

Chinese Changing Perspective on the Development of an East Asian Free Trade Area

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As a new stage of the policy of opening to the outside world, China's changing perspective and policy regarding an East Asian Free Trade Area (FTA) reflects Beijing's efforts to actively respond to changing internal and external conditions so as to further promote the country's economic development. It also reflects Beijing's growing confidence in overcoming the negative effects of deeper and broader integration into the regional and global economy. On the other hand, Beijing's recent moves in negotiating free trade pacts with neighboring economies will inevitably bring significant impact on the regional and global political economy.

Since Deng Xiaoping initiated economic reforms in 1978, China's policy of 'opening to the outside world' has been consistently deepening and broadening, reflecting Beijing's efforts to respond actively to the changing conditions of the global and regional economy as well as the changing conditions of the Chinese domestic economy, so as to best serve the national objective of rapid economic development. In this process, two policy decisions that the Chinese government has taken over the past two decades are of particular significance, namely, the decision to join the General Agreement on Tariffs and Trade (GATT) in 1986 – the World Trade Organization (WTO) after 1995 – and the decision to form a free trade area (FTA) with the Association of Southeast Asian Nations (ASEAN) in 2001. These two important policy decisions not only reflect a sea change in the Chinese leadership's perspective on China's foreign economic relations, but they also reflect the substantive change in China's economic relations with the outside world. While these are two separate policy decisions, which were made at different times and driven by different motives under different conditions, they are no doubt logically related to each other.¹

This article addresses Chinese changing perspective on the development of an East Asian FTA in the context of concurrent trends of globalization and regionalism in the world economy. In doing so, the study, in the first part, examines the global and regional background behind Chinese changing perspective on the issue of East Asian FTAs as discussed by Chinese scholars.

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The article's second section reviews the ongoing scholarly discussion and debate among Chinese academics on regional economic integration in general and regional FTAs in particular. Based on the discussion of the evolution of Chinese thinking on FTAs in East Asia, the third section of the contribution addresses China's ongoing adjustment of policy on this issue and its recent moves to explore and negotiate FTAs with neighboring economies in the East Asian region. Finally, the article concludes with an assessment of the meaning and impact of China's ongoing moves towards the establishment of FTAs with its neighboring economies.

At the outset, related analysis requires the identification of the various forms of regional economic integration so as to have a better understanding of Chinese perspective and the current stage of Chinese policy. Under the general rubric of regional economic integration, there are not only various forms of free trade arrangements, but also other forms of institutionalized economic cooperation.

Generally speaking, there are three forms of regional free trade arrangements, namely, free trade area (FTA), customs union, and common market. These different forms of regional free trade arrangements represent increasing levels of economic integration. A FTA is a regional arrangement within which trade barriers (such as tariffs and quotas) are removed among member states. However, member states within a FTA still maintain their respective tariffs and other trade barriers against non-members. A customs union is more advanced in the degree of economic integration than a FTA. It not only involves free trade between its member states but also imposes common external tariffs on imports from non-members. A common market is the most advanced of the three forms of regional free trade arrangements in terms of the depth of economic integration. In addition to free trade among its member states and common external tariffs on non-members, a common market removes national restrictions on the movement of labor and capital among member states.

In addition to the above three forms of free trade arrangements, there is the example of the European economic union that evolved out of the previous European Community and that goes beyond free trade arrangements. Through the Single European Act and the Treaty on European Union, European regional integration has moved beyond free movement of goods, people and capital to include a monetary union, cooperation on research and technological development, and coordination on various policies (including social and regional policy, environmental policy, and even foreign and security policy) within the framework of the European Union (EU).²

THE BACKGROUND FOR CHINESE CHANGING PERSPECTIVE

During the Maoist period, for geopolitical and geoeconomic reasons as well as for Mao's own ideological obsession, China adopted an economic policy of self-reliance. Economic exchanges with the capitalist world were minimal, and there was no question of integrating with neighboring capitalist economies.³ Even in the first decade of the reform era, the issue of participation in regional

multilateral organizations in general and regional multilateral economic organizations in particular had been very sensitive for the Chinese government, not only because it would involve the sensitive issue of state sovereignty, but also because the Chinese still had a strong sense of isolation in the regional as well as the global community, and they tended to prefer the flexibility of bilateral as distinct from multilateral diplomacy.

