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## **China's FTA Developments**

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## China's FTA Developments

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## **Abstract**

There is a shift in China's trade policy in favor of FTAs---from earlier skepticism towards active participation and from negative to positive attitudes. This shift began to take shape when the Asia Crisis occurred in 1997 and accelerated since China's accession to the WTO in December 2001.

China and ASEAN countries launched the China-ASEAN FTA process at their November 2002 summit in Phnom Penh, Cambodia. The so-called CAFTA is the milestone of China's FTA policy changes.

Presently, China's FTA strategy shows a clear roadmap: sub-regional FTA arrangements plus bilateral FTA arrangements. The top priorities of China's FTA are CEPAs, CAFTA, East Asian Economic Cooperation (EAEC), Shanghai Cooperation Organization (SCO) economic cooperation, and APEC.

Bilateral FTA arrangement is another China's strategy from 2003. Nowadays, China is seeking the possibilities to establish bilateral FTAs with Singapore, Thailand, Philippines, Australia, and New Zealand.

It is highly possible that China will be more progressive in considering bilateral and sub-regional FTAs in the region after 2005.

## China's FTA Developments

This paper is aimed at providing a Chinese perspective on China's FTA policy developments. It attempts to address the following issues: (1) How does China's FTA policy develop in recent years? (2) What are the top priorities of China's FTA strategy? (3) What is the current status of China's top FTAs—CEPAs and CAFTA?

### Recent Changes on China's FTA policy

China's active promotion of a shift in its trade policy in favor of FTAs since its accession to the WTO in December 2001 has come under the spotlight in recent two years. Actually, this shift began to take shape when the Asia Crisis occurred in 1997.

The cause of this shift lies with the rapid economic changes in the past decade. Since the introduction of reform policies in 1979, China's economy has become increasingly involved in the global economy. In 2003, China's foreign trade reached US\$851.2 billion, placing China in the position of the third largest trade power behind the US and Germany. China is the No.1 or No.2 FDI recipient in the world in recent years, only outranked by the US, and total FDI in China was US\$509.8 billion by the end of February 2004.<sup>1</sup> The ratio of foreign trade to GDP is 60.5%, twice the amount of the US and Japan.<sup>2</sup>

The global involvement of China's economy also increased its interdependence, and as a consequence China's view on issues such as RTAs, FTAs, and globalization is also changing. There has been a shift from earlier skepticism towards active participation and from negative to positive attitudes.<sup>3</sup> China's earlier skepticism arose from concerns that globalization equals Americanization, contributing to the promotion of American hegemony (economic, social and political). Globalization was seen as undermining national autonomy, resulting in the dominance of transnational corporations (most of them American) and the economic policies of multilateral agencies (largely controlled by the Americans).

In the Asian region, China was also concerned about the impact of sometimes unpredictable role of the US and its ally Japan. However new developments in the wake of the Asian Financial Crisis, both at the domestic and international levels, caused significant changes in China's stance. These developments included a number of issues. First, the Asian Financial Crisis raised the important question of economic security, now the most important item on the agenda of national and regional security. Secondly, China achieved a stage of economic development that allowed it to open its economy to foreign competition, resulting in further integration into the global economy with long-term beneficial effects for China. Thirdly, the proliferation of RTAs and preferential trade agreements (PTAs) following the setback of WTO negotiation in Seattle in December 1999 caused concern in China about the future role of the WTO. Last, but not least, the balance of economic power in the region has changed - Japan has lost its position of

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<sup>1</sup> Statistic Data from Chinese Ministry of Commerce homepage, available from <http://english.mofcom.gov.cn/statistic.shtml>

<sup>2</sup> In 2003, China's foreign trade was US\$851.2 billion, with a GDP of around US\$1.4 trillion. The US's ratio of foreign trade to GDP was 24% and Japan's ratio was less than 20% in the same year.

<sup>3</sup> Edward Chen, "China's View on 'East Asia Economic Zone'", *NPF Research Report*, Taipei: National Policy Foundation, October 8, 2001.

economic hegemony, not only as a global, but also as a regional economic hegemony. These changes were reflected in a speech by Mr. Xiang Huaicheng, then China's Minister of Finance, in which he dealt with China's policy on regional cooperation at the meeting of Finance Ministers of the ASEAN Ten plus Three, held in Kobe, Japan on January 2001:

"Despite some undesirable side effects, economic globalization has become the general trend of the time. Regionalization has emerged along with economic globalization, such as EU, NAFTA, ASEAN plus China, Japan, and Korea or 10+3. Many economies have embarked upon regional cooperation for the sake of sharing benefits and avoiding risks. Meanwhile, enhanced coordination and cooperation among different regional cooperative mechanisms will also promote a smooth development of economic globalization" "the emerging economic cooperation in East Asia is bound to help maintain the financial stability and economic development in this region."<sup>4</sup>

China's changing strategy towards global economic integration was best symbolized by its accession to the WTO after fifteen years of negotiations, in which China granted important concessions in spite of domestic pressure. China also participates actively in APEC and hosted the APEC 2001 meetings. China joined the ASEAN process in which it participates enthusiastically, and in 2000 initiated the concept of the China-ASEAN Free Trade Area, to be established within 10 years. China also co-initiated the Shanghai Cooperation Organization.

