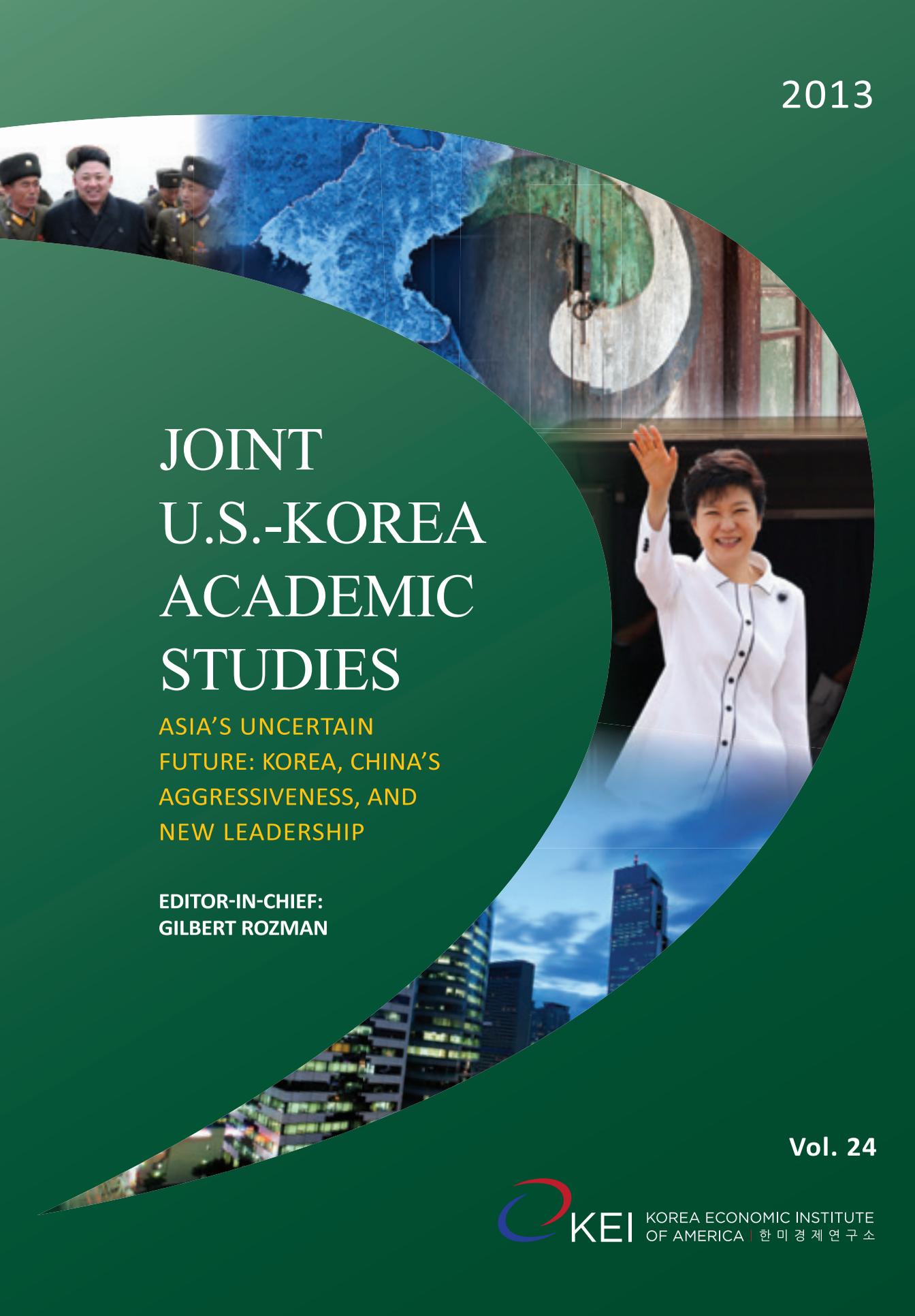


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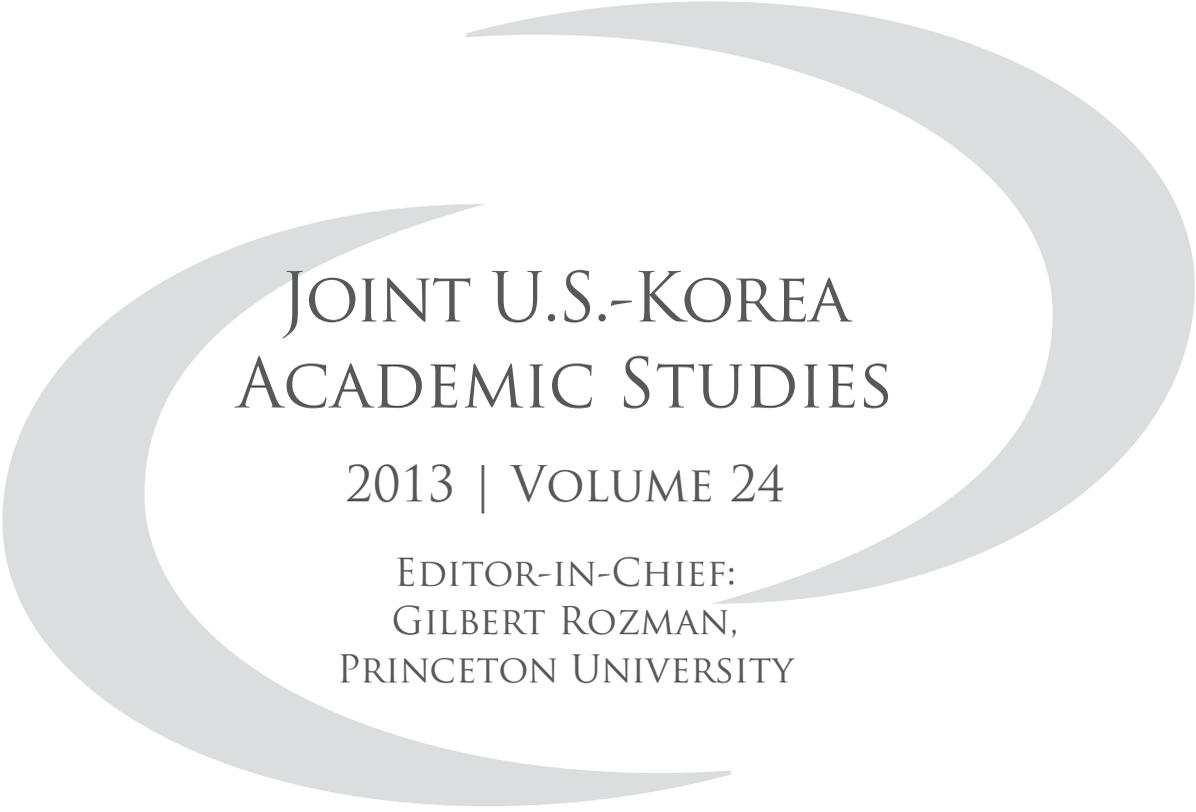


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CJK ECONOMIC TRILATERALISM:
THE PROSPECTS AND PERILS
OF A NEW FTA



The Chinese Perspective

Scott Harold

“The [work] report of the 17th Congress [of the Chinese Communist Party] declared that China will ‘implement a free trade area strategy’, the first time China has raised FTAs to the level of national strategy.”¹

“Signing an FTA is something one does not only for economic and trade reasons—such agreements also include strategic considerations related to local security and regional balancing.”²

“The large economic scope and regional impact that would come from establishing a China-Japan-Korea free trade area would ensure that China’s economic interests would not be negatively affected by not entering into TPP, and also guarantee that China’s regional economic cooperation strategy would play a driving role and not be disturbed by America’s strategic plot. It would also ensure that China will play a role and have influence in any future FTAAP talks.”³

Despite turbulence in its bilateral relations with Japan and South Korea over the past several years, China has expressed a continuing and growing interest in establishing a trilateral China-Japan-Korea free trade agreement with its Northeast Asian neighbors, commonly referred to as the CJK FTA. What initially motivated China’s leaders in the early 2000s to attempt to conclude such a sweeping trade deal with two large neighboring economies that have such differing political values and levels of development at a time when the PRC’s own economy was still adapting to greater competition as aspects of its WTO accession commitments were being phased in? Why did they accelerate their pursuit of such a deal in the late-2000s, a period of widely-commented upon backsliding on economic liberalization in the PRC and growing