Since the early 1990s, however, China, with its economy increasingly integrated into the global and regional economy following a decade of economic reform and opening, has gradually changed its perspective on the issue of institutionalized economic cooperation in East Asia. This change of attitude occurred at a time when the world economy was increasingly characterized by concurrent trends of globalization and regionalism following the end of the cold war. The first sign of China's changing attitude was illustrated by Beijing's participation in the Asia Pacific Economic Cooperation forum (APEC) in the early 1990s.⁴ However, a more radical change came in the wake of the Asian financial crisis of 1997.

As many Chinese scholars explain, this sea change on the issue of institutionalized regional economic cooperation originated in the changing external conditions of the global economy and in the change in regional economic relations since the early 1990s. Particularly, like their counterparts elsewhere in East Asia, the Chinese economists and governmental officials have been showing growing concern over economic regionalism in the world economy, particularly in Western Europe and North America. According to Chinese scholars, of the three major economic centers in the world economy, East Asia is the only region that still lacks a formal mechanism for regional economic cooperation, while Western Europe and North America not only have their own established organizations but are also in the rapid process of further expansion to involve respectively the whole European continent and the whole Western hemisphere. Under such circumstances, there is consensus among Chinese scholars that unorganized East Asia is obviously at a disadvantageous position in the global competition with Western Europe and North America.⁵

Moreover, as many Chinese authors point out, there are in fact more than 140 existing regional trading arrangements in the world today, and more than 90 percent of the 144 members of WTO are affiliated with some form of regional economic institutions. As a result, more than 50 percent of world trade is now under the influence of regional trading arrangements and the growth of inter-regional trade within regional economic blocs is higher than the growth of extra-regional trade. If this process intensifies, there will be inevitably growing diversion of trade and investment flows, and the East Asian economies that remain outside any regional bloc might eventually become economically isolated, thus losing their traditional world markets, particularly in North America and Western Europe.⁶

On the other hand, Chinese scholars emphasize that over the past two decades China has established very close economic relations with neighboring economies. While China has now become the sixth largest trading nation in the world in terms of foreign trade volume, jumping from the 32nd place in

1978, 43 percent of China's trade is with East Asia. In the meantime, foreign direct investment (FDI) from East Asian economies accounts for over 60 percent of all FDI inflows in China. Obviously, the fortune of the East Asian economy will directly affect Chinese economic development.⁷

Chinese authors especially notice the increasing economic integration among China, Japan, South Korea, Taiwan and Hong Kong. According to one Chinese scholar's calculation, in the period of 1990–97, of the \$1 trillion increase of exports from these economies combined, 50 percent thereof relates to exports among these five economies.⁸ As there have been growing economic frictions between Western economies and East Asian economies (Japan, South Korea, Taiwan and Hong Kong in particular), the same Chinese scholar argues that the logical new outlet for these East Asian economies is the growing Chinese market, which is one of the most important reasons for deepening integration in East Asia.⁹

The Asian financial crisis particularly has brought a huge shock to China as well as to the whole region. Seeing the rapidly spreading and devastating consequences of the Asian financial crisis, the Chinese have undergone a dramatic transformation in their thinking and realized the great importance of a regional mechanism for close economic policy coordination and cooperation among the region's governments in an increasingly interdependent regional economy. Under such circumstances, there is realization among Chinese scholars of the urgent need for institutionalized regional economic cooperation so as to provide for a more stable regional economic environment.¹⁰ As a matter of fact, it is precisely the Asian financial crisis that has directly provided the most immediate impetus for the dramatic change of Chinese perspective and policy on institutionalized regional economic cooperation in general, and regional FTAs in particular.

SCHOLARLY DISCUSSION AND DEBATE

As a result of changing international and regional conditions, there has been corresponding Chinese changing perspective on regional FTAs in East Asia. This change of Chinese perspective is reflected in the increase of scholarly discussion and debate on the issue. Involved in discussion and debate are not only many prominent scholars from such government think tanks as the Chinese Academy of Social Sciences, the China Institute of International Studies, etc., but also some government officials from the Ministry of Foreign Trade and Economic Cooperation (MFTEC) and the Ministry of Foreign Affairs.