Chinese official institutions take active part in these processes, as part of an effort to foster economic development while pushing for domestic reforms. Despite the existence of some dissenting voices, Ambassador Wang Yusheng's comments represent mainstream opinion:

"Trade and investment liberalization would be beneficial to establishing and opening up good trade and investment environments. It raises challenges for China, but it also provides an opportunity to China for deepening and speeding up Reform and Opening-up policies and to China's economic construction. It would be beneficial to China's economy to integrate with the world economy."<sup>5</sup>

### **Milestone of China's FTA Policy**

As Wang Jisi observes, China's regional strategy is circumscribed by a cluster of overlapping issue areas: (1) momentum in East Asia economic cooperation; (2) the regional security environment, especially on the Korean peninsula; (3) arms control regimes and regional reaction to China's growing military capabilities against a larger background of the existing and possible institutionalization of security arrangements in the region; (4) the Taiwan issue; (5) its relationship with Japan and the United States.<sup>6</sup>

In the early 1990s and before, China was not very enthusiastic about regional trade arrangements of a more formal or structured nature, partly because it was not yet ready for rapid trade and investment liberalization at home. China has now reached a stage of economic development that enables it to open up further to international competition and to integrate itself into the regional

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<sup>4</sup> Xiang Huaicheng, *Speech on Regional Cooperation*, Kobe, Japan, Jan14, 2001  
available from: <http://www.china.org.cn/e-asec/china-asec/4-1.htm>

<sup>5</sup> Wang Yusheng, *Experiencing APEC--A Chinese Senior Official's Observation*, Beijing:  
World Affairs Press, October 2000, p15

Ambassador Wang was the Chinese Senior Official to APEC during 1993 to 1998, and was heavily involved in Chinese policy to APEC and in regional cooperation. Under his coordination, China's policy towards APEC and RTAs became a more participatory one.

<sup>6</sup> Wang, Jisi, "China's Changing Role in Asia", Asia Program of the Atlantic Council of the United States; available from:  
[http://www.acus.org/Publications/occasionalpapers/Asia/WangJisi\\_Jan\\_04.pdf](http://www.acus.org/Publications/occasionalpapers/Asia/WangJisi_Jan_04.pdf)

and global economy for long-term gains. China's WTO accession and increasing economic ties with its neighbors will have a great impact on the region, as well as on China itself. WTO membership is compelling faster liberalization of the Chinese economy and providing Chinese policymakers with a clear mandate to see reforms carried out in the face of the inevitable resistance from entrenched domestic interests.

At their November 2002 summit in Phnom Penh, Cambodia which launched the China-ASEAN FTA process, China and ASEAN signed a framework agreement "aimed at the establishment in 2010 of an FTA between the two parties." According to this agreement, China and the six countries of ASEAN will abolish almost all tariffs by 2010 and create a vast FTA. China calls this China-ASEAN Free Trade Area (CAFTA), while ASEAN calls this ASEAN-China Free Trade Area (ACFTA). This is a big change on the part of China, which had been very cautious about FTAs. The so-called CAFTA is the milestone of China's FTA policy changes.

China's then Minister of Foreign Trade Mr. Shi Guangsheng mentioned two points as the reasons for the change. First, in the past, China was too busy trying to enter the WTO. But once China's accession was approved, China could afford to think about FTAs. The second reason was the recent increase of FTAs, especially after the failure of the WTO talks in Seattle. He also said that this China-ASEAN FTA would contribute greatly to the development of the Asian economy as a whole.<sup>7</sup> As mentioned-above, there are several more reasons for this China-ASEAN agreement.

The establishment of a free trade area between China and ASEAN will create an economic region with 1.7 billion consumers, regional GDP of about US\$2 trillion and total trade estimated at US\$1.23 trillion. It will be the biggest FTA in the world in terms of population size. It will also be the largest FTA, made up of developing countries, in terms of population, GDP and trade.

The simulations conducted by the ASEAN Secretariat using the Global Trade Analysis Project (GTAP) suggest that a China-ASEAN FTA will increase ASEAN's export to China by 48% and China's export to ASEAN by 55.1%. The FTA increases ASEAN's GDP by 0.9% or by US\$5.4 billion while China's real GDP expands by 0.3% or by US\$2.2 billion in absolute terms.