dominance of the economy by the state-owned sector? What benefits from and obstacles to such a deal do Chinese observers see? And, finally, how likely is China to continue its pursuit of such a deal in an era likely to be characterized by slower growth and heightened tensions over territorial disputes with its neighbors, and how do Chinese analysts suggest Beijing proceed?

China’s pursuit of such a deal in an environment characterized by the dominance of an entrenched state-owned sector and a slowing overall rate of economic growth, as well as a backdrop of regional tensions with Japan and South Korea over disputed islands and fishing rights, represents a puzzle for political analysts seeking to understand China’s overall policy motivations. They appear to run against the interests of some of the country’s most powerful economic interest groups as well as its apparent strategy of pressuring Japan and South Korea over disputed maritime features such as the Senkaku/Diaoyu Islands and Ieodo/Suyanjiiao.⁴ Drawing on a wide array of Chinese language primary sources, this paper explores how Chinese observers characterize the relevant background against which the CJK FTA proposal emerged; its perceived economic and geo-strategic advantages; the obstacles Chinese observers see to the completion of such an agreement; and the prospects for the deal moving forward.⁵ It argues that while Beijing’s interest in the CJK FTA was initially spurred by the deepening of regional economic integration in East Asia, more recently China’s motivation for seeking an FTA with Japan and Korea has as much to do with the competition for influence in Northeast Asia with the United States in the wake of the signing of the Korea-U.S. FTA (KORUS FTA) and the announcement of the Trans-Pacific Partnership (TPP) agreement as it does with purely economic issues. As Guoyou Song and Wen Jin Yuan have written, strategic political considerations loom large in the Chinese government’s FTA strategy:

