

The Changing Economic and Political Role of China in Asia

– Implications for Japan and the United States –

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REFLECTING the increased weight of the Chinese economy in Asia, the Chinese government has become increasingly active and aggressive in its bilateral relationships with other countries and regions. Examples include: (1) a China-ASEAN FTA on trade in goods, (2) the start of negotiations on an FTA with Australia, (3) strengthening the bilateral relationship with India and (4) promoting the East Asian Community (EAC).

In view of these developments in China's trade and foreign policy, I believe that the country's intentions, which were to conduct domestic reforms by using outside pressure deriving from its WTO and FTA obligations, are now colored with its ambition to attain a leadership role in Asia.

I would now like to discuss the impact of Chinese foreign policies upon Japan and its reaction to them. Because of the limited space, I will only refer to the four points mentioned above.

(1) An FTA between China and ASEAN

China and ASEAN as a whole concluded FTA negotiations on trade in goods last November. This FTA will come into force for each country as soon as the domestic procedures for ratification have been completed. The tariff rates for each country will start being reduced from this year and will be eliminated in principle by 2010. Japan started FTA negotiations with ASEAN as a whole in April and it has already been negotiating individually with Thailand and Indonesia. The Japan-Singapore FTA came into force in November 2002 while the Japan-Philippines FTA and Japan-Malaysia FTA have already been agreed in principle. If the Japan-ASEAN FTA negotiations are not concluded and the China-ASEAN FTA comes into force, then goods exported from Japan to ASEAN countries would be subject to the normal tariffs of ASEAN countries except

for Singapore, whereas goods exported from China to ASEAN countries would benefit from reduced or zero tariff rates. The tariff rates of ASEAN countries are relatively high. Japanese companies would therefore have even more reasons to shift their factories to China. To avoid this situation, the Japanese government should expedite negotiations, especially with ASEAN as a whole.

(2) Possible Chinese FTA with Australia

Australia and China agreed to start negotiations on a bilateral FTA when Prime Minister Howard visited China in April. Judging from the precedent of the China-ASEAN FTA, China will request Australia to recognize the country as a full "market economy" and not to apply the China-specific safeguard system admitted by the WTO when China joined it in 2001. Australia may decide to accept these requests. Japan had been reluctant to start even a joint study, let alone negotiations, on an FTA with Australia. But when Prime Minister Howard visited Japan in April, Japan decided to start a joint study. However, it remains to be seen whether this joint study will lead to FTA negotiations because Australia is among the four largest exporting countries of agricultural, forestry and fishery products to Japan.

(3) Strengthening the Relationship with India

Wen Jiabao, the Prime Minister of China, visited India in April, and agreed with Manmohan Singh, India's Prime Minister, to expand trade and to quickly settle the boundary dispute between the two countries. I think the strengthening relationship between China and India is very good for these two countries and especially for other Asian nations, including Japan. Although it is generally said that India is a card against China, the

country has not been able to play such a role because its economy is much weaker than China's. If the China-India relationship is strengthened, India will be able to learn a lot from China on how to strengthen its economy, including ways to attract foreign direct investment. On the other hand, China will be able to learn a great deal from India about democracy in the political arena. An economically stronger India and a politically more democratic China will be good for the world.

(4) The East Asian Community

After ASEAN declared in the Bali Concord II on Oct. 7, 2003, that it would establish the ASEAN Economic Community (AEC) by 2020, China has been actively contributing to the formulation of the East Asian Community. China has also expressed its readiness to host the second East Asian Summit. This is considered to be a precursor of the EAC, and the first summit will be held in December 2005 in Kuala Lumpur, Malaysia. The "community" implies that part of the sovereignty of each member country in the Community would be conceded to the EAC, as has been the case with the EU. But I do not think any Asian countries, including Japan and China, are ready to concede any of their sovereignty to the EAC. Can we imagine a communist country like China conceding part of its sovereignty to a body that operates under different rules from communism? Japan cannot welcome China entering the EAC as long as it remains a communist country. Then why is Japan going to attend the East Asian Summit in December and why is it interested in formulating the EAC? Because in the process of China entering into the EAC Japan wants to see it becoming a fully democratic country politically, implementing democracy, respecting human rights and observing the rule of law. Unless China changes in this way, Japan will not approve the establishment of the EAC. **JS**