The formation of a China-ASEAN FTA will attract more investment into the region. Not only will more Chinese and ASEAN companies be willing to invest within the integrated market, since market risk and uncertainty are lowered, but US, European and Japanese companies, which are interested in making inroads into the Asian market, will also be attracted to invest in the integrated market. The integration of ASEAN with China can entice more foreign corporations, which each market alone cannot otherwise attract.

With a large market, more intense competition, increased investment and economies of scale, enterprises will invest more in research and development, hence promoting technological innovation.

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<sup>7</sup> Shi Guangsheng's personal talk with N. Hatakeyama. Quoted from Noboru Hatakeyama, "Japan's New Regional Trade Policy--Which Country Comes Next after Singapore?", Second Annual Whitman International Lecture, Washington DC, March 13, 2002.

Michael Yeoh, Chief Executive Officer and Director of Asian Strategy and Leadership Institute of Malaysia commented on the CAFTA as “the ASEAN-China FTA will certainly give a new boost to the existing economic cooperation between China and ASEAN countries. In my opinion, the negotiation and gradual establishment of China-ASEAN FTA is based on current cooperation and will be pushed forward, expanded and enhanced. At the same time, it will give a new impetus to their current economic cooperation and translate some of them into the earlier fields or points of penetration.”<sup>8</sup> He continued, “the proposed ‘Early Harvest Package’ which involving early market opening for specific products prior to actual implementation of the ASEAN-China FTA is progressing well with strong commitment from Malaysia, China and other ASEAN countries and more comprehensive economic cooperation could be developed in the region via the establishment of the ASEAN-China FTA.”<sup>9</sup>

China’s policy changes on FTA have attracted a great deal of international attention. Medeiros and Fravel from the USA commented, “Beijing’s consistent efforts to resolve the North Korean nuclear issue is one of many indications of a broader evolution in China’s diplomacy. In recent years, Beijing’s foreign policy has begun to reflect a more sophisticated, confident and, at times, constructive and proactive approach toward regional and global affairs. ----- Beijing’s embrace of multilateral institutions represents one of the most dramatic shifts in its foreign relations.” They added, “Chinese diplomats and political leaders now talk about ‘shared global responsibilities’ and improving cooperation among ‘great powers’ to China’s previously narrow view of its national interests, its identity as a major power and its role in the international community.”<sup>10</sup> Shotoku from Japan commented, of all the FTA-related developments in Asia in the future, China’s positive FTA strategy is definitely deserving special attention.<sup>11</sup>

As experts observed, while China’s FTA policy is a strategic move based on the long-term perspective, its specific response is pragmatic and flexible. In strengthening its economic cooperative relationships with neighboring countries, China is not only increasing its influence while alleviating the threat to itself from those countries, but is also trying to accelerate domestic business reforms and increase its international competitiveness.

### **Top Priorities of China’s FTA Strategy**

Presently, China’s FTA strategy shows a clear roadmap: sub-regional FTA arrangements plus bilateral FTA arrangements. The top priorities of China’s FTA are CEPAs, CAFTA, East Asian Economic Cooperation (EAEC), Shanghai Cooperation Organization (SCO) economic cooperation, and APEC.

#### **(1) CEPAs**

After signing CAFTA, China signed a “Closer Economic Partnership Arrangement (CEPA)” with Hong Kong on 29<sup>th</sup> June 2003. On 20<sup>th</sup> December 2003, China signed a CEPA with Macao with almost same contents. If CEPA can be classified as FTA, these two CEPAs are of course top priorities of China’s FTA strategy.

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<sup>8</sup> Yeoh, Michael, “Analysis on the Economic and Trade Cooperation between China and ASEAN”, paper presented at the Second Symposium on China-ASEAN Entrepreneurs Exchanges held on 10-11<sup>th</sup> November 2003, Guangzhou.

<sup>9</sup> Ibid..

<sup>10</sup> Medeiros, Evan S., and M. Taylor Fravel, *Asian Wall Street Journal*, November 25, 2003.

<sup>11</sup> Shotoku, Yukio, “China’s FTA strategy in the spotlight”, available from <http://www.erina.or.jp/en/opinion/e/china/2003/eshotiku.htm>

Since Hong Kong's reversion to the Chinese Mainland in 1997, "One Country, Two Systems" policy has been implemented in the Hong Kong Special Administrative Region. However, the exchange of goods and services between Hong Kong and the Mainland remains subject to certain constraints under the "Two Systems". Products of Hong Kong can not freely enter the Mainland market, and Hong Kong companies operating in the Mainland are treated as foreign-invested enterprises and not eligible for "national treatment". The situation is unfavorable to the economic development of Hong Kong and has restrained the cooperation between Hong Kong and the Mainland, in particular it has dampened the complementary advantages of Hong Kong and Mainland in leveraging on each other's strengths.