From China's perspective, the [Trans-Pacific Partnership] framework is a crucial component of the US's recent policy initiative of 'returning to Asia,' which poses a challenge for China both economically and geopolitically. To counter-balance the US initiative, China is actively pushing for its own FTA agenda, in particular trying to move forward on the China-Korea and China-Japan-South Korea FTA negotiations, ultimately seeking to construct a regional web of its own free trade agreements.⁶

This chapter proceeds in four parts. Section one looks at the background setting against which China's interest in the CJK FTA developed and deepened. In section two, the study turns to an examination of the specific economic and geo-strategic benefits that PRC analysts see a CJK FTA as carrying. Following this, section three examines the obstacles to concluding such a deal that Chinese observers perceive. The essay closes with a look at the prospects of a CJK FTA in light of several important recent developments and how Chinese analysts assess the road ahead.

BACKGROUND

Chinese observers trace the origins of Beijing's interest in an FTA with Japan and South Korea to the 1997-1998 Asian financial crisis and the impetus it gave to policy coordination, trade liberalization, and continued economic integration as a recovery strategy.⁷ Following China's 2001 accession to the WTO and the stagnation of the Doha round of trade negotiations, Beijing began to pursue bilateral and regional FTAs designed to expand access to its neighbors' markets while tying their economic interests and developmental trajectories ever more closely to China.⁸ By 2004, this resulted in an FTA between China and its ten neighbors in ASEAN, with the China-ASEAN FTA (CAFTA) seen by many Chinese analysts as a step towards pan-Asian economic integration, including an FTA with Japan and South Korea. During these years, China did not see substantial initiatives by the United States or other actors to shape the geopolitical environment in Northeast Asia through economic agreements, and as such the motivations for seeking a CJK FTA, while present, were not considered pressing.

As China's GDP growth rate accelerated through the 2000s, its regional economic influence expanded rapidly, with large numbers of multilateral firms moving their end-site production and assembly chains to China, leading to regional economic integration (*qiyu jingji yitihua*) centered on the PRC.⁹ Chinese analysts highlight this regional economic integration as a major reason for seeking an FTA with Japan and South Korea, arguing that Beijing needs the ability to shape the economic structure of the region in which it is active the same way that Brussels and Washington define the rules of the world's other two largest economic centers, the EU and NAFTA. To that end, between 2003 and 2009, a joint study team comprised of researchers from government-linked think tanks in China, Japan, and South Korea evaluated the prospects for a CJK FTA, concluding that such a deal would result in gains for all parties. Chinese analysts looking at the growing trade linkages and economic development of Northeast Asia noted that China, Japan, and South Korea were all highly trade-dependent economies whose primary exports markets were located outside of the region, with many calling for steps designed to "break away from reliance on the United States and the current dollar-dominated mode of globalization."¹⁰

In addition to its expanding economic weight and interests, China's motivation for pursuing a CJK FTA deal was given new impetus by the evolution of regional trade agreements and developments in the global economy during the latter years of the 2000s. By the time the think tank feasibility study had concluded, there were signs that extraregional developments in the form of housing bubbles and debt crises originating in the United States and Europe were beginning to pose risks to the economic progress of Northeast Asia, spurring Chinese leaders to intensify their efforts to press ahead with a trilateral Northeast Asian FTA. In late 2009, leaders from the three countries reached an agreement that a tripartite study group including government officials should be convened. A formal Joint Study Committee was launched in May 2010, concluding its work in a *Joint Study Report* on December 16, 2011.¹¹ Several developments combined to spur this increased Chinese attention to and commitment towards the formation of a trilateral Northeast Asian FTA.

First, the 2007 signing of the KORUS FTA promised to bring Seoul and Washington closer together both economically and politically and increased Washington's influence in the rules setting for the Northeast Asian region's economic architecture. The 2009 European Union-Korea FTA further reinforced the challenges Beijing faced in attempting to shape the evolution of the region's economy. Beijing sought to respond to these developments by accelerating its own efforts to ink a bilateral FTA with South Korea and to conclude the proposed trilateral FTA with South Korea and Japan.

Second, the global recession that began with the bursting of the U.S. housing sector bubble, the collapse of Bear Stearns and Lehman Brothers, and the insolvency of other major financial and industrial firms added further incentive to efforts to integrate the Chinese economy more deeply with regional partners as a way to reduce dependency on faltering demand in the United States, something Charles W. Freeman III and Wenjin Yuan have described as "a wake-up call for China's leadership."¹² As Sheng Bin has written, "in order to more effectively respond to the financial crisis and increase Northeast Asian regional cooperation, from 2008 onwards China, Japan, and Korea successfully hosted three leadership summits, leading East Asia's three most influential great powers towards the track of a more systematic form of regional cooperation."¹³ As Japan's economy began to slow, and as the sovereign debt crisis in the Eurozone economies emerged in early 2009, China further accelerated its efforts to negotiate a CJK FTA.¹⁴

