at a Conference on "South Asia-East Asia Economic Cooperation and Pan-Asian Integration", in Singapore, 29-30 November 2006, http://www.ris.org.in/sa_eae_conference_zhang.pdf (accessed January 25, 2007).

³ Evan S. Medeiros and M. Taylor Fravel, "China's New Diplomacy," *Foreign Affairs* 82, iss. 6 (Nov/Dec 2003), <http://proquest.umi.com/pqdlink?did=437688871&Fmt=7&clientId=48378&RQT=309&VName=PQD> (accessed January 24, 2007).

⁴ Hu Jintao, "Hold High the Great Banner of Socialism with Chinese Characteristics and Strive for New Victories in Building a Moderately Prosperous Society in all Respects, Report to the Seventeenth National Congress of the Communist Party of China on October 15, 2007," *Hu Jintao's Report at 17th Party Congress*, provided by Xinhua, 25 October 2007, http://www.chinadaily.com.cn/bizchina/2007-10/25/content_6206592.htm (Accessed October 28, 2007).

⁵ Wen Jiabao, *Our Historical Tasks at the Primary Stage of Socialism and Several Issues Concerning China's Foreign Policy*, an article published in the People's Daily on 27 February 2007, <http://www.chineseembassy.org/eng/zxxx/t300995.htm> (accessed November 28, 2007).

Wen Jiabao said, “*can become strong and prosperous, while a nation that shuts its door to the world is bound to fall behind.*”⁶

Through the ARF, China learnt that a participation in an international institution did not necessarily endanger its position in international politics, as it was wary before. The ARF in fact did not blow up the Taiwan issue and marginalized China. Such development, instead, benefited China by precluding the US’s from recalling its containment policy. This also reassured China that joining international institutions, such as the WTO, would not damage its economic and political interests.

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. The committee 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.⁷ China, conforming to the Ninth Five-Year Plan formulated in 1996,⁸ is willing to be “*a friendly elephant*” and considered “*neighbors as partners and with cordiality.*”⁹ Similar statements were made in various occasions. In April 2002, for example, Hu Jiantao stated, “*China’s development will contribute to Asian prosperity and serve Asian stability.... [T]reating one’s neighbours with kindness and living with them amicably are considered as the bedrock of a successful nation.*”¹⁰

Such changing attitude was also applied 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 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.¹¹ China lowered its assertive stance that dominated its regional foreign policy before 1997. Copying Japan, it has been maximizing its economic diplomacy to promote a peaceful environment that is essential for sustainable economic development. In addition, China could also create opportunities to secure resources from its neighbor countries and convert the “China threat” perception into the “benign China” one.¹² The new security concept was subsequently explicated in the 1998 China’s National Defense white paper and stated frequently in various forums.¹³

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.¹⁴ The death of Deng Xiaoping in 1997

⁶ Wen Jiabao, *Only an Open and Inclusive Nation Can be Strong*, a speech delivered at National University of Singapore, 19 November 2007, <http://www1.fmprc.gov.cn/eng/wjdt/zjyh/t384978.htm> (accessed November 28, 2007).

⁷ ASEAN Secretariat, *Joint Press Release The First ASEAN-China Joint Cooperation Committee Meeting*, Beijing, February 26-28, 1997, <http://www.aseansec.org/5880.htm>ASEA (accessed on May 14, 2006); and Ministry of Foreign Affairs of the People’s Republic of China, *The Sino-ASEAN Relationship*, <http://www.fmprc.gov.cn/eng/wjwb/zzjg/gjs/gjzzyhy/2616/t15341.htm> (accessed on May 14, 2006).

⁸ Li Peng, “Report on the Outline of the Ninth Five-Year Plan (1996-2000) for National Economic and Social Development and the Long-range Objectives to the Year 2010 (Excerpts),” *Ninth Five-Year Plan in Retrospect*, <http://www.china.org.cn/95e/95-english1/2.htm> (accessed January 5, 2007).

⁹ Eric Teo Chu Cheow, “ASEAN+3: The Roles of ASEAN”, in *ASEAN-China Relations: Realities and Prospects*, edited by Saw Swee-Hock, Sheng Lijun and Chin Kin Wah, 61-63 (Singapore: ISEAS, 2005).

¹⁰ Shang Wu, “Leader Calls for New Chapter in Asian Development,” *China Daily*, 25 April 2002, http://www.chinadaily.com.cn/en/doc/2002-04/25/content_117174.htm (accessed November 15, 2007).

¹¹ Beijing China Radio International, *Comparing Security Concept*, 29 Dec 1997\FBIS-CHI-98-001, 01 Jan 1998, <http://www.shaps.hawaii.edu/security/china/comparing-security.html> (accessed November 6, 2007).

¹² Eric Teo Chu Cheow, “ASEAN+3: The Roles of ASEAN”, 61-63.

¹³ The Central People’s Government of The People’s Republic of China, *China’s National Defense*, <http://www.china.org.cn/e-white/5/index.htm> (accessed May 27, 2007).

¹⁴ Evan S. Medeiros and M. Taylor Fravel, “China’s New Diplomacy.”

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. China's diplomacy has become more sophisticated and anodyne, while the foreign policy itself has become more transparent. More people and institutions have been involved in the foreign policy-making process, which consequently made the process become less personalized and more institutionalized.¹⁵ 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.

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; after having continually increased since 1979, 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 1998.¹⁶ Large amounts of foreign currency reserves and low debt allowed China to defer the crisis.¹⁷ But, they did not negate the facts that China's economy had been 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 2010,¹⁸ 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. At that time, China participated in a \$16 billion international package to bail out the Thai financial system by pledging to lend Thailand \$1 billion.¹⁹ Its decision to not devalue the *renminbi* (RMB)—which experienced drastic real appreciation against East Asian currencies²⁰—prevented the Asian crisis from becoming more severe²¹ 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 become cheaper and lead to huge job losses

¹⁵ Evan S. Medeiros and M. Taylor Fravel, "China's New Diplomacy."