The signing of the CEPA represents a very positive step towards strengthening the economic ties between the two sides. When the CEPA provisions came into force on 1<sup>st</sup> January 2004, Hong Kong companies including the smaller ones will benefit from easier access to the Mainland market beyond China's WTO commitments.

CEPA represents the first free trade agreement signed between the Mainland and Hong Kong. Under CEPA, barriers in trade and investment between the two places will be significantly reduced. Based on the relevant stipulations under WTO, the Mainland will apply zero tariff to most of the goods of Hong Kong origin. Besides, service companies engaged in substantive business operations in Hong Kong will be recognized as Hong Kong service suppliers eligible for preferential market access.

CEPA offers practical benefits to both Hong Kong and Mainland. According to the analysis of Edward Leung, Chief Economist of Hong Kong Trade Development Council, benefits for Hong Kong under CEPA are (1) Liberalization of Trade in Goods; (2) More Opportunities for Hong Kong Manufacturing Industries; meanwhile, benefits of CEPA for the Chinese Mainland are (1) Liberalization of trade in services between the two places helps optimize the economic structure of coastal cities and the rest of the Mainland as well as enhance the development of the Mainland service sector; (2) Competition enhances services standards of Mainland enterprises; (3) A more effective platform for Mainland enterprises to venture overseas; (4) Mutually beneficial model for division of work.<sup>12</sup>

Frederick Ma, Secretary for Hong Kong's Financial Services and the Treasury noted the benefits of CEPA to the Hong Kong financial sector. He observed CEPA offers great market access and flexibility for Hong Kong's financial services suppliers and professionals to conduct business in the mainland.<sup>13</sup> He added, "for the banking sector, CEPA has substantially lowered the asset requirement, from 20 billion US dollars to 6 billion US dollars, for Hong Kong banks to set up branches in the mainland. Operation and profit assessment requirements have also been relaxed for Hong Kong banks. The concessions have added a significant comparative advantage to our local banks. Meanwhile, the scheme for providing personal renminbi business has been launched

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<sup>12</sup> Leung, Edward, "Guangdong-Hong Kong Economic Cooperation after Signing of CEPA", paper presented at the Second Symposium on China-ASEAN Entrepreneurs Exchanges held on 10-11<sup>th</sup> November 2003, Guangzhou.

<sup>13</sup> Ma, Frederick, "Hong Kong Maintains Sustainable Growth of Financial Market", Keynote speech at the Asian Banker Summit 2004, Hong Kong, May 6 2004.



in Hong Kong by the local banks. The scope of business includes renminbi deposit, remittance, exchange and renminbi bank card business for individuals in Hong Kong.”<sup>14</sup>

The CEPAs have already partly come into effect from 1 January 2004, and will be mostly completed by 2006, the year that China would have completed implementing the tariff reductions and economic reforms stipulated when it joined the WTO and committed to the world. I personally regard that the CEPAs will be successfully practiced, not only because of economic reasons, but also because of political reasons.

## **(2) CAFTA (ACFTA)**

ASEAN and China are planning to conclude negotiations by 2004 and to effectuate the free trade between the two regions by 2010.

The prospects of CAFTA will likely be affected by several factors.

First, the FTA strategy policies of China and Japan will act as a crucial factor. As FTA competition between China and Japan intensifies, the promotion of CAFTA will be accelerated. Second, the opening of the agricultural sector will also act as an important factor. Experts see China as flexibly handling this problem as shown in the offer of the “Early Harvest package.” Third, China’s internal problems such as an insolvent financial sector, remnants of a socialistic economic system, and regional income gap between urban and rural areas.<sup>15</sup>

It is expected that CAFTA will bring about more business opportunities than before. Liao Shaolian, Director of Center for Southeast Asian Studies, Xiamen University analyzed, first, the removal of intra-regional tariff and non-tariff barriers makes transaction costs substantially reduced; second, with a view to accelerate cooperation, the parties concerned have agreed to implement an Early Harvest Program, and the business will enjoy benefits from the EHP; third, relaxing barriers under the framework of CAFTA will increase the region’s market appeal and further attract market seeking FDI from both the regional and external sources; and etc.<sup>16</sup> Lee Kim Yew, Co-Chairman of Malaysian-China Business Council expected a greater ASEAN-China Economic Cooperation in 21<sup>st</sup> century, and proposes the framework of this cooperation should cover facilitation, cooperation and liberalization components.<sup>17</sup>

Further to the CAFTA, on October 8, 2003 in Bali, Indonesia, the leaders of China and ASEAN signed Joint Declaration on Strategic Partnership for Peace and Prosperity, which strengthen political, economic and security cooperation between China and ASEAN. Cooperation framework between China and ASEAN has been expanding in the five priority areas, namely agriculture, information and communication technology, human resources development, two-way investment promotion and Mekong River Basin development.