Finally, the late 2008 U.S. announcement that it would join the TPP agreement, followed by the 2011 announcement by Japan that it would consider negotiating to join the TPP, led many Chinese analysts to conclude that the struggle to determine the shape of the region's economic future would boil down to a battle between a comprehensive liberal architecture defined by the United States or a more selectively open set of rules centered on agreements negotiated between Beijing and its neighbors. As Shen Minghui has written, China's priority should be to sign a CJK FTA because the "TPP is an attempt by the United States to set international economic rules in response to the development of East Asian cooperation, especially China's peaceful rise."¹⁵ Similarly, Wu Jinyan has written that China must push ahead with regional integration based on an FTA with South Korea and Japan because:

If [the TPP] agreement's expansion is successful, it will deal a serious blow to East Asian regional integration... [Thus] even if the difficulties are many... if we do not seize [the opportunity to determine the economic rules of the game in Asia], the chance to exert leadership over the process of economic

integration in East Asia will never again be in our hands [and] we will be unable to guarantee our interests.¹⁶

Indeed, for many Chinese analysts, including Professor He Li, if the United States and Japan join together in a TPP agreement, it will be a reflection of the two powers' strategy of "resisting China's peaceful rise," since at base:

The competitive relationship between the TPP's trans-Pacific scope for economic integration and East Asian economic integration is essentially a competition between a U.S.-led wide-area approach to economic integration and a Chinese-led approach to economic integration.¹⁷

Wei Lei and Zhang Hanlin describe the TPP in similar terms, arguing that "blocking the establishment of a unitary Asian trading bloc is an important goal of American trade policy," and going further to explain that in their view TPP is designed to "weaken China's regional economic influence."¹⁸

Clearly, while China's initial interest in a CJK FTA was driven by economic concerns, this motivation was insufficient to spur an extremely active effort to conclude such an agreement. More recently, however, the strategic implications of the effort to define the future direction of Northeast Asia's economic and trade development have given added geopolitical motivations to China's efforts to sign a deal, enabling leaders to override domestic economic interest groups' opposition as well as to pursue such an agreement even when political relations with Seoul and (especially) Tokyo are experiencing serious turmoil. For China, the CJK FTA has become an important tool for wooing U.S. allies Japan and South Korea; shaping the economic trajectory of Northeast Asia; expanding its regional influence; and resisting what it perceives as a strategic-level threat from the United States in the form of the TPP agreement. Indeed, to highly-protected Chinese state-owned enterprises, it would appear that a less demanding FTA with Japan and South Korea is less threatening than the demanding labor, environmental protection, intellectual property protection, and other high-level standards required by the anti-state capitalist TPP deal. This may explain why opposition to the CJK FTA from Chinese firms has been very hard to detect. The next section explores other advantages Chinese analysts expect a CJK FTA to bring to China, including both economic and geopolitical or strategic considerations.

CHINESE PERSPECTIVES ON THE ADVANTAGES OF A CJK FTA

Chinese analysts tend to break the advantages of an FTA with the country's two large neighbors in Northeast Asia into economic and political-strategic categories. Official policy statements from the Chinese government largely focus on the economic aspects of such an agreement, making only the most cursory comments on the geopolitical aspects of any CJK deal.¹⁹ Mainstream analyses published in the Chinese language press tend by and large not to depart very substantially from the Chinese government's own stated views of the economic aspects of a CJK FTA, taking these as their starting point and expanding on them marginally without ever expressing opposition to or reservations about such an arrangement.

The government's official view of the utility of a CJK FTA, as explicated by the Ministry of Commerce (MOFCOM), centers around the deal's anticipated "four big impacts" (*si da yingxiang*) and "three big utilities" (*san da zuoyong*).²⁰ The impacts that MOFCOM forecasts include:

- Domestic demand (estimated to rise by 0.4 percent of GDP), consumption (estimated to grow by 1 percent of GDP) and investment (also estimated to expand by 1 percent of GDP);
- Fiscal revenues, which are expected to expand despite the lowering of tariff rates as imports expand in overall volume while domestic demand, consumption, and investment rise leading to greater revenue from sales and value-added taxes;
- China's trade balance with the region, which is expected to rebalance, with Chinese exports growing by an estimated 4 percent even as imports grow by 7 percent, leading to a healthier and more politically-sustainable set of trading relations with the country's neighbors and even possibly contributing to a reduction in imbalances with the United States and EU; and
- Transformation in the structure of China's trade with Japan and South Korea, as an agreement gradually enables China to move away from a situation where it exports low-technology goods and imports high-technology products, thus allowing the PRC economy to climb the value-added chain into more advanced product markets.²¹

At the same time, MOFCOM analysts predict that a CJK FTA would carry utilities, including:

- Expanding foreign competitive pressure, broadening opening and reform, accelerating the pace of domestic firms' structural adjustment, and raising the efficiency of resource allocation;
- Matching economic diplomacy up to political diplomacy, thereby advancing the formation of a 'harmonious world'; and
- Establishing a stable political and security environment by expanding common regional interests, such as environmental protection, resource exploration and development, and combating transnational crime.²²

