

Japan-China-South Korea FTA & TPP as Seen by China

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Currently, Japan's global strategy is standing at an important turning-point, because it has to make a decision on whether to participate in the Trans-Pacific Strategic Economic Partnership Agreement (TPP). This decision will not only influence the future direction of Japan's politics and economy, but there is also the possibility that it will have a major influence on the regional integration and economic development of East Asia. China, which is actively promoting East Asian economic integration and has a high degree of economic external dependence, has a strong interest in Japan's FTA/EPA strategy, and is anxiously awaiting Japan's coming decision. In contrast, the reason that Japan, which has previously emphasized diverse trading systems, has changed to a FTA/EPA strategy is in large part due to its being stimulated by China's FTA strategy. In the same way, Japan will also be closely watching China's future FTA strategy.

China's FTA Strategy

In regard to the meaning of joining an FTA, the positive and negative effects on the economy and industries are often mentioned. Meanwhile, there is a trend for China to think of its FTA strategy with greater vision, including a strategic sense for politics and diplomacy, along with the influence on the economy and industries. In other words, the fusion of economic benefit among members through signing FTAs strengthens the politics and diplomacy among the members, leading towards the formation of a mutually profitable interesting bloc. That is, China's FTA strategy is developing in a way that enables it to pursue its national interests, while also achieving the realization of its own politics and security through providing benefits to FTA member states and creating profits.

This understanding has the same focus as the East Asian Community proposed by former Prime Minister Hatoyama (Democratic Party of Japan) and the Asia Community put forward by South Korean scholars. It is also close to US thinking on FTA strategy.

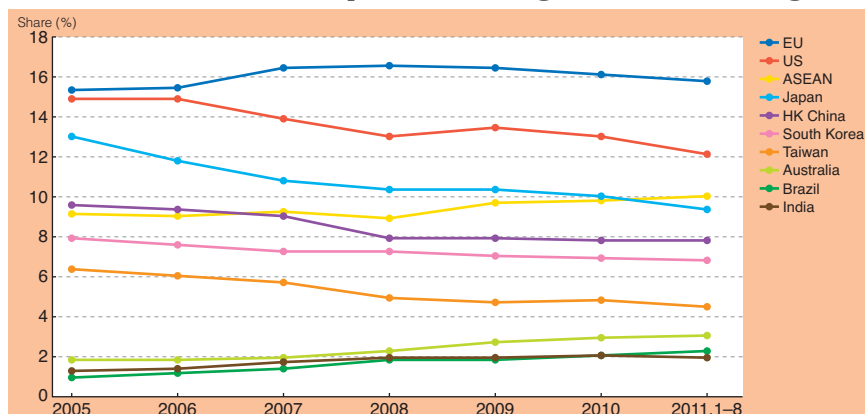
After due strategic consideration of the economic, political, and diplomatic circumstances that would result for the nation through

forming FTAs, China has so far decided to establish FTAs or similar agreements with 10 countries or regions, and actually done so, with the goals of: 1. realizing scale merit of economic development, 2. obtaining the necessary resources for the growth of the national economy, 3. dispelling the "China as a threat" theory, 4. controlling moves towards separation and independence, such as that of Taiwan, and 5. improving the international environment, especially the neighboring environment.

Moreover, as well as proceeding with negotiations to sign FTAs with six countries or regional groups, China is also conducting research on signing FTAs with India, South Korea, and Japan/South Korea. Looking at the countries and regions with which China has already signed FTAs, or is under negotiations to do so, they can be grouped into the Greater China Economic Zone ("four locations on both sides:" i.e., mainland China, Macao, Hong Kong China, and Taiwan); surrounding areas (e.g., ASEAN, Pakistan); regions where there are resources (e.g., GCC, Australia); and developed countries (e.g., Switzerland).

Progress of Japan-China-South Korea FTA

Trends in China's top 10 trading nations or regions



Source: Calculated & compiled by the author, based on China Customs trade statistics

In recent years, especially since the global financial crisis, righting the world's economic imbalance and achieving stabilization of the world economy (including the problem of governance of the global economic system) have become issues of worldwide concern. Considering these changes in conditions, China has become aware that there is a high possibility that it will no longer be able to depend on the US and European markets as it has up until now, and also decided that it should not be depending on these markets. China's development strategy is being adjusted with the two central pillars of expansion of the domestic market and diversification.