While there are still a few Chinese authors who, concerned about the sensitive issue of sovereignty and China's multilateral obligations, remain cautious on China's involvement in a FTA in East Asia, there seems to be in general a growing enthusiasm among scholars and policy advisers for Chinese participation in more institutionalized regional economic cooperation with East Asian economies. This growing enthusiasm helped to underwrite Beijing's adjustment of policies and recent moves to explore and negotiate FTAs with its neighboring economies. Four major relevant issues emerged in related debates.

How Should Globalization and Regionalism be Assessed?

The first major issue facing Chinese scholars is how to assess globalization and regionalism in the world economy. In general, it seems that most of the Chinese scholars involved in the discussion and debate have quite positive views on the growing globalization of the world economy, which they acknowledge as an inevitable historical trend. As such, these Chinese scholars are favorable about China being involved in the process of economic globalization. On the other hand, Chinese scholars also mostly accept the argument of Western scholars of regional integration that regional free trade arrangements would help promote global free trade and economic globalization, an argument that can easily be used by Chinese scholars to provide an economic rationale for China to engage in FTAs with its neighboring economies.¹¹

Moreover, many Chinese scholars also point out that participation in institutionalized regional cooperation can be used as an effective measure for nation states to fend off the negative effects of globalization.¹² Particularly, many Chinese authors argue that a regional economic grouping can help its member states strengthen their bargaining position in global multilateral negotiations and in influencing the setting of rules and regulations of the international economic system. The EU and North American Free Trade Agreement (NAFTA) are cases in point, and there is a strong reason for East Asian governments to follow suit.¹³

There is further argument that as a major economic power China should encourage economic cooperation in East Asia, which in turn would help promote and enhance China's economic development. Moreover, the strong complementarity of Japan, South Korea, China and other East Asian economies in their economic structure makes such economic relations beneficial for all.¹⁴ As such, it is argued that China has to strengthen its economic relations with the East Asian economies.¹⁵

But there are a few scholars who justify East Asian integration by arguing that the global economy in the post-cold war era is actually characterized by 'regionalism' rather than 'globalization'.¹⁶ A more radical view even goes as far as to argue that the economic integration of the EU type is the only way for East Asia to survive and prosper in the global competition, because 'globalization' is used by the US as a means to maintain its dominance in global affairs.¹⁷

While the majority of Chinese scholars involved in the discussion and debate are quite favorable about China's participation in regional economic integration concurrent with involvement in economic globalization, there are still a few Chinese scholars who are critical of China's orientation towards institutionalized East Asian regionalism, arguing that China's interests actually lie in 'globalization' rather than East Asian 'regionalism'. Their argument is primarily based on their analysis of China's continuing heavy dependence on the markets, capital, technology and resources beyond the region, particularly in North America, Western Europe and Oceania.¹⁸

Who Should Lead East Asian Integration?

A second major issue facing Chinese scholars concerns the leadership role in the process of East Asian integration. While most Chinese authors favor East Asian integration, there is discussion and debate over who should take a leading role in the process. For many Chinese authors, Japan should play a particularly important role in the process of economic cooperation in East Asia, because Japan is an economic superpower and any regional economic institution in East Asia can hardly be successful without Japan's leadership and participation. On the other hand, Japan could exert an even more important role in the global economy if a Japan-led East Asian economic grouping is formed.¹⁹

Some other authors emphasize the importance of Japan and China playing a joint leading role in the process of East Asian integration. According to these scholars, like the crucial role of France and Germany in European integration and the crucial role of America and Canada in the conclusion of NAFTA, the political will of the leading states, Japan and China, to cooperate and to lead regional integration is the key to the success of East Asian integration.²⁰

But a few Chinese authors are quite skeptical of Japan's willingness and China's capabilities of leading East Asian integration by arguing that whereas Japan is deviating from the leadership role in the East Asian economy, China is economically not strong enough to lead. Thus, the creation of an East Asian regional grouping is still a long way off.²¹

What Form of East Asian Integration Should China Promote?

A third major issue under discussion and debate is what form of institutionalized regional arrangements China should promote and participate in. In the wake of the Asian financial crisis, some Chinese scholars suggest that China participate and take a leading role in regional monetary cooperation so as to enhance the position of the Chinese *renminbi* and promote the stability of exchange rates of regional currencies. However, the same scholars are also aware of the difficulty of monetary integration in East Asia, for as a more advanced stage of regional economic integration, monetary integration is more complicated and politically more sensitive because it involves the surrender of part of the sovereignty of member states and therefore requires high political trust among member states. Obviously, these conditions are not available yet in East Asia, given political, ideological and cultural diversities, disparities in economic structures and economic policies, lingering historical legacies, and continuing mutual suspicions.²²

Under such circumstances, Chinese authors tend to focus on the formation of a FTA in East Asia, because as the lowest level of regional integration, such a FTA would have less sensitive political implications and would, therefore, more likely result in a successful new organization.