¹⁶ Data were compiled from World Bank, *World Development Indicator Online*; IMF, *Directions of Trade Statistics 1999*; UNCTAD, "Inward FDI flows, by Host Region and Economy (1970-2005)." *Key Data from WIR Annex Tables*. October 16, 2006. <http://www.unctad.org/Templates/Page.asp?intItemID=3277&lang=1> (accessed January 10, 2007).

¹⁷ John G. Fernald and Oliver D. Babson, *Why Has China Survived the Asian Crisis So Well? What Risks Remain?* Board of Governors of the Federal Reserve System - International Finance Discussion Papers no. 633 (February 1999): 2-3, <http://www.federalreserve.gov/pubs/ifdp/1999/633/default.htm> (accessed March 2, 2007).

¹⁸ Li Peng, "Report on the Outline of the Ninth Five-Year Plan (1996-2000)..."

¹⁹ "China Will Lend Thais \$1 Billion," *The New York Times*, August 15, 1997, <http://query.nytimes.com/gst/fullpage.html?res=9903EEDE153FF936A2575BC0A961958260> (accessed on May 17, 2006).

²⁰ Rodney Tyers, *Weathering the Asian Crisis: The Role of China*, Pacific Economic Papers no. 308 (October 2000), 4, http://www.eaber.org/intranet/documents/23/426/AJRC_Tyers_00.pdf (accessed May 3, 2007).

²¹ 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. On this, see Stephanie Lautard, "State, Party, and Market: Chinese Politics and the Asian Crisis," *International Political Science Review* 20, no. 3 (1999): 291-293, <http://links.jstor.org/> (accessed March 3, 2007).

in the US and EU. This also soothed trade friction that derived from China's trade surplus.²² 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.

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. Rising power improved China's bargaining position and allowed China to shape international institutions in order to obtain the outcomes it desires. 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 on.

Sustainable economic development and higher pride in international arena will at last secure domestic political hegemony for the Chinese Communist Party. Economic development has been changing China's domestic performance. It dramatically upgraded China's power and improved social and cultural development in China. However, the side effect of rapid economic development has created many problems and discontents. Poverty still signified both rural and urban areas, while regional inequality has been rising; both have caused social protests in all around China.

As reflected in Hu Jintao's report to the 17th Congress of the CCP, Chinese leaders in the CCP 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 for Chinese people and increase their 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.²³

China: Becoming A Regional Pole

Post-1997 China's regional activism does not only show its commitment to build friendly relations with other East Asian countries, but also obfuscates its aspiration for becoming a regional and global pole. China did not evaporate such aspiration it assertively pursued before 1997. It only changed the way it substantiated its aspiration, by becoming a friendly elephant and responsible stakeholder. By strengthening economic, political and security cooperation, China enhanced its influence on other countries. It has been deepening its bilateral, plurilateral and multilateral relations, and participating in many more international forums and institutions.

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 century²⁴; expose more influence to East Asian economies and other countries in the world, not to exclude the US but to reduce dependence on the US economic and military presence. A regional polarity in East Asia will serve as a stepping-stone for a global polarity. In the long-term, China promotes a multipolar world architecture²⁵ and aspires to become one of the world's poles.

China's responsible activism won positive response from other East Asian countries and, indeed, benefited China. In the case of its non-devaluation policy during the financial crisis, China

²² *Ibid.*, 293-294.

²³ Hu Jintao, “Hold High the Great Banner of Socialism...”

²⁴ Wen Jiabao, *Our Historical Tasks at the Primary Stage of Socialism...*

²⁵ Hu Jintao, “Hold High the Great Banner of Socialism...”

even took political advantage from it. First, after the repossession of Hong Kong in 1997, Beijing needed to show its capability in managing Hong Kong's economy that had been severely affected by the financial crisis. The depreciation of Yuan would shake the stability of Hong Kong dollar (HK\$) and endanger the economy. Beijing's success in managing the crisis in Hong Kong was also a good example for promoting the reunification of Taiwan. Second, the decision displayed the strength of China's economy and the sustainability of its economic development even in the mid of regional crisis. Between 1997-1998, when almost all East Asian economies suffered from low economic growth, China's GDP still grew at 8.6 percent in average.²⁶ This confirmed the perception of China as regional economic power. Third, China criticized Japan for not halting the dramatic slide of the yen and for not making required economic intervention to boost import demand from other East Asian countries.²⁷ China's non-devaluation policy obfuscated its unsupportive decision to Japan's proposal of the formation of Asian Monetary Fund (AMF),²⁸ which was in fact desired by other East Asian economies.²⁹ East Asian economies did not criticize China, but criticized the US and IMF for their blocking rejections and Japan for its 'loyalty' to the US over the disestablishment of the AMF. China positively responded international concern and won political compliment for its responsible decision.

China's strategic approach to ASEAN has also geopolitical meaning. From historical experience, Southeast Asia was a strategic base for Western countries to invade China and turned China into '150 years of shame and humiliation'. 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.³⁰

Regarding China's 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 the "fair, rational, comprehensive and balanced" defense policies.³¹ This standpoint kept the possibility of Chinese military armament open by excusing for other countries' military armaments. With the US's 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's 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.³² There is no doubt that China has become a security pole in East Asia.

Nevertheless, China's rising power has not replaced the US's security influence in East Asia. Even after 1997, other East Asian countries and Taiwan still maintain their military relations with

²⁶ Data compiled from World Bank, *World Development Indicator Online*.

²⁷ Stephanie Lautard, "State, Party, and Market Chinese Politics and the Asian Crisis," *International Political Science Review* 20, no. 3 (1999), <http://links.jstor.org/> (accessed March 3, 2007): 294. The depreciation of Yen also affected China negatively. It reduced China's export to Japan and FDI inflows from Japan.

²⁸ 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. On this, see Yu Yongding, *On East Asian Monetary Cooperation*, Chinese Academy of Social Sciences, Research Center for International Finance, Working Paper Series no. 2 (August 2001): 3-4, http://old.iwep.org.cn/pdf/02wp_rcif.pdf (accessed January 18, 2007).

²⁹ 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. *Ibid.*, 3.

³⁰ Michael A. Glosny, "Heading toward a Win-win Future? Recent Development in China's Policy toward Southeast Asia," *Asian Security* 2, no. 1 (2006): 26-27, http://web.mit.edu/polisci/students/mglosny/glosny_asian_security_win-win.pdf (accessed August 2, 2007).

