



Economic Imperative for Promoting a CJK FTA: A Chinese perspective

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China's economy has been benefiting much from regional production network, and suffered a lot from the global financial crisis since 2008. It is one of the priorities for China to decouple itself from traditional markets like US and EU. However, before domestic consumption could fuel fully China's economy, new market in East Asia like RCEP could be one good alternative. In forging a region-wide FTA, CJK cooperation is crucial. Although RCEP is an initiative including ASEAN members as well as other six Asian economies, there's no doubt that China, ROK and Japan would play important roles in rule-setting and the on-going negotiations. From China's perspective, CJK cooperation and the incoming CJK FTA could lay a better ground for sustaining economic dynamism in several ways:

1. A region-wide FTA like CJK FTA could help to create new final demand market, which is critical to the East Asian economies under the stress of global rebalancing since the GFC. In addition, CJK FTA will help East Asian economies reduce their dependence on external demand and will contribute to a sustainable regional economic dynamism.
2. From dynamic perspective, Zhang Yunling (2006) indicates that the gains from trade and investment facilitation, as well as economic cooperation under the framework of FTAs will be much beyond gains created by lowering tariffs. This new kind of regional economic cooperation in East Asia, especially for the important economies in regional production networks, will improve the long-term environment for the regional economic development.
3. The competing efforts in negotiating more FTAs for a hub status by the regional economies may hurt the regional production network, which is essential for East Asian economic dynamism. For instance, it may also create new barriers like "Spaghetti Bowl" effect (or Asian Noodle Bowl), which reveals that one same commodity is subject to different tariffs, tariff reduction trajectories, and ROOs for obtaining preferences due to the multiple, overlapping FTAs. With a growing number of FTAs, the international trading system is likely to become chaotic and transaction costs will increase correspondingly due to cumbersome red tapes and cross-border procedures (Bhagwati, 1995; Baldwin, 2006). Thus, a regional-wide FTA like RCEP will help overcome most challenges including negative "Spaghetti Bowl" effect with one new single ROO.

In fact, China, Japan and ROK play a key role in forging RCEP due to their economic size and position in the regional production chain. If a Northeast Asian FTA could be constructed in advance or at the same time, it would serve as an easier and better foundation for RCEP. Recognizing its importance, the leaders from three countries agreed to launch a joint study in 2003 and the study group has submitted a CJK FTA feasibility report. Later consensus was reached again by the leaders from three countries that an official joint study committee is needed in 2009 before a joint study committee was appointed in 2010 and was convened for several times. Although the joint study has been completed by 2012 and the FTA has been under negotiation since year of 2013, it is still challenged with liberalization of sensitive sectors, which poses uncertainty to the future of CJK FTA.

4. Last but not the least, several important trading partners of China have been in negotiating new mega-FTAs aiming at rules-making, including the TPP, TTIP and Japan-EU EPA. However, China is still absent from these mega-FTAs. Considering many potential challenges in the above mega-FTAs, it is a good choice to negotiate a bilateral Investment treaty with the US prior to joining the mega-FTAs. At the same time, a CJK FTA is also essential for China because it would help China catch the pace of global rules-setting. More importantly, a CJK FTA could help level the playing field for Chinese firms to compete with foreign ones in the North East Asian markets.

To this end, efforts need to be made to promote a CJK FTA and its on-going negotiation. As suggested in its feasibility study report, a CJK FTA could contribute much to the regional economic prosperity as well as regional stability, therefore, enough priorities need to be given to a CJK FTA. China will welcome any progress towards a CJK FTA.