According to Chinese scholars, the existing regional organizations, such as APEC, ASEAN, etc., do not fully reflect the interests of East Asian economies as a whole. While in APEC, East Asian economies do not yet have a common institution that can represent their interests and speak with one voice, ASEAN,

though more institutionalized in itself, is still too weak as a grouping and far from representing the whole East Asian region.²³

As such, Chinese scholars have proposed various approaches to institutionalized economic arrangements between China and other East Asian economies. Among the major proposals, a real issue under discussion and debate is with whom China should start the negotiation and creation of a FTA. Four proposed approaches are particularly influential in this respect, namely, a Chinese FTA, a Northeast Asian FTA, a Chinese-Southeast Asian FTA, and a FTA for the whole East Asian region.

For understandable political, economic and nationalistic reasons, there are strong calls for the creation of a Chinese FTA, involving China, Taiwan, Hong Kong, and Macao. Some proposals in this category even suggest including Singapore in a Chinese FTA. According to the Chinese scholars affiliated with this group, the formation of a Chinese FTA is not only a logical result of increasingly closer economic ties and the high complementarity among the economies of the 'Greater Chinese Area', but will also benefit all the parties involved and promote the prominence and competitiveness of the Chinese economies in the world.²⁴ It is also argued that the WTO membership of China, Taiwan, and Hong Kong is conducive to the integration of these Chinese economies.²⁵ In particular, some authors argue that institutionalized cooperation between mainland China and Taiwan can help circumvent the existing political deadlock in the cross-straits relations and eventually help improve political relations between the mainland and the island and promote the political unification of China.²⁶

A second group of scholars favors creating a China-ASEAN FTA first. According to these scholars, such a free trade arrangement is more likely to succeed because China and the ASEAN countries are generally equal in terms of the level of economic development. Moreover, they continue to argue, as China has a larger and more comprehensive economy than ASEAN, Beijing has more leeway in its relations with ASEAN and, therefore, is likely to steer the process of China-ASEAN integration. In response to critics who would emphasize China's competitive position vis-à-vis the ASEAN economies, those who support the China-ASEAN FTA counter that while many sectors in China and ASEAN appear to be in competition, the actual range of product specialization is more complementary than competitive. As the Chinese economy is currently still in an inferior position compared with the Japanese economy, and to a lesser extent, the South Korean economy, a China-ASEAN FTA will therefore enable China (ASEAN as well) to acquire a stronger bargaining position when negotiating a free trade pact for the whole East Asian region with Japan and South Korea in the future.²⁷

Other scholars have alternatively supported the creation of a Northeast Asian FTA. The latter would start with an apparently more feasible arrangement involving China, Japan and South Korea. Their major argument is that a Northeast Asian FTA has much more potential not only because the Chinese economic structure is complementary with those of Japan and South Korea but also because a combined economic size of a Northeast Asian FTA would put

China, Japan and South Korea in a more desirable position in global competition with the EU and NAFTA. According to these scholars, although there are political, economic, ideological and historical obstacles to an institutionalized arrangement for Northeast Asia, a trilateral FTA among China, Japan and South Korea, once established, could actually bring economic and non-economic returns and create conditions that would overcome these obstacles. On the other hand, these authors argue, a China-ASEAN FTA would bring only limited returns for the development of a regional market, given the limited economic scale of ASEAN. Moreover, China and ASEAN are in competition in their respective economic structure and export structure, a fact that is not conducive to the forming of a China-ASEAN FTA. Despite this, these scholars agree that a Northeast Asian FTA could in due course expand to involve ASEAN in the future.²⁸

The various scholars and policy-makers may differ on where to start but most seem to have a FTA for the whole East Asian region in mind. The question for all these authors is how China should achieve this objective – to start with a Chinese FTA and then spread to other parts of East Asia; or to start with a China-ASEAN FTA and later to expand to whole East Asia; or to start with a Northeast Asian FTA and eventually to include other East Asian economies; or, finally, to directly create an East Asian FTA without passing through any stages of sub-regional free trade development. Behind all these different approaches is the strong belief shared by all these authors that China should be in the driver's seat in the process of East Asian integration.