³¹ The Central People's Government of The People's Republic of China, *China's National Defense*, <http://www.china.org.cn/e-white/5/index.htm> (accessed May 27, 2007).

³² Data were compiled from World Bank, *World Development Indicator* and GlobalSecurity.org, "Military: World Wide Military Expenditure," <http://www.globalsecurity.org/military/world/spending.htm> (accessed October 5, 2007).

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.³³ Japan signed a missile defense pact and still maintains US military bases in Japan.

In terms of trade, China competes with the US as the preferred export destination for East Asian countries. China's import from other East Asian countries (Japan, 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\$280 billion.³⁴ China also surpassed the US in becoming the largest trade partner of Japan with trade value of US\$191 billion between January-October 2007.³⁵ These data, however, include Japan, 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. Regarding FTAs, Korea has concluded FTA with ASEAN and the US, while Japan has established bilateral FTAs with some major ASEAN countries. These FTA arrangements re-adjust an FTA move that China constitute with ASEAN.

In terms of investment and foreign aid, China was minor compared to the US and Japan. In 2004, Chinese FDI 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.³⁶ Japanese Official Development Assistance still also dominated ASEAN with almost US\$2 billion volume and 44.6% share.³⁷ 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.³⁸ These figures imply, despite its growing economic power, China has not trickled down many economic benefits to ASEAN and, instead, imposed economic threat by diverting global FDI to China.

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 raises its own geopolitical importance. ASEAN can benefit from all powers and needs not be dependent to any one of the powers. Reducing the US's hegemony and Japan's influence in East Asia are the only possible option China has. As implied by Zheng Bijian, Chinese leaders believe that only an intra-system rise can be 'peaceful rise'.³⁹

Even though China will not dominate East Asia, its rising power will consequently drive China 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

³³ Michael A. Glosny, "Heading toward a Win-win Future? Recent...", 43; Asia Pacific Area Network, <http://www1.apan-info.net/> (accessed November 28, 2007).

³⁴ Data compiled from IMF, *Directions of Trade Statistics*, 1999, 2006.

³⁵ Ministry of Commerce (MOFCOM) of the People's Republic of China, *1st session of Sino-Japanese High-Level Economic Dialogue will be Held*, 27 November 2007, <http://english.mofcom.gov.cn/article/newsrelease/significantnews/200711/20071105248525.html> (accessed November 28, 2007).

³⁶ ASEAN Secretariat, *FDI Inflows to ASEAN by Source Country, 1997-2004*, <http://www.aseansec.org> (accessed October 16, 2007).

³⁷ ASEAN-Japan Centre, *Statistics: ODA Flows to ASEAN Countries and China (2005)*, <http://www.asean.or.jp/general/statistics/statistics07/PDF/1-12.pdf> (accessed October 16, 2007).

³⁸ Michael A. Glosny, "Heading toward a Win-win Future?" 31-32.

³⁹ See Tan Shiping and Zhang Yunling, "China's Regional Strategy," *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh (California: University of California Press).

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 dynamic of East Asia region. Both its regional foreign policy and domestic policy will have consequences to other East Asian economies.

Becoming a regional pole does not necessarily means that China becomes a network hub for other East Asian economies. If China becomes a hub, it would have been a center that connected other spokes and tended to take the biggest gains from all foreign relations it had. However, after 1997, China has not displayed intended hegemonic behavior although it could become a potentially be regional hegemonic power.⁴⁰

China instead promoted mutual trust and did not go further than Confidence Building Measures (CBMs) for security issues. It sometimes also 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 conflicts⁴¹; took the risks of reducing its export competitiveness by not devaluating 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.⁴² These show China's leadership quality.

Regarding this, it has been clear that economy has been the core of China's polarity, first, because China has a big interest in maintaining its high-speed economic development; and second, because economy has been the public goods in East Asia. China has been the economic engine 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 EU or NAFTA.

Becoming a responsible stakeholder, nevertheless, does not eliminate China's interest. China bought other economies' respect through responsible activisms and cooperation, and with such respect—and indeed its powerful capabilities—China can exert influence to the economies without force. As in the case of China-ASEAN FTA, 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. Closer economic relations will make ASEAN reluctant to support an encirclement policy that the US and Japan might enforce toward 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. By restraining itself from using force or freezing diplomatic relation with Japan and expressing the necessity of peaceful cooperation, Chinese government resonated controversy within Japan. 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 Taiwan—that is still aspiring for de jure independence despite its closer economic relations with China—China favors 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. By linking Taiwan's economy to China, China increases the adverse risks of declaring independence that Taiwan has to face. Taiwan does not only face the risks of being attacked by China, but an independence declaration will also interrupt Taiwan-China economic relations and collapse 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

⁴⁰ Reflecting the 'balance of threat' theory that Stephen Walt develop, Wang Jizi concluded that hegemonic power does not necessarily impose threat and hegemonic behavior. It can perform friendly and responsible behavior also. On this, see Tan Shiping and Zhang Yunling, "China's Regional Strategy."

⁴¹ Evan S. Medeiros and M. Taylor Fravel, "China's New Diplomacy."

⁴² Tan Shiping and Zhang Yunling, "China's Regional Strategy."

declare support for China's One-China policy, by not accepting Taiwan's FTA proposal and be 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.

...
The last ten years after the 1997 financial crisis marked the change of China's identity. Before 1997, China was still overwhelmed by the victim mentality it inherited from '150 years of shame and humiliation'. It was suspicious and defensive towards international institutions and other major powers, and assertively pursued its symbolic territorial interest. After 1997, with its growing power, China gained more confidence and a great-pole mentality began to materialize. It shelved territorial disputes and differences, restrained from behaving hegemonically, promoted mutual trust and common interests, strengthened cooperation with other economies; actively participated in international institutions and respected international norms and rules; and performed itself as a responsible and friendly elephant. Through various examples, China displays its leadership capability by shouldering burdens and responsibilities demanded by other East Asian economies. Such kind of activism promotes the peaceful environment in East Asia that China needs to maintain its own development pace. Backed up with its rising power and capabilities, such activism supports China's aspiration of becoming a regional pole in East Asia. On the basis of such regional polarity, without excluding the US, China can reduce the US and Japan's influence, strengthen its position and embed its own influence on the East Asia region. China's FTA policy should be based on these character and 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. ...[I]t 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."*⁴³

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."*⁴⁴

Such statements reflected China's commitment to pursuing and concluding FTAs with other economies, either inside or outside East Asia.

