The Future Perspective of East Asian FTA

Zhang Yunling
Director
Institute of Asia-Pacific Studies, CASS
New Wave of RTAs

- Rationale of RTAs:
  - Learning from European experience
  - Slow progress of Doha WTO round
  - Business pressure
  - WTO-consistent, but "plus"
  - Political will, beyond economic, or as regional identity
Why EAFTA (1)

- Foundation of Economic integration:
  - Market based regional economic integration:
    - First wave - Japan FDI to ASEAN in 1980s
    - Second wave - “four dragons” FDI to East Asia from 1990s
    - Third wave - new production network with China as a center from late 1990s
Why EAFTA (2)

- Weakness of Market based integration:
  - Unilateral liberalization approach
  - NTMs (business cost)
  - Lack of institutional arrangement and consolidation (vulnerability)
  - Barriers of New production-trade-investment network
Need an Integrated Approach (1)

- Current Status of FTAs in EA:
  - Multilateral efforts both in the regional and with other regions
  - Priorities are different
  - ASEAN as a hub
  - Challenge to market based new network
  - Political initiative - Joint Expert Study Group
Need an Integrated Approach (2)

- Modeling results FTA benefits
  - The modeling results show that EAFTA will provide the largest gain for each partner
- EAFTA will be based on the current framework
- If EAFTA, it’s too late waiting for completing all multi-layered arrangements
## CGE Modeling Results

(In Million US$)

<table>
<thead>
<tr>
<th></th>
<th>ASEAN Total</th>
<th>China</th>
<th>Japan</th>
<th>Korea</th>
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</thead>
<tbody>
<tr>
<td><strong>ASEAN-China</strong></td>
<td>17,718</td>
<td>6,136</td>
<td>-5,380</td>
<td>-972</td>
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<tr>
<td><strong>ASEAN-China-Japan</strong></td>
<td>20,669</td>
<td>9,502</td>
<td>52,969</td>
<td>-3,342</td>
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<tr>
<td><strong>ASEAN-China-Korea</strong></td>
<td>19,216</td>
<td>7,856</td>
<td>-6,194</td>
<td>40,709</td>
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<tr>
<td><strong>EAFTA</strong></td>
<td>21,900</td>
<td>11,050</td>
<td>57,209</td>
<td>38,714</td>
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Need an Integrated Approach(3)

♦ Feasible approaches:
  - NEAFTA initiative+AFTA: difficulty for an early NEAFTA
  - Three “10+1” FTAs
    ♦ Three “10+1” FTAs completing on time by 2007, or 2008
    ♦ Coordinating three “10+1” FTAs’ approaches
    ♦ 2008 initiative based on Joint Expert Study report
Modality of EAFTA (1)

- Value of Japan-Singapore CEP model: high standard harmonization
- Value of CAFTA: CEP, Early harvest, Trade in goods first, gradual approach
- Value of AFTA: gradual, time target, community building
- East Asian model: comprehensive, CEP, gradualism
Modality of EAFTA (2)

**Major points:**

A framework agreement of CEP in 2008 including:

- An early harvest program
- Preferential treatment to CLMV
- Time framework for EAFTA negotiation
- Economic cooperation priority areas.
Modality of EAFTA (3)

- Major concerns for EAFTA:
  - Time target: 2020
  - Comprehensive liberalization (goods, service, investment, NTM)
    - Labor mobility
      - Harmonization of customs procedures, standards
      - Integrated rule of origin
      - A regional dispute settlement mechanism
      - Protected sectors and sensitive sectors
China’s FTA Strategy

- China’s three strategies:
  - WTO commitments
  - Neighboring Regional arrangements: EA (priority), Asia-Pacific (APEC), Shanghai Organization, Northeast Asia
  - Bilateral:
    - Completed: CAFTA (Partly, 2005)
    - Under negotiation: New Zealand (04), Chile (04), Australia (05), Pakistan (05, EHP first), GCC, South African Custom Union (04),
    - Preparing: Iceland (05), ROK (05), Brazil (05), India (05)
China-Japan Relations

- New China-Japan economic relations-market, production network: vulnerability
- Different priorities in RTAs
- CJFTA: not on agenda
- EAC and EAS: future agenda concerns
- Political will: shared?
- Role and responsibility of political leaders