What Are the Difficulties and Obstacles?

While most Chinese authors are enthusiastic about the conclusion of free trade arrangements with East Asian economies, they at the same time realize the existence of difficulties and obstacles in launching any FTA in East Asia. Like their counterparts elsewhere in East Asia, Chinese scholars frequently note as the major obstacles: America's objection to a formal East Asian grouping, lack of political trust among East Asian states, lingering historical legacies left over from the prewar time, existence of territorial disputes, and existing sensitive security issues in the region, which, Chinese authors agree, will undoubtedly make the formation of a formal East Asian grouping a difficult job.²⁹ In particular, there is still lack of political trust between the two major powers in the region, Japan and China, whose cooperation is said to be the prerequisite for any successful East Asian integration.³⁰

But some more optimistic Chinese scholars believe that realizing the mutual benefits of closer economic relations, East Asian governments would be willing to move towards more institutionalized regional economic cooperation, which will in turn help improve their political relations.³¹

CHINA'S NEW POLICY INITIATIVES

Reflecting its changing perspective on the issue of regional integration, China has been increasingly active in institutionalized regional economic cooperation.

The first sign of China's changing policy was seen in Beijing's participation in APEC in the early 1990s, although APEC is not an organization of regional economic integration in the sense that is normally understood.³² China has been very comfortable with the APEC approach to multilateral cooperation. Under this so-called 'APEC Approach', the diversity and independence of APEC members are respected, voluntary participation is emphasized, and the principle of unanimity through consultation and consensus in decision-making is accepted.³³ In 1996, China, joining hands with ASEAN, Japan and South Korea, also participated in the Asia-Europe Meetings (ASEM), a framework of economic cooperation between East Asia and the EU.

While these initial moves signaled China's emerging interest in multilateral cooperation among East Asian economies, it was in the wake of the Asian financial crisis that China began to take substantial policy actions that would lead Beijing to get involved formally in various projects of regional integration.³⁴

China's first substantial move was to participate in the Chiang Mai Initiative in 2000, a regional currency swap arrangement. Under this currency swap arrangement, a bilateral currency swap and repurchase mechanism was established on the basis of the ASEAN Swap Arrangement. The swap arrangement requires that each state commit a certain amount of currency to be used whenever a partner state experiences a currency crisis and needs to borrow foreign exchanges. When an East Asian state under the arrangement faces a currency crisis, other states within the framework should come to its rescue by providing emergency aid to help ease that state's liquidity problem and prevent the spread of its currency crisis to other parts of the region. Although this is a regional mechanism based on bilateral arrangements, it was the first time that China had ever participated in a regional mechanism of cooperation. This move of the Chinese government reflects Beijing's understanding that an economic crisis in a neighboring economy, if not checked, would finally affect China itself, as the Chinese economy is now so closely interdependent with the whole East Asian economy.³⁵

A further significant move for China was to participate in the ASEAN Plus Three (ASEAN Plus China, Japan and South Korea) forum (APT) and ASEAN Plus One (ASEAN Plus China, Japan and South Korea respectively) forum (APO).³⁶ In doing so, Beijing has accepted the notion that an economic grouping of the APT would help promote the process of multipolarity in global affairs, promote East Asian cooperation, and promote the greater role of China in East Asia and the whole Asia Pacific. As such, China has adopted the policy of 'active participation, broadening consensus, increasing mutual trust, and strengthening cooperation' to promote the formation of an APT FTA in East Asia.³⁷

It is within the structure of APO between ASEAN and China that Beijing has taken by far the most dramatic move towards regional integration by concluding a free trade pact with ASEAN. This is not only a significant event in the development of regional cooperation in East Asia, but it is also an unprecedented event in China's foreign policy in general and foreign economic policy in particular.

The idea of a FTA between China and ASEAN first emerged during the third APO summit between ASEAN and China in Manila in 1999 when ASEAN was recovering from the Asian financial crisis. Realizing the vulnerability of its economy to the fluctuations in the world market, ASEAN was hoping to see China play a more important role in the regional economy and to have more cooperation with China in the regional economy. As such, Beijing proposed closer cooperation between China and the planned ASEAN FTA, a proposal that was immediately accepted by ASEAN.