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<sup>14</sup> Ibid..

<sup>15</sup> Cheong, Inkyo, “FTA Policies of ASEAN and China and Prospects for a Bilateral FTA between ASEAN and China”, KIEP, available from:

[http://www.mof.go.jp/jouhou/soken/kouryu/h14/chu14\\_05e.pdf](http://www.mof.go.jp/jouhou/soken/kouryu/h14/chu14_05e.pdf)

<sup>16</sup> Liao, Shaolian, “China-ASEAN FTA and its Implications for Business Circles”, paper presented at the Second Symposium on China-ASEAN Entrepreneurs Exchanges held on 10-11<sup>th</sup> November 2003, Guangzhou.

<sup>17</sup> Lee, Kim Yew, “Forging Closer ASEAN-China Economic Relations in the 21<sup>st</sup> Century”, paper presented at the Second Symposium on China-ASEAN Entrepreneurs Exchanges held on 10-11<sup>th</sup> November 2003, Guangzhou.

In the area of agriculture, China and ASEAN have signed a MOU on Agriculture Cooperation on November 2, 2002 in Phnom Penh. The areas of cooperation include forestry, livestock production, fisheries, biotechnology, post harvest technology and standard conformity of agriculture products. Up to date, China and ASEAN have successfully implemented nine projects.

In June 2003, China and ASEAN signed a MOU on Information and Communication Technology Cooperation. Under the MOU, both sides would be collaborating in medium and longer term activities in information infrastructure development, ICT application development, compatibility, integrity and security of ICT systems, e-ASEAN project implementation and China-ASEAN ICT Seminar.

China-ASEAN cooperation continued in the framework of the Greater Mekong Sub-Region, ASEAN Mekong Basin Development Cooperation and Mekong River Commission. China has expressed interest in sponsoring an Initiative for ASEAN Integration (AIA) project, "Inland Waterway Improvement Project in CLMV countries and other IAI projects by utilizing the China-ASEAN Cooperation Fund.

The Term of Reference (TOR) for China-ASEAN Transport Cooperation was adopted during the First China-ASEAN Transport Ministers meeting on September 20, 2002. Under the TOR, the agreed areas for cooperation include land transport infrastructure and facilitation, facilitation of maritime and river transport and expansion of air transport services.

Development cooperation between China-ASEAN has been progressing at a considerably fast pace especially with the establishment of the China-ASEAN Working Group on Development Cooperation (ACWGDC) in May 2002. Between May 2002 and March 2003, China and ASEAN have implemented 14 projects in the areas of science and technology, ICT, agriculture, transport, social development, HRD and mass media. Eleven more projects covering ICT, HRD, investment, transport, SME, environment and academic exchange are implemented in 2003.

It is beyond doubt that the CAFTA negotiation will be successfully completed, and the CAFTA will come into force in the due time. China's offer to the CAFTA is the critical factor to the successfulness of the CAFTA.

### ***(3) East Asia Economic Cooperation (EAEC)***

But CEPAs and CAFTA are not enough in China's FTA strategy. China feels the ideal form of regional integration in East Asia to be the ASEAN+3 (China, Japan and Korea) framework, and is redoubling its approaches to Japan and Korea.

The financial crisis of 1997 has exposed the need for effective cooperation in the region to forestall economic contagion and collapse. Although the crisis-hit ASEAN countries are now on the way to recovery, more effective regional cooperation mechanism should be put in place. Besides the Chiang Mai Initiative, which created a network of bilateral swap arrangement among the ASEAN countries and East Asia, an ASEAN+ FTA would provide another important mechanism for shoring up economic stability in East Asia and provide a basis for maintaining economic growth.

ASEAN members and China are all developing countries which are highly dependent on outside markets for their economic growth. The development in the global economy can have a large impact on their economies, as the current global slowdown aptly demonstrates. The two regions also have the same concern about rising protectionism in developed countries arising from the establishment of regional arrangement such as EU, NAFTA and Free Trade Area of America (FTAA).

The so-called East Asia Economic Cooperation (EAEC) is gradually getting important role in China's FTA strategy. The EAEC, initially known as the East Asia Economic Group (EAEG), was firstly proposed by then Malaysian Prime Minister Mohamad Mahathir in 1990. Proposed members of EAEC at the time of the announcement were the ASEAN 7, China, Japan and the Republic of Korea. China was the first big country to support Mahathir's proposal.