China, as other East Asian economies, lately pursued FTAs. It just 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. It hoped that with membership China would be able to rely on the WTO for its trade interests. 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.⁴⁵ Between 1995-2000, around 90 RTAs covering trade in goods and/or services were notified to the

⁴³ As quoted by Yang Zerui, *China's FTA Developments*, a paper presented at APEC Study Center/PECC Trade Forum Conference, "The Challenges of APEC: Trade, Security and Capacity Building," Valparaiso (Chile), 26-29 May, 2004, p. 5. <http://www.pecc.org/trade/papers/valparaiso-2004/yang.pdf>. (accessed December 13, 2006).

⁴⁴ "China, India to Advance Feasibility Research on Regional Trade Arrangement," *Xinhua*, 31 May 2007, <http://english.mofcom.gov.cn/aarticle/newsrelease/commonnews/200705/20070504731656.html> (accessed November 15, 2007).

⁴⁵ On this, see Noboru Hatakeyama, "Japan's New Regional Trade Policy: Which Country Comes Next after Singapore?" speech to Institute for International Economics, at the Second Annual Whitman International Lecture, Washington D.C., 13 March 2002, <http://www.iie.com/publications/papers/paper.cfm?researchid=453> (accessed December 3, 2006).

WTO and increased the total number of notified RTAs to 214, with 134 of them were active.⁴⁶

Consistent with its economic interests, 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.

From the total of 21 FTAs China had as of August 2007, 7 FTAs had been concluded and 6 FTAs are under negotiations. Other 8 proposed FTAs have not brought onto negotiation table or still under feasibility study. Regarding the configuration, 8 FTAs are plurilateral and 13 FTAs are bilateral. China does not only pursue intra-East Asia FTAs, but also the extra-Asia ones. Eight FTAs are intra-East Asia-15, 4 FTAs involves Australia, India and New Zealand, and other 9 FTAs are with countries outside the region (Table 1).

Table 1. China's FTAs by Status, Geographical Orientation, and Configuration, 2007

	No. of FTAs	Intra-East Asia-15		Extra-East Asia-15			
		Pluri lateral	Bi lateral	Plurilateral		Bilateral	
				With Australia, India, and New Zealand	With Others	With Australia, India, and New Zealand	With Others
Concluded	7	1	3	0	1	0	2
Under Negotiation	6	0	1	0	2	2	1
Proposed	8	2	1	1	1	1	2
Total	21	3	5	1	4	3	5

Notes:

- East Asia-15 includes Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam, China, Japan, Korea, Hong Kong, Taiwan. Data as of August 2007.

Sources: ADB Asia Regional Integration Center (www.aric.adb.org); various articles at *bilaterals.org* (www.bilaterals.org); See also Masahiro Kawai and Ganeshan Wignaraja, *ASEAN+3 or ASEAN+6: Which Way Forward*, a paper presented at the Conference on "Multilateralising Regionalism", Geneva, 10-12 September 2007, 32, http://www.wto.org/english/tratop_e/region_e/con_sep07_e/kawai_wignaraja_e.pdf (accessed September 26, 2007). Data were compiled and calculated by the author.

The eight concluded FTAs include an FTA with ASEAN, Thailand, Hong Kong and Macao, Pakistan and Chile; another FTA is Asia-Pacific Trade Agreement that contains Bangladesh, India, Korea, Lao and Sri Lanka as its member parties. Having a plurilateral FTA with ASEAN and 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 EPA 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.⁴⁷ 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

⁴⁶ ASEAN Secretariat, *Forging Closer ASEAN-China Economic Relations in the Twenty-First Century*, a report submitted by the ASEAN-China Expert Group on Economic Cooperation (October 2001): 4-5, http://www.aseansec.org/newdata/asean_chi.pdf (accessed October 2, 2006).

⁴⁷ Zhang Jianping, *China's FTA Arrangement with Other Countries and Its Prospect*, <http://www.nabh.go.kr/board/data/policy/409/paper7.pdf> (accessed August 26, 2007).

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',⁴⁸ and negotiated an FTA with China. The China-Chile FTA negotiation started in November 2004, concluded one year later and has been implemented since July 2006. Tariff of 97 percent goods will be reduced and eliminated within 10 years.⁴⁹ 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 negotiations with extra-Asian countries. China began FTA negotiations with New Zealand in December 2004 and urged for the conclusion of a China-New Zealand FTA negotiations in the near future.⁵⁰ The negotiation covers trade in goods and services, non-tariff barriers, investments, rules of origin, sanitary and phytosanitary measures and safeguards.⁵¹ In April 2005, Australia recognized China's market economy status and launched FTA negotiations with China. Both countries are now in the 10th session of FTA talks and will hold the 11th session talks in Beijing in the first half of 2008.⁵² New Zealand and Australia are not China's main trade partners as demonstrated by their 2 percent shares in China's total trade. 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 is also negotiating 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. Having an FTA with the GCC, thus, does not only for widen market access in the Middle East, but also assures an oil-supply that China needs for its economic development. The FTA negotiations with the GCC include trade in goods, services and market access, rules of origin, technical barriers to trade, sanitary and phytosanitary measures.⁵³ The SACU FTA negotiations started in 2004. With South Africa as the leader, the FTA will serve as an entry point to the African market.

China is also conducting feasibility studies on several FTAs including ones with Korea, Peru and India. It has completed a feasibility study of an ASEAN+3 wide FTA, but could not bring the results to the negotiation table due to geopolitical issues.

Those 13 concluded and negotiated FTAs indicate the fast progress that China made on FTAs with other countries. Ironically, China has not had any FTA talks with its key trade partners, the US, the EU and Japan. It does not mean that China has no willingness in establishing those FTAs, but it is the US, the EU and Japan that seem to be wary of competing with Chinese products. 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. Having FTAs with these three developed economies would optimize the utility of resources and upgrade industry structure in China.