In addition, Zhao Jinping, Director of the State Council's Development Research Center, has stated in an interview with the Chinese media that his center's research indicates a CJK FTA could add as many as eight million new jobs to the Chinese economy, spurring exports to rise by 4.43 percent and imports to grow by 6.32 percent.²³ Other analysts at this center have claimed that a CJK FTA could cause China's GDP growth rate to accelerate by as much as 2.9 percent.²⁴ Chinese academics and think tank analysts tend to take these MOFCOM assertions as the starting point for their own discussions of a prospective CJK FTA, expressing confidence that it would lead to a "big increase" in Japanese and Korean investment into China; an expansion in overall trade between the three countries; greater regional integration; increased international competitiveness; an improved ability to resist the impact of global financial crises; and improved regional peace and security.²⁵

Chinese observers routinely highlight the "complementary" (*hubuxing*)²⁶ nature of the three countries' economies as a reason for pursuing an FTA, describing Japan as an advanced economy with large amounts of capital and high technology, South Korea as a newly industrialized country with large and sophisticated firms oriented towards exports, and China as a developing country with low-cost labor and land. Indeed, as Zhou Xinsheng, a professor at Shanxi College of Finance and Economics, argues in a typical formulation, the

lack of “any sort of regional cooperation framework has seriously constrained this region’s economic development,” something that a CJK FTA is intended to address.²⁷ In specific, the industry sectors that Chinese observers expect will see major advantages in a CJK FTA include textiles, tourism, labor-intensive services and manufacturing.²⁸ Additionally, some PRC observers highlight the utility of a well-crafted CJK FTA agreement as being likely to reduce trade conflicts through effective dispute resolution mechanisms and improve the efficiency of capital and resource allocation.²⁹

While official Chinese government statements maintain diplomatic propriety by avoiding almost any discussion of anything other than economic motivations for the pursuit of a CJK FTA, almost every scholarly, think tank, and business world analysis examined in the course of this study placed heavy, in many cases predominant, emphasis on the geopolitical imperatives for pursuing such a deal. Such analyses tend to describe “regional [economic] integration” (*quyu yitihua*) as the core of Beijing’s strategic foreign economic policy. Hyungdo Ahn, in an early assessment of China’s attitude towards the CJK FTA back in 2006, perceived that China was beginning to talk about using an FTA strategy to “build its position as a leading nation in world politics” by developing a “China-oriented economic cooperation structure in the region” so as to “build a road to a major hegemony against [the] U.S. using FTA policy.”³⁰ More recently, many PRC analysts highlight the value of a CJK FTA in countering the proposed TPP, which many observers, such as Cai Penghong, Director of the APEC Research Center at the Shanghai Academy of Social Sciences, describe as “a tool... of [the U.S.’s] Asia-Pacific strategy to contain China.”³¹ As Wenjin Yuan has written, such views are commonplace in China, where “the TPP agenda is considered by many Chinese policymakers and scholars as a centrifugal force arising to rip asunder the regional economic integration of East Asia... [and] economically contain China’s rise.”³² In response, Yuan notes, “the Beijing leadership is actively pursuing its own FTA agenda as a strategy to counter-balance the TPP agenda.”³³ As noted above, He Li argues for such an approach, asserting “China needs to rethink its approach to economic integration from a high-level strategic perspective so as to respond actively to the new challenges posed by TPP.”³⁴ The prospect of using a CJK FTA as a tool to resist expanding U.S. political and economic leadership in Asia, especially after the announcement of the U.S. intent to join TPP, was a major additional reason for pursuing a Northeast Asian trilateral FTA. At the same time, the existence of the TPP deal and other factors in China’s external relations have called into question whether a CJK FTA can actually be accomplished. The next section explores the stumbling blocks to such a deal that Chinese analysts perceive.

OBSTACLES TO A CJK FTA IN CHINESE EYES

Clearly, negotiations to integrate three economies as large, diverse, and complex as those of China, Japan, and South Korea, would be challenging under any circumstances. Several factors specific to the relationships between the three countries, as well as their ties to external actors, make a CJK FTA even more challenging. Chinese observers point to obstacles that will need to be overcome, including divergent political and value systems; contentious bilateral relationships stemming from a lack of political trust;³⁵ issues of historical conflict and intensifying territorial disputes;³⁶ tensions between Japan and China over regional leadership; and perceived U.S. opposition.