In all 1990s, as Nishiguchi analyzed, East Asia lags far behind the world in terms of FTA movements. But significant changes since the Asian Economic Crisis have taken place, and the following three points are of great significance: firstly, there is a strong expectation on FTA to revive and develop the economy. Secondly, the changes in the trade policy of the Japanese government especially in the Ministry of Economy, Trade and Industry (MITI) are interesting. Thirdly, the emergence of China as an economic power and its aggressive regional economic diplomacy should be pointed out.<sup>18</sup>

Even up-to-date, experts pointed out remaining challenges of East Asian cooperation 1) Lack of institutional framework; 2) Need for peace and stability; 3) Need for open regionalism.<sup>19</sup>

In meeting these challenges, experts of Network of East Asian Think-tanks (NEAT) gave their answers. In the Coordinator-General's Report of the first Annual Conference of NEAT held in Beijing, China from 29 to 30 September 2003, scholars from ASEAN, China, Japan and the ROK (10+3) pinpointed major issues in the process of East Asia Cooperation. The Report of the East Asia Vision Group (EAVG) sketched a blueprint of East Asia cooperation, with an East Asia Community as its long-term goal. Based on that, the Final Report of East Asia Study Group (EASG) proposed 26 concrete measures. It is necessary to carry out concrete cooperation in all the fields and march towards an East Asia Community. Most of the scholars held that East Asia cooperation should strengthen institutional building, proposed to start the East Asian Summit at an early date and to set up a secretariat for the development of East Asia cooperation. It is also appropriate to consider the establishment of a regional cooperation organization suited to the actual conditions of East Asia. The scholars believe that the establishment of East Asia FTA should become the top priority of East Asia cooperation. They suggested that the research on East Asia FTA should be launched at an early date while supporting the current ASEAN FTA (AFTA) and ASEAN+1 FTA. A Task Force could be set up to carry out the research and finish a report of feasibility study within 2 years.<sup>20</sup>

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<sup>18</sup> Nishiguchi, Kiyokatsu, "Regional Economic Cooperation in East after the Crisis", Paper for UBC Year of Japan: 2002-2003, March 27-28, 2002.

<sup>19</sup> Han, Sung-joo, "East Asia Economic Cooperation", on the occasion of the 4<sup>th</sup> Korea-ASEAN Forum, Shilla Hotel, Seoul. Available from:

<http://www.ecommerce.go.kr/viewfolder/82.htm>

<sup>20</sup> NEAT, "The Coordinator-General's Report of the First Annual Conference of Network of East Asian Think-tanks", available from;

Observers noted that the first NEAT conference was sponsored by Chinese Government, and China is the coordinating country in general for the NEAT. This should be a signal of China's attitude towards East Asia Economic Cooperation.

Since sustaining economic growth remains the top priority of China, the promotion of East Asian economic cooperation will be an integral part of China's regional strategy.

China hopes the EAEC aims at enhancing economic cooperation, promoting and protecting free trade, accelerating economic growth, promoting open regionalism and contributing to the multilateral trading system. With the support of ASEAN, Japan, China and the Republic of Korea, EAEC would not only serve as a catalyst for further economic development but would also ensure economic stability in the region.

But the EAEC process is not up to China's desire alone. The biggest difficulty China faces in EAEC is complicated relations between China and Japan. What China can do is to wait and see for regional development in the days to come.

#### ***(4) Shanghai Cooperation Organization Economic Cooperation***

China's regional strategy toward Asia-Pacific is complicated by other geopolitical and geoeconomic factors, such as Russia, terrorism and conflicts in Southeast and South Asia, oil and natural gas supplies from Central Asia, etc.<sup>21</sup>

In the region, China pioneered the establishment of a multilateral organization focused on regional security in Central Asia, known as the Shanghai Cooperation Organization (SCO), the alliance of Russia, China, Uzbekistan, Tajikistan, Kazakhstan, and Kyrgyzstan created in June 2001. The SCO arose out of the Shanghai Five, a loose security group that comprised every current SCO member except Uzbekistan. The Shanghai Five was originally formed in 1996 as a confidence-building measure in which member states could cooperate on border delineation issues. During the summer of 2001, under the guidance of Chinese President Jiang Zemin and Russian President Vladimir Putin, the organization added Uzbekistan to its roster and officially renamed itself the SCO, declaring itself as a regional forum and pledging to forge stronger ties between member states while providing for the collective security of Central Asia. The group now has six members who cooperate on border demilitarization, counter terrorism and trade.

According to the SCO Charter and the Declaration on the Establishment of the SCO, the main purposes of SCO are: strengthening mutual trust and good-neighborliness and friendship among member states; developing their effective cooperation in political affairs, economy and trade, science and technology, culture, education, energy, transportation, environmental protection and other fields; working together to maintain regional peace, security and stability; and promoting the creation of a new international political and economic order featuring on democracy, justice and rationality.