⁴⁸ 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. On this see, Shaun Breslin, "The Politics of Chinese Trade and the Asian Financial Crises: Questioning the Wisdom of Export Led Growth," 1189.

⁴⁹ Susan Ning and Ding Liang, "China's Free Trade Agreement (FTA) Policy and Its Recent Developments," *King & Wood China Bulletin*, 2006 special issue (October 2006): 3-4, http://www.kingandwood.com/Bulletin/Bulletin%20PDF/en_2006-10-China-susan.pdf (accessed March 7, 2007).

⁵⁰ "FM: Hu's Australia Tour Boosts Regional Cooperation," *Xinhua*, 10 September 2007, <http://english.mofcom.gov.cn/aarticle/newsrelease/commonnews/200709/20070905077071.html> (accessed November 15, 2007).

⁵¹ PriceWaterhouseCoopers, "China's Free Trade Agreements," *China Customs & Trade News* (May 2007): 2, http://www.pwccustoms.com/webmedia/doc/633162231342100000_c&itnews_may2007.pdf (accessed September 21, 2007).

⁵² Ministry of Commerce (MOFCOM) of the People's Republic of China, *The 10th session of China-Australia FTA Talks Held*, 30 October 2007, <http://english.mofcom.gov.cn/aarticle/newsrelease/significantnews/200710/20071005185589.html> (accessed November 15, 2007).

⁵³ PriceWaterhouseCoopers, "China's Free Trade Agreements," 2.

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 one region. The decreasing trend of the East Asia region's share in China's exports 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.

Thus, four economic motivations lead to China's FTA strategy. *First*, similar to what China pursued in its accession to the WTO, the establishment of bilateral or plurilateral FTAs will widen market access for its quickly growing export industry. *Second*, opening the domestic market will encourage further domestic economic reforms, increase domestic competition, stimulate economic efficiency and reduce market distortions. Fiercer competition will marginalize some uncompetitive sectors or industries, but in the long term, China's economy would be able to grow on the basis of efficiency and comparative advantage. *Third*, the creation of FTAs will demonstrate China's commitment to trade liberalization and facilitate economic and political cooperation with other countries. *Fourth*, establishing FTAs will aid China in meeting its needs for key mineral and energy resources. These four motivations are part of China's principal economic interest: ensuring the sustainability of its economic growth and development.

China-ASEAN FTA: Geopolitical Explanations

After ensuring a place in the WTO, Chinese Premier Zhu Rongji proposed the establishment of a free trade area 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 Area 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 mid-August 2001, China enthusiastically proposed a 7-year phase-in period of tariff reduction and other measures, from 2003-2009.⁵⁴ After cautiously studying the proposal, ASEAN agreed to establish a free trade area in 2010 at the ASEAN-China summit in November 2001.

The Framework Agreement on Comprehensive Economic Cooperation was agreed upon in November 2002. It strengthened China-ASEAN relations by establishing the China-ASEAN Free Trade Area (CAFTA). 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 suggested ASEAN-China FTA 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.⁵⁵

The CAFTA proposal was in fact more political than economic. The FTA, although would give minor economic gain, was more politically strategic in China's point of view. *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. It offered an early harvest program that would attract ASEAN's interest and made it different from Japan—that still protected 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,

⁵⁴ Carlyle A. Thayer, "China-Southeast Asia Relations: Developing Multilateral Cooperation," *Comparative Connection* (Pacific Forum CSIS) 3, no. 3 (Third Quarter 2001): 72, <http://www.csis.org/media/csis/pubs/0103q.pdf> (accessed Dec 18, 2006).

⁵⁵ ASEAN Secretariat, *Forging Closer ASEAN-China Economic Relations in the Twenty-First Century*, a report submitted by the ASEAN-China Expert Group on Economic Cooperation, October 2001, 30-31, http://www.aseansec.org/newdata/asean_chi.pdf (accessed October 2, 2006).

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.⁵⁶ *Second*, The China-ASEAN FTA was also 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.⁵⁷ 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 later⁵⁸ and launched a negotiation with Thailand in August 2005. On 26 October 2006, the US President George W. Bush announced an Enterprise for ASEAN Initiative (EAI) and prospected bilateral FTAs with ASEAN countries⁵⁹. The US concluded an FTA negotiation with Singapore in 2004.

China's Northeast Asian-Wide FTA Initiative

China did not only propose its aspiration of having FTA with ASEAN, but also with its counterparts in Northeast Asia. Just after signing the China-ASEAN FTA, China proposed a trilateral China-Japan-Korea FTA during the ASEAN Summit meeting in Phnom Penh in November 2002. China wanted to set itself as the center of the FTA arrangements in East Asia, which means increasing its political and economic leverage in front of other East Asian economies. Besides the positive impact of a Northeast Asian-wide FTA to its general welfare, China hoped the FTA could also quell the China-threat perception among Japan and 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.⁶⁰ Having an FTA with Japan and 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 enthusiastically respond to the proposal. He replied, "*We should consider an FTA among our three nations from a medium- to long-term perspective.*"⁶¹ Such reluctance was then adopted by the Japan Ministry of Foreign Affairs (MoFA) into Japan's FTA strategy: Japan should pursue FTAs with Korea and ASEAN, and will pursue FTAs with other countries—including China—only on the base of those FTA and through mid- to long-term process.⁶²

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.*"⁶³ He also

⁵⁶ See ASEAN Secretariat, *Framework Agreement on Comprehensive Economic Co-operation between the Association of South East Asian Nations and the People's Republic of China*, article 6, <http://www.aseansec.org/> (accessed March 5, 2007).

⁵⁷ Eric Teo Chu Cheow, "ASEAN+3...", 61-63.

⁵⁸ The Ministry of Foreign Affairs of Japan, *Framework for Comprehensive Economic Partnership between Japan and The Association of South East Asian Nations*, <http://www.mofa.go.jp/region/asia-paci/asean/pmv0310/framework.html> (accessed on August 8, 2006).