In addition, the challenges of liberalizing market access to certain industrial sectors in each country are expected to demand protection in ways that would complicate negotiations, owing to the “great differences in the industrial structures” of the countries’ economies.³⁷ Indeed, some Chinese observers see the “large gap in the levels of economic development” as both a positive factor (inasmuch as the economies complement each other) as well as a potential obstacle (given the greater vulnerability of Chinese economic actors and fears among some in the PRC that any deal will lock China into a perpetual position low on the value-added chain).³⁸ One concern is that relatively uncompetitive and highly protected agricultural and fisheries sectors in Japan and South Korea are likely to pose challenges to a CJK FTA, opposing market opening to China’s lower-cost agricultural products.³⁹ Additional obstacles are likely to include opposition from China’s relatively uncompetitive high-technology manufacturing services industry;⁴⁰ difficulties stemming from the challenge of harmonizing market rules, management, and standards across the three economies;⁴¹ and opposition from Chinese manufacturing firms operating in the petroleum, steel-making, automotive, mechanical and electronics, and ship-building sectors as well as those companies providing services in the financial, insurance, and royalties sectors.⁴²

Despite these concerns, Chinese analysts imply that the primary obstacles come not in the form of resistance from Chinese-side interests or left-wing Maoists opposed to free trade in principle, but rather from economic interests in Japan or Korea, or from the United States. This is almost certainly due to the extreme non-transparency of lobbying and policy-making in China. It also likely stems from the difficulty of getting analyses that oppose stated government positions placed in academic journals (a selection bias effect may affect our understanding of the true state of Chinese assessments of such a deal). The growth of nationalistic sentiment and the incentives for academics and think tank analysts to mute their criticisms and support government positions may also play a role. Finally, the impression that Chinese observers think that the obstacles to a CJK FTA come primarily from Japan, Korea and the United States may also derive from an acknowledgement that, when it is determined to do so, the Party can override opposition from economic interests due to its appointment power over the leadership of all major firms, and thus it will not be Chinese domestic actors who block any deal from being signed.⁴³

Mainstream academic and think tank analysis reflects a fairly high degree of consensus about the origins, benefits, and obstacles to a CJK FTA. Where one finds the greatest divergence in opinion in published Chinese analyses of such an agreement is in the realm of strategy for successfully concluding such an agreement, which is discussed in the final section below.

IS A CJK FTA STILL POSSIBLE AND HOW SHOULD CHINA PROCEED?

Tensions between Beijing and Tokyo over the Diaoyu/Senkaku Islands and between Seoul and Tokyo over Dokdo/Takeshima, as well as deepening strategic mistrust between China and the United States over the past three years,⁴⁴ make the prospects of concluding an agreement on a CJK FTA anytime in the near future unlikely. Although the leaders of China, Japan, and South Korea met in Beijing in May 2012 to ink a trilateral investment liberalization agreement, and promised to open FTA talks by the end of the year, these positive developments were rapidly overtaken by events, including the August 2012 visit to Dokdo by Lee Myung-bak; the September 2012 purchase of several of the Senkaku islands under

Noda Yoshihiko; and the state-permitted rampages against Japanese companies, properties, and persons under Hu Jintao.

In light of the row over the disputed islets, Ministry of Commerce spokesman Shen Danyang confirmed on September 20, 2012 “We are still discussing a trilateral free trade agreement between China, Japan and South Korea, but this will surely be affected by Japan’s unlawful ‘purchase’ of the islands.”⁴⁵ Despite the fact that top-level Chinese officials refused to meet with their Japanese counterparts during the early autumn of 2012, working-level talks on a CJK FTA went ahead as scheduled.⁴⁶ When leaders and trade ministers from the three sides finally did meet in Phnom Penh on November 20, 2012, they agreed to initiate talks on an FTA deal in early 2013.⁴⁷ Indeed in late February 2013, trilateral preparatory talks were concluded in Tokyo, with the three sides agreeing to a first round of formal talks in late March or early April, a surprising outcome in light of the escalating tensions stemming from Chinese air and maritime intrusions into Japanese-administered areas around the Senkakus.⁴⁸ While prospects for concluding a trilateral FTA in the near- to medium-term look bleak, Abe Shinzo’s announcement that he would push for Japan to join the TPP negotiations appears to have kept pressure on China. In response, Beijing appears willing to separate politics and economics, moving as far ahead on technical negotiations and talks as possible so as to preserve momentum even if concluding a final FTA is not possible at present. As of mid-March 2013, the transitions from Hu Jintao to Xi Jinping, from Noda Yoshihiko to Abe Shinzo, and from Lee Myung-bak to Park Geun-hye did not appear to have given any additional impetus to the proposed FTA, with each side focusing primarily on firming up administrative staffing, responding to the North Korean nuclear test, and managing their continuing differences over history and divergent claims to territorial rights.