Certainly, the rhetoric of the SCO points towards the future possibility of it becoming an influential multilateral organization. Some advocates envisioned the group as not merely a security mechanism, but also as a promising framework for building tighter trade, investment,

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<http://www.fmprc.gov.cn/eng/topics/zgcydyhz/dqc/t28379.htm>

<sup>21</sup> Wang Jisi, *ibid.*.

cultural, environmental, and technological relations between member states; the SCO would accordingly become “the region’s authoritative voice.”<sup>22</sup> The group applied for UN recognition and has even approached Mongolia, Pakistan, India, and Iran for prospective membership. If the SCO expands and encompasses not just security issues, but also addresses economic and social concerns, then it will be a powerful regional player indeed.

China not only initiated the creation of the SCO, but also offers a permanent Secretariat of the SCO in Beijing and seconded the first Executive Secretary to the SCO.

As SCO's standing executive organ, the Secretariat is based in Beijing and was officially launched in January 2004. The Executive Secretary is appointed by the Council of Heads of State. Member states take turns according to the Russian alphabetical order of their country names to serve a non-consecutive three-year term. The first Executive Secretary is Mr. Zhang Deguang, former Chinese Vice Minister of Foreign Affairs and former Chinese Ambassador to Russia.

Among all SCO's purposes, China began to pay more attention to SCO's cooperation in economic fields, namely developing their effective cooperation in economy and trade, and energy area in particular. The reason is rapid economic growth increases China's consumption of energy, and this makes Russia and Central Asian countries to be more important in China's sustainable economic growth strategy in addition to security field. Chinese Foreign Ministry spokesperson Kong Quan commented on the energy cooperation as, “China-Russia energy cooperation is important. The Angarsk-Daqing pipeline project is top on the cooperation agenda. Therefore, its smooth implementation will not just meet the practical needs of the two economies, but will definitely generate tangible economic gains. Moreover, it will have significant political implications on pushing forward the strategic partnership between the two countries.”<sup>23</sup>

In addition, China has recently expressed its intention to push forward with its deliberations regarding an FTA with the countries of SCO.

In a middle-term, if the SCO can become an influential multilateral organization and have an FTA arrangement, it would be in line with China's FTA strategy, and it of course would be in China's interests.

##### **(5) APEC Process**

Since its inception, APEC has worked to reduce tariffs and other trade barriers across the Asia-Pacific region, creating efficient domestic economies and dramatically increasing exports. Key to achieving APEC's vision are what is referred to as the 'Bogor Goals' *of free and open trade and investment in the Asia-Pacific by 2010 for industrialised economies and 2020 for developing economies*. These goals were adopted by Leaders at their 1994 meeting in Bogor, Indonesia.

Since the participation in APEC in 1991, China has fully taken part in various APEC activities in

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<sup>22</sup> Yom, Sean L., “The Future of the Shanghai Cooperation Organization,” *Harvard Asia Quarterly*, Autumn 2002.

<sup>23</sup> Foreign Ministry Spokesperson's Press Conference on 8 April, 2004, available from: <http://www.fmprc.gov.cn/eng/xwfw/2510/2511/t83941.htm>

the spirit of cooperation and played an active role in the cooperation of APEC in some years. In early 1990s, APEC was the top priority of China's regional trade arrangement. But after the failure of APEC EVSL and the booming of RTAs in the world in late 1990s, the future of APEC Bogor goal becomes uncertain.

Kim Kihwan, Chairman of PECC commented on APEC as following:

“APEC member economies for the most part no longer share as strong a commitment to the Bogor, or for that matter, liberalization of trade and investment through multilateral negotiations, as their did earlier. When the Bogor goals were first adopted in 1994, all member economies took seriously not only ‘open regionalism’ but also the target dates for achieving free trade in the region: 2010 for developed and 2020 for developing members. Instead of working together to map out strategies to meet those goals, today, individual APEC members are more occupied with the efforts to enter into as many regional or sub-regional preferential trading arrangements as they can.”<sup>24</sup>

Kim worried, if the current trend toward PTAs in the APEC region is allowed to continue, there is danger for two “mega blocs” to emerge in the Pacific: one on the eastern rim in the form of NAFTA being expanded into a Free Trade Area of Americas (FTAA) and the other on the western rim in the form of ASEAN+3.

China is also puzzled by the changing situation of APEC in regional economic cooperation. Though China's commitment to the APEC is still same, APEC's Bogor Goal is not hopefully completed in due time.

In his speech at the 11<sup>th</sup> APEC Economic Leaders' Meeting October 20, Chinese President Hu Jintao offered three propositions: “First, we should enhance mutual trust and endeavor to make the Asia-Pacific region stable. Second, we should take effective measures to strike a balance between economic and social development. Third, we should step up mutual opening of markets and improve the multilateral trading system.”<sup>25</sup> It seems that China is still hoping APEC to be more effective in the region.