⁵⁹ The White House, *Enterprise for ASEAN Initiative*, <http://www.whitehouse.gov/infocus/internationaltrade/aseaninitiative.html> (accessed June 3, 2007).

⁶⁰ On this Japan-China trade friction, see Arata Kuno, "An Evaluation of Japan's First Safeguards Actions", in *World Economy*, Vol. 29, Issue 6, pp. 763-782, June 2006, Oxford: Blackwell Publishing.

⁶¹ Kojima, Akira, "How China's Bold diplomacy Affects Japan," *Japan Echo* 30, no. 1 (February 2003), <http://japanecho.co.jp/sum/2003/300110.html> (accessed September 2, 2007).

⁶² Ministry of Foreign Affairs of Japan, *Japan's FTA Strategy (Summary)*, October 2002, <http://www.mofa.go.jp/policy/economy/fta/strategy0210.html> (accessed November 17, 2006).

⁶³ Qin Jize, "President Hu Puts forward Five Proposals," *China Daily* online, 25 April 2005, http://www.chinadaily.com.cn/english/doc/2005-04/25/content_437017.htm (accessed November 15, 2007).

greeted Japanese Prime Ministers Shinzo Abe and Yasuo Fukuda's initiative of reconciliation in the last two years. 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. There is no information whether the first session will also include talks about a China-Japan FTA or an East Asian-wide FTA.⁶⁴ But according to Japanese Ministry of Economy, Trade and Industry (METI) publication, Japan planned to have Northeast Asian-wide EPA in 2008.⁶⁵

China and Two Tracks of East Asian Regional Arrangements

During the first Informal Summit of ASEAN and China, Japan and ROK that was convened in the Palace of the Golden Horses in Kuala Lumpur in the mid December 1997, Chinese President Jiang Zemin 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.⁶⁶ 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 band-wagoning 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 was "*much interested in inviting the US*" and also other "*essential partners*" such as Australia, New Zealand and India. 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.*"⁶⁷ Malaysia's rejection of the US's involvement resulted in only the three latter countries being invited to EAS.

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

⁶⁴ China and Korea also launched a China-South Korea FTA Government-Industry-Academia Joint Research in November 2006 and held its first meeting in Beijing in March 2007. See Ministry of Commerce (MOFCOM) of the People's Republic of China, *1st session of Sino-Japanese High-Level Economic Dialogue will be Held, 27 November 2007*, <http://english.mofcom.gov.cn/aarticle/newsrelease/significantnews/200711/20071105248525.html> (accessed November 28, 2007); Department of Information Technology of the People's Republic of China, *Second Meeting of China-South Korea FTA Government-Industry-Academia Joint Research Held in Seoul*, 17 July 2007, <http://english.mofcom.gov.cn/aarticle/newsrelease/significantnews/200707/20070704881347.html> (accessed November 15, 2007).

⁶⁵ 経済産業省、*グローバル経済戦略：東アジア経済統合と日本の選択 (A New Deal for Asia, A New Wave in the World)* (東京：経済産業省、2006)、54。

⁶⁶ Jiang Zemin, *Join Hands in Cooperation and Build a Future Together*, a speech delivered at the Informal Summit Meeting of East Asian Heads of State/Government, Kuala Lumpur, 15 December 1997, <http://chinese-embassy.org.uk/eng/topics/zgcydyhz/dyczgdmt25977.htm> (accessed August 2, 2007).

⁶⁷ Ministry of Foreign Affairs (MoFA) of Japan, *Press Conference 7 June 2005*, <http://www.mofa.go.jp/announce/press/2005/6/0607.html#8> (accessed August 5, 2007). See also Ministry of Foreign Affairs (MoFA) of Japan, *Issue Papers prepared by the Government of Japan*, 25 June 2004, pp. 8-9, <http://www.mofa.go.jp/region/asia-paci/issue.pdf> (accessed August 5, 2007).

*“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.”*⁶⁸

Wen Jiabao, during the first EAS, confirmed such view. China accepts the idea of “*open regionalism*” and welcomed Russia, the US, the EU and other countries and organizations outside East Asia region. China gives “*due consideration to the legitimate interests of the non-East Asian countries in this region,*” but also demands the non-East Asian countries to give “*their understanding of and support for East Asia cooperation.*”⁶⁹

The above statement tacitly certifies China’s short- and mid-term intention to have two tracks of regional arrangement processes. As already mentioned above, China does realize 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 integration process with ASEAN+3 countries as its participants; and the second track is an open regional arrangement process 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 of the ASEAN+3 Summit in Vientiane in November 2004,⁷⁰ China promoted ASEAN+3 process as “*the main vehicle*” and “*the main channel for East Asian cooperation*”.⁷¹ 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 stated that “*openness and inclusiveness*” as one of the four principle of ASEAN+3 cooperation,⁷² instead of briskly expanding the members of the ASEAN+3 process, China prefers a “*gradual process*”⁷³ and supports ASEAN+3 only in “*enhancing communication and dialogue*” with the US, the EU and other countries or organizations outside the region.⁷⁴ 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.

⁶⁸ Wang Yi, *East Asian Regional Cooperation in the Process of Globalization (Wang yi fu bu zhang zai wai jiao xue yu an "dong ya gong tong ti" yan tao hui fa yan zhai yao)*, a summary of a presentation delivered in symposium on "East Asia Community" at Foreign Affairs College, Beijing, 21 April 2004, <http://www.fmprc.gov.cn/chn/wjdt/zyjh/t87474.htm> (accessed November 15, 2007).

⁶⁹ Wen Jiabao, *Be Open and Inclusive and Achieve Mutual Benefit and Common Progress*, a speech delivered at The First East Asia Summit, Kuala Lumpur 14 December 2005, <http://www.mfa.gov.cn/eng/topics/zgcydyhz/ninthasean/t230642.htm> (accessed November 15, 2007).

⁷⁰ ASEAN Secretariat, *Chairman’s Statement of the 8th ASEAN+3 Summit: “Strengthening ASEAN+3 Cooperation”*, Vientiane, 29 November 2004, article 11, <http://www.aseansec.org/16847.htm> (accessed August 5, 2007).