Nonetheless, prior to 2012 at least, PRC analysts emphasized the “inevitability” (*biranxing*)⁴⁹ of a CJK FTA based on the three countries’ geographic size and proximity, which may explain both the absence of anxiety on the Chinese side as well as its confidence that economic logic will eventually drive Japan and Korea into Beijing’s embrace. As late as January 2012, for example, an official commentary by Zhong Sheng (a pseudonym for ‘Voice of China’) in *People’s Daily* argued that “a trilateral FTA is feasible and will benefit all three sides... [and] bring practical benefits to the people.”⁵⁰ Increasingly in 2012, however, Chinese academic and think tank observers gave voice to the view that the establishment of a CJK FTA would probably be a “mid- to long- term goal that will require a gradual approach to realize,” or even a “marathon.”⁵¹ Indeed, Hu Wenxiu has written that “the negotiation process is destined to be long and it may even be possible for the negotiations to last for another 10 years.”⁵² In no small part, the worsening prospects for concluding a CJK FTA can be attributed to China’s policies on the Senkaku Islands. Whereas previous Chinese analyses of Japan’s interest in a CJK FTA would routinely argue, as Shen Minghui did in comments in early 2012, that China need not worry too much about Japanese interest in the TPP because Japanese business groups’ interest in the China market would restrain Tokyo, since late 2012 Japanese firms have been moving to reduce their dependency on China and push their investments in other directions, and Japan is set to move forward with TPP while slow-rolling any CJK FTA.⁵³ Indeed, a December 2012 survey of Japanese firms by the JETRO indicated cooling interest in China, with only 52.3 percent indicating that they are likely to expand their business in China in 2013, a drop of 14.5 percent over the results of the same survey one year earlier.⁵⁴ Beijing has effectively undermined its strongest advocates for deepening economic integration inside the Japanese system.

If these developments seem alarming to Chinese policy analysts, most still appear to agree with Lin Zhiying, Vice-President of the Fung Business Intelligence Center in Hong Kong, who has written that “with China-Japan-Korea economic relations growing closer by the day, the search for a way to develop real cooperative mechanisms is only logical” since the three countries have a collective interest in reducing their reliance on extraregional export demand and increasing the portion of their economic growth that comes from intraregional trade.⁵⁵ Most Chinese analyses suggest that even if progress towards a CJK FTA is delayed, the overall direction of regional economic development is likely to continue to push the three countries towards ever closer cooperation, eventually resulting in a trilateral FTA. This likely reflects, at least in part, the political reality that it is almost impossible for any PRC-based analyst to publish an assessment of the CJK FTA’s prospects that would in any way find fault with the Chinese government’s reaction to the Senkaku/Diaoyu Islands crisis. What policy steps Chinese analysts think Beijing should adopt in order to get there is the final question this study explores.⁵⁶

Given the difficulties of concluding a CJK FTA, some Chinese observers have suggested that Beijing explore options for trying to force Tokyo to come to terms with Beijing on an FTA. One proposal that has gained a substantial following in the literature consulted for this study would see China drive a wedge between its Northeast Asian neighbors through competitive liberalization meant to incentivize Japan to play on China’s terms lest it be left on the outside of an emerging regionally-integrated trading bloc. For example, Wei and Zhang urge Chinese leaders to counter the advent of the TPP and spur Tokyo to agree to a CJK FTA by striving to:

Accelerate the implementation of a regional economic integration strategy and adopt ‘divide-and-conquer’ tactics... [Although] China wants to sign an FTA with Japan and South Korea, Korea’s attitude is relatively positive while Japan’s response is comparatively cooler. In light of this, China should first prioritize consolidating economic and trade relations with ASEAN and South Korea as a way to draw Japan into FTA negotiations.⁵⁷

Similarly, Jiang Xia has written that the “practical approach is for China to first establish a bilateral FTA with South Korea, and then through this entice Japan to join in, progressively taking steps to expand into a trilateral China-Japan-Korea FTA.”⁵⁸ Chen-Dong Tso, of the Center for China Studies at National Taiwan University, also sees signs that “China [seeks] to play Korea and Japan [off of] one another” and notes that the “most eye-catching” step China has taken in response to the advent of expanded TPP talks has been to try to “speed up the process of [negotiating a] China-Japan-Korea FTA and launch [a] China-Korea FTA.”⁵⁹

Even negotiating a China-South Korea bilateral FTA deal will not be easy, with *China Daily* citing “a source close to the talks” as claiming in late August 2012 that “it is unlikely that a free trade agreement between China and South Korea will be signed within two years, due to disagreements over key sectors” including agriculture, services and manufacturing for South Korea and chemicals, electronics, and automobiles for China.⁶⁰ Observers have warned that an approach to moving ahead on a CJK FTA that relies on pressuring Japan via a China-Korea FTA is likely to run into “no small number of obstacles” including both the prospect that negotiating a China-Korea FTA might stumble or drag on interminably, or else the possibility that Japan would simply ignore it or respond by joining the TPP agreement instead.⁶¹ Parting ways with those who argue that the road to a CJK FTA runs through Seoul, Shen points to Korea’s already extant FTAs with the United States and the European Union,

arguing that these make it less eager to sign additional FTAs, whether bilateral with China or trilateral with China and Japan. Rather than trying to sign a deal with Seoul first, or sign a simultaneous trilateral deal with Seoul and Tokyo, Shen advocates recognizing that Sino-Japanese relations are the key to achieving East Asian economic integration and fending off the threat to China's interests posed by the TPP agreement.⁶² While never laying out recommendations that go beyond the purely economic, Shen's emphasis on the need to recognize the critical importance of Sino-Japanese economic ties for China's overall national interests carries implications for how the country should conduct its broader foreign policy. At present, such advice is not likely to be heeded by Beijing, however.