It is clear that as a channel of exchanges, APEC is still necessary for the region; as a channel of RTA, APEC is being marginalized.

Today, as CEPAs and CAFTA come into effect, experts expect that APEC is getting less important in China's FTA policy.

## **Recent Bilateral FTA Discussions**

Bilateral FTA arrangement is another China's strategy from 2003. Nowadays, China is seeking the possibilities to establish bilateral FTAs with Singapore, Thailand, Philippines, Australia, and New Zealand. What should be paid more attention to is China's willingness of an FTA with New

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<sup>24</sup> Kim, Kihwan, “Toward Greater Economic Integration in the Asia Pacific”, a non-paper at PECC Standing Committee Meeting, Beijing, April 18, 2004.

<sup>25</sup> Hu, Jintao, “Speech at the 11<sup>th</sup> APEC Economic Leaders' Meeting”, Bangkok, October 20, 2003. Available from: <http://www.fmprc.gov.cn/eng/wj/zjg/gjs/gjzyhy/2604/2606/t31111.htm>



Zealand and Australia, because China was reported “so keen to sign an agreement” with New Zealand.<sup>26</sup>

Last October Chinese President Hu Jintao and New Zealand Prime Minister Helen Clark agreed that New Zealand and China should develop a framework to facilitate and promote bilateral trade and investment. The framework was finalized at official’s level on 6 April and will be signed in June 2004. It covers the commencement of the FTA study, consequent FTA negotiations and the associated market economy pre-conditions committed by China. Prime Minister Clark announced on April 14 that New Zealand and China will begin an FTA negotiation next year. This is the first time China has agreed to negotiate an FTA with a developed country.

In the 10<sup>th</sup> Meeting of China-Australia Joint Ministerial Economic Commission held in Beijing in April, Bo Xilai, Chinese Minister of Commerce and Mark Vaile, Australian Minister of Trade agreed to actively and reliably speed up the process of the FTA feasibility study, and continuously expand the cooperation fields, so as to promote the bilateral economic and trade cooperation to a new stage.

It was also reported that some more-developed ASEAN countries, including Singapore, Thailand, Philippines are looking forward to working with China on a bilateral FTA upon the completion of FTA negotiations on goods by ASEAN and China.

Experts anticipated that China will become more actively involved in regionalism around 2005, based on the following three aspects. First, by 2005, China will have completed implementing the tariff reductions and economic reforms stipulated when it joined the WTO. China will be ready to face FTA issues more progressively. Second, China will be more responsive to economic integration in other regions such as the expansion of EU and the formation of FTAA. Third, when negotiations for DDA reach a critical stage round, major trading countries will pay attention to a bilateral approach like an FTA, causing another wave in the current fever for regionalism.<sup>27</sup>

Experts also noted that the biggest advantage for China regarding the FTA policy is that once its leadership promotes an FTA within a certain region, the government can make rapid progress under its socialistic system of centralized decision-making.<sup>28</sup> When China realizes the economic necessity of an FTA and decides that the internal and external conditions are ready, China will promote FTAs with its neighboring countries in addition to ASEAN.

### **Conclusion Remarks**

There is a shift in China’s trade policy in favor of FTAs---from earlier skepticism towards active participation and from negative to positive attitudes. This shift began to take shape when the Asia Crisis occurred in 1997 and accelerated since China’s accession to the WTO in December 2001.

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<sup>26</sup> New Zealand Government, “NZ-China FTA: Questions and Answers for Media”, 14 April 2004, available from: <http://www.scoop.co.nz/mason/stories/pa0404/s00215.htm>

<sup>27</sup> Cheong, *ibid.*.

<sup>28</sup> Cheong, *idid.*

China and ASEAN countries launched the China-ASEAN FTA process at their November 2002 summit in Phnom Penh, Cambodia. The so-called CAFTA is the milestone of China's FTA policy changes.

Presently, China's FTA strategy shows a clear roadmap: sub-regional FTA arrangements plus bilateral FTA arrangements. China is currently pursuing FTAs with not a few Asian countries/regions, which include South Asia, Indochina, and South Korea through the Bangkok Agreement, Central Asia through the Shanghai Cooperation Organization, China-ASEAN FTA, China-Hong Kong and China-Macao CEPA, Korea-China-Japan FTA, and China-ASEAN-Japan-Korea FTA (EAEC). The top priorities of China's FTA are CEPAs, CAFTA, EAEC, SCO economic cooperation, and APEC.

Bilateral FTA arrangement is another China's strategy from 2003. Nowadays, China is seeking the possibilities to establish bilateral FTAs with Singapore, Thailand, Philippines, Australia, and New Zealand.

In sum, it is highly possible that China will be more progressive in considering bilateral and sub-regional FTAs in the region after 2005.