⁷¹ Wen Jiabao, *Work Together For a Better Future through Stronger Cooperation*, a speech delivered at 9th ASEAN Plus Three Summit, Kuala Lumpur, 12 December 2005, <http://www.mfa.gov.cn/eng/topics/zgcydyhz/ninthasean/t230645.htm> (accessed November 15, 2007); Yang Jiechi, *Address by Chinese Foreign Minister Yang Jiechi at ASEAN Plus Three Foreign Minister Meeting*, Manila, 31 July 2007, <http://www.fmprc.gov.cn/eng/wjdt/zyjh/t346540.htm> (accessed November 15, 2007).

⁷² Wen Jiabao, *Composing A New Chapter for East Asia Cooperation*, a speech delivered at the 7th ASEAN plus China, Japan and ROK Summit, Bali 7 October 2003, <http://chinese-embassy.org.uk/eng/topics/zgcydyhz/dqc/t27713.htm> (accessed August 2, 2007).

⁷³ Wen Jiabao, *Composing A New Chapter for East Asia Cooperation*, *ibid.*.

⁷⁴ Wen Jiabao, *Work Together For a Better Future through Stronger Cooperation*.

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”⁷⁵: 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.⁷⁶ 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.

The main issue in the creation regional arrangement, thus, is not about the aspect of integration, but about the memberships issue. All participants, despite their clear understanding over the positive impact of the creation of EAFTA to their economies, did not pay enough attention to this aspect of the regional trade integration arrangement. This means, as many other scholars said, it is not the development gap or different stages of market openness of East Asian economies that has been the main impediment in the creation of an EAFTA, but the political rivalries in East Asia, particularly between China and Japan.

China and Its Commitment to the Creation of EAFTA: Geopolitical Explanations

In the 7th ASEAN+3 Summit that was held in Bali in early October 2003, Chinese Premier Wen Jiabao made four proposals, one of which was to study the feasibility of EAFTA.⁷⁷ 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.”⁷⁸

Through the Network of East Asian Think-tanks (NEAT) that China sponsors, 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.⁷⁹

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.⁸⁰

The Joint Expert Group, which was chaired by a Chinese economist, Zhang Yunling,

⁷⁵ Wen Jiabao, *Be Open and Inclusive and Achieve Mutual Benefit and Common Progress*.

⁷⁶ Wen Jiabao, *Work Together For a Better Future through Stronger Cooperation*, *op.cit.*.

⁷⁷ Wen Jiabao, *Composing A New Chapter for East Asia Cooperation*.

⁷⁸ Wen Jiabao, *Strengthening Cooperation for Mutual Benefit and a Win-Win Result*, a speech delivered at the 8th ASEAN+3 Summit in Vientiane, 29 November 2004, <http://chinese-embassy.org.uk/eng/topics/wenjiabaoASEANeng/t172730.htm> (accessed August 2, 2007).

⁷⁹ Network of East Asian Think-tanks (NEAT), *The Coordinator-General’s Report of the First Annual Conference of Network of East Asian Think-tanks*, Beijing, 29-30 September 2003, <http://www.mfa.gov.cn/eng/topics/zgcydyhz/dqc/t28379.htm> (accessed November 15, 2005).

⁸⁰ ASEAN Secretariat, *Chairman’s Statement of the 8th ASEAN+3 Summit: “Strengthening ASEAN+3 Cooperation”*, Vientiane, 29 November 2004, article 11, <http://www.aseansec.org/16847.htm> (accessed August 5, 2007).

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.” Regarding the roadmap, 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 2020.⁸¹

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 Comprehensive Economic Partnership in East Asia (CEPEA)—in 2006. As mentioned in Japanese Ministry of Economy, Trade and Industry (METI) publication, Japan planned to start the EPA negotiation in 2008 and conclude it in 2010.⁸² Despite Japan’s proposal of ASEAN+6 EPA, China was still consistent in pushing the establishment of ASEAN+3 FTA. Wen Jiabao, 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.”⁸³

ASEAN, which is in the middle of two big elephants, could not make a choice over whether to support China’s EAFTA proposal or Japan’s CEPEA proposal.⁸⁴ ASEAN understands that supporting China’s proposal will marginalize Japan and vice-versa. It needs both countries as locomotives for its economic development. Geopolitical rivalry between China and Japan increases ASEAN’s geopolitical importance 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, instead of supporting the ASEAN+6 EPA proposal. Both East Asian-wide FTAs, as in the case of CAFTA, 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 geopolitical benefits to China than an ASEAN+6 FTA. China has a bigger power share in the ASEAN+3 FTA than in the latter, which means 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 China⁸⁵—, Australia and New Zealand. India will face the risks of being

⁸¹ Zhang Yunling, *How to Realize EAFTA: Views from Joint Expert Group*, a power point presentation delivered at a Conference on “South Asia-East Asia Economic Cooperation and Pan-Asian Integration”, in Singapore, 29-30 November 2006, http://www.ris.org.in/sa_eae_conference_zhang.pdf (accessed January 25, 2007).

⁸² 経済産業省、*グローバル経済戦略：東アジア経済統合と日本の選択 (A New Deal for Asia, A New Wave in the World)* (東京：経済産業省)、54.

⁸³ Wen Jiabao, *Work Together to Build an East Asia of Peace, Prosperity and Harmony*, a speech delivered at the 10th ASEAN Plus Three Summit in Cebu, the Philippines on 14 January 2007, <http://www.fmprc.gov.cn/eng/wjdt/zyjh/t290180.htm> (accessed November 11, 2007).

⁸⁴ 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.” ASEAN Secretariat, *Chairman’s Statement of the Tenth ASEAN Plus Three Summit*, Cebu, 14 January 2007, <http://www.mofa.go.jp/region/asia-paci/asean/conference/asean3/state0701.html> (accessed November 15, 2007).