Other approaches are under consideration in academic and policy circles, ranging from the long-term and abstract to the more concrete and near-term. Among the broader strategies analysts are considering, for example, are the ideas of Sheng Bin, who argues that, rather than pushing ahead directly to negotiations with Tokyo and Seoul, China should focus on expanding its soft power and work to build up a sense of East Asian community by striving to:

[I]nculcate and develop 'Asian values' together with other East Asian countries. The crux of this strategic choice is that it depends on whether or not other East Asian countries share as a common identity with China a vision of regional integration as goal and vision.⁶³

Sheng's colleague, Gong Zhankui, has argued similarly that alongside the growth of a regional common identity there is also developing "a trend towards Asia-Pacific regional trade agreements [that] will push the three countries toward establishing an FTA" and should be leveraged.⁶⁴

More specific ways Chinese analysts have argued the country's trade policy should proceed include focusing on less challenging tasks in the field of trilateral cooperation and expanding to a broader agreement later. For example, Zhou Xinsheng has argued for liberalizing rules governing investment, continuing the increasing specialization of production chains, and deepening regionally-integrated production networks as a way to push forward trilateral trade talks by leveraging sectoral and firm interests.⁶⁵ The trilateral investment liberalization deal inked by the three sides in March 2012 is an important step in this direction since, as Jin Yi has argued:

Investment and trade stand in complementary and supportive relation to each other... Thus, in the process of building an East Asian FTA, it will be necessary to design a bilateral or multilateral investment framework (or to expand the ASEAN investment area to include East Asia) as well as to establish an East Asian currency exchange system, and thereby through trade, investment, and financial integration push ahead with the realization of common East Asian goals.⁶⁶

Still other observers, such as Yuan Changjun, have suggested considering a strategy premised on multilateralizing the three Northeast Asian countries' FTAs with ASEAN into a "10 + 3" collective FTA; building practical cooperation at lower levels that would induce broader cooperation through steps such as agreements to cooperate on rail linkages or energy development and sharing modeled on the European Coal and Steel Community of the 1950s and 1960s that eventually led to the integration that produced the European Union in the 1990s; or accelerating and further developing the China-ASEAN FTA while also signing a

Comprehensive Economic Partnership agreement with South Korea as a step towards a bilateral FTA that could then be multilateralized to include Japan.⁶⁷ Yet another scholar, Zhang Jinping, has even suggested establishing a China-Russia FTA that would later be multilateralized to include Japan and South Korea as a Northeast Asian FTA, an idea that may gain currency as China and Russia resume high-level arms sales, energy cooperation, and a measure of diplomatic coordination on important international problems.⁶⁸

As we have seen, while China's initial interests in a CJK FTA were spurred by the prospect of economic gains, and later by the desire to build its national power through expanded market access, by the late 2000s the motivations for seeking such a deal from China's side had begun to shift towards a quest to insulate it from perceived economic and geopolitical threats from outside the region. It is these later developments that spurred increased efforts to ink a trilateral deal, even against a backdrop of slowing domestic economic reform and intensifying external tensions with its neighbors. While at present it is difficult to imagine the three sides successfully pushing ahead with an FTA because of the poor state of relations between China and Japan, should tensions between the two sides calm, Chinese analysts see numerous economic, and increasingly in recent years geo-strategic, reasons for Beijing to press ahead forcefully on a Northeast Asian FTA. Whether or not China has already done too much damage to its relationship with Japan to reopen a pathway to such a deal will depend in large measure on how Japanese observers perceive the advantages and obstacles to such a deal.

ENDNOTES

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4. Scott W. Harold, "Jeodo as Metaphor? The Growing Importance of Sovereignty Disputes in South Korea-China Relations and the Role of the United States," *Asian Perspective*, No. 36 (2012), pp. 287-307.
5. Owing to the non-transparent nature of policy decision-making in China, reliance on analyses published in Chinese scholarly journals to gain a better understanding of the terms of policy debates is often the best option open to scholars. If it is rarely possible to know if any given analyst's viewpoints reflect accurately the considerations of central government policy decision-makers, in the aggregate such articles are likely to shed light on core aspects of the policy debate over trade policy in China. Such an approach offers some advantages, since scholars can speak more freely than government officials in reflecting on the PRC's reasons for pursuing such agreements. They can specifically speak to the perceived utility of the CJK FTA in the strategic competition for economic influence in Asia, something Ministry of Commerce public statements understandably do not touch on.
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56. Chinese analyses consulted for this study at no point talked about how to use overall foreign policy to achieve or support an effort to conclude a CJK FTA. While some of the factors noted by Chinese observers as obstacles, such as tensions in bilateral relations with Japan or South Korea, are at least partially within China’s ability to shape, others lie completely outside of China’s control, such as the poor state of relations between Tokyo and Seoul in the latter half of 2012. Analysts did not touch on these issues either, confining themselves to more bilateral concerns and avoiding recommendations on how to press Japan and South Korea to resolve their disputes.
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