Aiming for the promotion of market diversification and the formation of a multipolarization of the global economy, China places particularly high expectations on a Japan-China-South Korea FTA. The combined GDP of these three countries is equivalent to almost 20% of the global GDP, and 70% of East Asia's, so compared to the 40% - 70% degree of intra-region trade dependence of the EU, NAFTA, etc., the degree of trade independence of the three countries of Northeast Asia is a low approximately 25%. In particular, China's degree of dependence on Japan and South Korea has dropped from 21% to 2005 to about 16% in 2011. Accordingly, expansion of the intra-region Northeast Asian trade has a great deal of potential, and China's market diversification strategy overlaps with its preferential areas. In fact, looking at the FTA benefit of different intra-region groupings according to Chinese researchers, a China-Japan-South Korea FTA would be the most beneficial to China in this respect, and is becoming an important point for actively advancing with such an FTA.

Moreover, advancing a Japan-China-South Korea FTA is an active process to achieve historic harmony in the northeast region, and ties in with the creation of an intra-region community whose members mutually benefit from it. In other words, promoting the formation of a stable political and security maintenance framework is another of the aims of China in its expectations of the Japan-China-South Korea FTA.

Concerns about TPP

However, Japan's heightened interest in TPP gives rise to complex feelings on the part of China, which faces the dilemma of the reality of being unable to easily join the US-led TPP and the disadvantageous position it would be in if it were left out of the picture. This is coupled with other concerns such as the fear that a centrifugal force in relation to East Asia economic integration might come into being. That is, China is concerned that, if Japan, which has not been very positive in regard to advancing the Japan-China-South Korea FTA, chooses TPP, Japan's motivation to promote such a Japan-China-South Korea FTA would weaken even further.

Indeed, Japan's participation in TPP includes an aspect of strong recommendation by the US (as seen by China). China analyzes the motivation of the US in promoting TPP as the US's desire to gain control of Asia-Pacific regional cooperation so as to gain a share of Asia's advanced economic growth, through TPP, and meanwhile attempting to restrict China's appearance for the purpose of security; indeed, in order to achieve the goal of exclusion of China, the US is trying to force the inclusion of numerous clauses that would make China's participation difficult.

The US is viewed as having achieved "the comeback of Asia," citing "over-reliance on China" and skillfully including the wishes of relevant nations, which have expectations of the US as a balancer. China, which cannot take part in the US-led TPP, will experience a loss of national profits, but must accept the hedging strategy of nearby states, in the view of Chinese experts.

In order to rise up to the abovementioned challenge, China appears to be working on measures such as: 1. advancing its Asian FTA strategy, such as by signing the Japan-China-South Korea FTA and the Shanghai Cooperation Organization FTA, 2. advancing FTAs with other countries, making use of its gigantic market power, and 3. accelerating its urbanization, speeding up its transition to a domestic demand-led economic growth model, and this reducing its international reliance.

Sound Responses Required by Japan & China

However, whether the "exclusion of China" in promoting TPP as seen by China is actually included in the US strategy is unclear; it could be simply a misunderstanding or incorrect assumption on the part of China. That's because the US is welcoming as a negotiation member Vietnam, which is a one-party dictatorship like China, and is even more behind in development than China is. There is no reason at all for the strict standards related to labor unions, labor standards, environment standards, and protection of intellectual property to be accepted by Vietnam, but not China.

As seen in the stages in the NAFTA negotiations, it can be understood that, through internal pressure in the US (Congress, labor unions, NGOs, etc.), US trade authorities now have no choice but to be strict on labor standards and environment standards, and must demand liberalization without exception. Accordingly, China should accelerate its internal reforms, have thorough discussions with the US within TPP, and actively tackle the challenge of establishing rules.

Meanwhile, China's stance in actively pursuing a Japan-China-South Korea FTA is evaluated highly. Rather, Japan's indecisive response (from the Chinese side, Japan appears to be doing Tai Chi) is causing puzzlement. In Japan, you can hear the reasoning that "China is a dictatorship, so our two countries have different values, and so we cannot undertake an FTA together." However, Japan has already signed an EPA with Vietnam, which is also a dictatorship, and so the view that Japan cannot make a deal with China on ideological grounds appears no more than an excuse and has no reasonable grounds.

Promoting an FTA with China, Japan's greatest trading partner, would not only mean obtaining economic benefits, but would also provide a chance that should be seized to bring about historic harmony between the two nations. An FTA between two peaceful (or, if they are felt not to be peaceful, efforts should be made so they become so) and prosperous neighboring countries should be understood as a potential tool for effective peace and security. Accordingly, Japan, which is a central presence in connecting TPP and a Japan-China-South Korea FTA, should not be choosing one of the two, but rather working to establish both. **JS**

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