⁸⁵ India is considering a FTA with China, but decision to enter into an FTA will be based on sensitivities of

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. As a high level Chinese official said, because of Japan's powerful economy, China realized that it should "welcome Japan as one of the members in Asia to keep more attention on Asia's development, demonstrate her own strong points, and contribute to drive East Asia cooperation."⁸⁶ An opposition to ASEAN+6 FTA would also signal a refusal to further strengthen cooperation with Australia, India and New Zealand; violating China's own campaign promise to be a good neighbor. 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 now in the 10th session of FTA talks with Australia and will hold the 11th session talks in Beijing in the first half of 2008⁸⁷; China even urged for the early conclusion of China-New Zealand FTA negotiation.⁸⁸ China has also conducted an FTA feasibility study with India and come to the conclusion that a China-India FTA is feasible and that the negotiations can start in 2008.⁸⁹ China is not allergic to FTAs with Australia, New Zealand and India. This means, after establishing an ASEAN+3 FTA, the creation of ASEAN+6 FTA is only a matter of time.

China has committed to the creation of EAFTA, either in the form of ASEAN+3 FTA or ASEAN+6 FTA. It only wants to sequence the trade integration 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. 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.

Afterwords

Economic reform has restructured the Chinese economy. It gradually embraced market economy, decentralized foreign trade authorities, liberalized its domestic and foreign trade, removed non-tariff barriers, enormously and unilaterally reduced and eliminated import tariff rates, promoting exports, maintained the fully convertibility of the *renminbi*, fulfilled most of its WTO commitments and obligations, and integrated its economy to regional and global economy. There is no doubt that China has made a strong commitment to trade and economic liberalization as it aspires toward sustainable economic growth and development.

China has a strong commitment in the formation of an EAFTA, either in the form of ASEAN+3 FTA or ASEAN+6 FTA. Economically, the creation of an EAFTA will, in the long term, sustain China's economic growth and development based on efficiency and comparative advantage. The creation of an EAFTA will generate welfare improvement in China, encourage further domestic economic reforms, widen market access to the East Asian market. Geopolitically, 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

India's domestic industry. India will not include agriculture in the FTA. Tariff rate of pepper commodity, for example, will be lowered to only 50 percent by 2018. On this, see "India Mulls FTA with China," *The Times of India* (on the Web), 5 December 2007, http://timesofindia.indiatimes.com/India_mulls_FTA_with_China/articleshow/2597050.cms (accessed December 7, 2007).

⁸⁶ Wang Yi, *East Asian Regional Cooperation in the Process of Globalization*.

⁸⁷ Ministry of Commerce (MOFCOM) of the People's Republic of China, *The 10th session of China-Australia FTA Talks Held*, 30 October 2007, <http://english.mofcom.gov.cn/aarticle/newsrelease/significantnews/200710/20071005185589.html> (accessed November 15, 2007).

⁸⁸ "FM: Hu's Australia Tour Boosts Regional Cooperation," *Xinhua*, 10 September 2007, <http://english.mofcom.gov.cn/aarticle/newsrelease/commonnews/200709/20070905077071.html> (accessed November 15, 2007).

⁸⁹ Rituparna Bhuyan, "India-China FTA talks soon," *The Business Standard* (India), 30 October 2007, http://www.bilaterals.org/article.php?id_article=10134 (accessed November 15, 2007).

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 does not oppose the establishment of an ASEAN+6 FTA. China is in the middle of FTA talks with Australia, New Zealand and India. An opposition to an ASEAN+6 FTA will instead deteriorate China's economic relations with Japan, Australia, New Zealand and India. An opposition will also display China's hegemonic aspirations, call for a re-imposition of US containment policy towards China, and endanger the sustainability of China's economic growth and development.

China 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 the regional pole in East Asia.

China's strong commitment illuminates the prospect of an EAFTA. It promotes the ASEAN+3 process to be "*the main channel for East Asian cooperation*"⁹⁰ and fosters other East Asian countries to reaffirm that "*the ASEAN Plus Three Process would remain as the main vehicle towards the long-term goal of building an East Asian community*"⁹¹ Fortunately, under Fukuda administration, Japan agreed to support the ASEAN+3 process in general and the creation of an ASEAN+3 FTA in particular.

The prospect of an EAFTA is getting bigger as the three ASEAN+1 FTA negotiations (CAFTA, JACEPA and KAFTA) has concluded. An ASEAN+3 FTA can be created by integrating the three ASEAN+1 FTAs. To support this scenario, a Phase II study involving an in-depth sector-by-sector analysis of an EAFTA was launched in January 2007, while the first and second expert meetings on the Phase II Study were held in May and November 2007.⁹²

Another scenario on ASEAN+6 wide FTA or CEPEA that Japan sponsors has been also under feasibility study. In January 2007, Japan and other ASEAN+6 leaders agreed to launch track two study on the CEPEA. The study group on the CEPEA has conducted three meetings, planned several following meetings before concluding the study by August 2008.⁹³ Japan wants to formally include a CEPEA as a complementary process in the long-term goal of building an East Asian community.⁹⁴

The prospect of an EAFTA, thus, has 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. 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 Area⁹⁵ ... [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."*⁹⁶

⁹⁰ Wen Jiabao, *Work Together For a Better Future through Stronger Cooperation*.

⁹¹ The Ministry of Foreign Affairs (MoFA) of Japan, *Second Joint Statement on East Asia Cooperation: Building on the Foundations of ASEAN Plus Three Cooperation*, 11th ASEAN Plus Three Summit, 20 November 2007, <http://www.mofa.go.jp/region/asia-paci/asean/conference/asean3/joint0711.pdf> (accessed December 17, 2007).

⁹² The Ministry of Foreign Affairs (MoFA) of Japan, *2007 Progress Report of the Trilateral Cooperation among the People's Republic of China, Japan and the Republic of Korea*, third draft as of 16 November, adopted by the Three-Party Committee on 20 November 2007 in Singapore, <http://www.mofa.go.jp/region/asia-paci/eas/report0711.pdf> (accessed December 17, 2007).

⁹³ *Ibid.*

⁹⁴ The Ministry of Foreign Affairs (MoFA) of Japan, *Second Joint Statement on East Asia Cooperation: Building on the Foundations of ASEAN Plus Three Cooperation*.

⁹⁵ Wen Jiabao, *Strengthening Cooperation for Mutual Benefit and a Win-Win Result*.

⁹⁶ Wen Jiabao, *Only an Open and Inclusive Nation Can be Strong*.