In the following Singapore summit of 2000, at the initiative of China, it was agreed that an expert group be created to study the feasibility of a China-ASEAN FTA and the implications of China's WTO membership for ASEAN. After one year of research work, the expert group submitted a report to the governments of China and ASEAN countries, in which it concluded that the creation of a China-ASEAN FTA would bring a win-win situation for both sides and suggested a 10-year period for the achievement of this objective. The proposal was endorsed by both Chinese and ASEAN leaders. In the Brunei summit of November 2001, the leaders of China and ASEAN officially announced the decision, authorizing the start of negotiations at the ministerial level on the issue.³⁸

According to the Framework Agreement on Comprehensive Economic Cooperation between China and ASEAN signed in 2002, ASEAN conducts negotiations with China as a unified body. The negotiation on the terms of a China-ASEAN FTA is completed by the end of June 2004 and a FTA will be established between China and the five original ASEAN members plus Brunei by January 2010 and the remaining ASEAN members will join the FTA by 2015. After the FTA is established, tariffs will be substantially lowered to 0–5 percent on all commodities (with the exception of a few special commodities) and all non-tariff barriers are removed among the FTA participating economies. At the same time, service trade and investment will also be liberalized and measures of trade and investment facilitation created within the FTA.³⁹ To show its 'sincerity and goodwill', China has offered to open unilaterally its market to some ASEAN members five years ahead of the opening of their markets to China.⁴⁰

The created China-ASEAN FTA will involve a population of 1.7 billion, combined gross domestic product (GDP) of over \$2 trillion, and a total trade volume of \$1.23 trillion.⁴¹ According to a research report of the ASEAN Secretariat, a FTA of China and ASEAN will help ASEAN increase its exports to China by 48 percent and its GDP by 0.9 percent (\$5.4 billion), while China will increase its exports to ASEAN by 55.1 percent and its GDP by 0.3 percent (\$0.9 billion). But in the short term, China's trade deficit with ASEAN will increase, given the similar economic structures between the two.⁴²

A FTA between China and ASEAN is said to be only the starting-point of cooperation between the two sides. In addition to the removal of tariff and non-tariff barriers, the China-ASEAN FTA will also serve as a framework for overall economic cooperation between China and ASEAN. The whole idea is to establish a comprehensive and close relationship between China and ASEAN, involving a FTA, cooperation in finance, regional development, technological assistance, macroeconomic cooperation, and other issues of common concerns.⁴³

Of various proposed approaches to institutionalized regional economic cooperation, the Chinese government finally decided to create a FTA with ASEAN first. By concluding a free trade pact with ASEAN, China obviously hopes to achieve its various policy objectives in East Asia in general and Southeast Asia in particular. Economically, a China-ASEAN FTA will help China stabilize its economic relations with ASEAN. ASEAN is China's fifth largest trading partner, while China is ASEAN's sixth largest trading partner. ASEAN is also an important source of FDI flows to China, and an important destination of growing Chinese outward FDI. More importantly for the Chinese, with growing institutionalized economic cooperation with ASEAN, Beijing will be able to develop a relationship of trust and partnership with the Southeast Asian countries, thus promoting China's foreign policy objective of developing a peaceful environment in the region.⁴⁴ In the meantime, with a China-ASEAN FTA in place, China hopes to acquire a more favorable position in the process of regional integration for the whole East Asian region.⁴⁵

While the negotiations with ASEAN on a free trade pact were still in process, Beijing moved to sign with Hong Kong the Closer Economic Partnership Arrangement (CEPA) on June 29, 2003, following more than a year of negotiations. Under the China-Hong Kong CEPA, tariffs and non-tariff barriers on trade in both goods and services will be phased out and facilitation measures will be adopted to promote trade and investment. However, as Hong Kong already has a very liberalized trade and investment system, the China-Hong Kong CEPA is in effect designed to make China more open to Hong Kong. According to the CEPA, as of January 1, 2004, China would remove tariffs on 273 items of Hong Kong origin that are important to Hong Kong's economy, and by January 1, 2006, all tariffs on remaining goods of Hong Kong origin will have been removed.

On the trade in services, to be effective from January 1, 2004, Beijing was to implement some of the commitment it had made to WTO members ahead of schedule for Hong Kong. In the meantime, Beijing is also committed under CEPA to trade and investment facilitation by simplifying procedures in seven areas, including trade and investment promotion, customs clearance, transparency of laws and regulations, e-commerce, commodities quarantine, inspection and quality certification, cooperation among small and medium-sized enterprises and cooperation in traditional Chinese medicine development.⁴⁶ What is more important, the China-Hong Kong CEPA is seen by Beijing only as a starting-point for creating a Grand-Chinese Economic Zone, which will eventually involve Macao and Taiwan. As such, Beijing started to negotiate with Macao on a similar arrangement on June 20, 2003, just nine days before the signing of the China-Hong Kong CEPA.⁴⁷

While moving towards FTAs with ASEAN and Hong Kong, China has also shown growing interest in more institutionalized cooperation with Japan and South Korea. At a first ever trilateral summit meeting held in Manila in November 1999, China reached an agreement with Japan and South Korea on trilateral joint research on economic cooperation among them. Under the agreement, a joint research project was formally launched in November 2000,

involving three government-designated research institutes: the Development Research Center of China, the National Institute for Research Advancement of Japan, and the Korea Institute for International Economic Policy. Related joint research concluded that it is difficult to formulate a FTA among the three countries in the short run, not only because there is structural difference among the three economies but also because neither Japan nor Korea is willing to open its agricultural market. On the other hand, China is not confident enough to cooperate with much more developed economies. Despite this, the three countries still agreed in 2001 to set up a formal mechanism of economic ministerial meetings for institutionalized cooperation. They also decided to form an industrial forum to discuss the issues of common concerns.⁴⁸ Although it has not offered definite commitment yet, China adopts a fairly positive attitude to a possible FTA of China, Japan and South Korea for the future.⁴⁹

Obviously, while the call for the creation of a FTA between China, Japan and South Korea is growing, Beijing seems to plan to start the formation of FTAs with ASEAN and Hong Kong, and then to expand them into a whole East Asian FTA.⁵⁰ No matter whether this plan will work or not, this strategy of Beijing is quite understandable from the Chinese point of view. Given the complexity of regional political and security issues, the start of institutionalized regional cooperation based on the initiatives made by smaller states in the region like ASEAN, let alone Hong Kong, rather than by a regional power like Japan is more acceptable to China.⁵¹ By this strategy, Beijing hopes to sit in the driver's seat in the process of creation of an East Asian FTA. As such, China is active in getting involved in the APT, which, in the eyes of observers, is likely to evolve into a kind of FTA for the whole of East Asia. Moreover, Chinese Premier Zhu Rongji expressed China's view on the development of the APT at the fifth APT summit in Brunei in November 2001, that while continuing to focus on economic cooperation, the APT forum could gradually involve dialogue and cooperation on political and security issues.⁵²

In addition to the moves discussed above, China has also taken initiatives with other subregions in Asia in recent years. China is promoting the process of cooperation within the Bangkok Agreement, which involves India, South Korea, Bangladesh, Sri Lanka, Laos, and China, to help the economic development of Asian developing countries. China also intends to expand the cooperation from the security to political and economic areas within the framework of the Shanghai Cooperation Organization (SCO). Besides, Beijing has participated in a joint development project of Northeast Asian countries, called the Tumen River project, that involves China, North and South Koreas, Japan, Mongolia, and Russia, and the Lanchan River-Megong River project, involving China, Burma, Laos, Thailand, Cambodia, and Vietnam.⁵³

CONCLUSION

Starting with economic reforms of the late 1970s, Beijing increasingly realized that in order to develop the Chinese economy, China had to open to the outside world and to integrate into the regional and global economy. This understanding

of the country's foreign economic relations led the Chinese government to open the country to the outside world. However, the key to China's opening to, and growing economic linkages with, the outside world during the first two decades of reform was the attraction of FDI into the country. FDI was, therefore, seen by the Chinese leadership as useful for China's economic development. This policy has proved effective, as it has directly contributed to China's rapid economic growth for over two decades.

China's changing perspective on the development of an East Asian FTA, together with WTO accession, in the context of concurrent globalization and regionalism in the world economy and in the wake of the Asian financial crisis can be seen as a new stage of the country's opening to the outside world in the sense that Beijing has now formally accepted the 'national treatment' principle and various other rules of the capitalist world economy as embodied in the WTO and the FTAs. This obviously represents a more advanced level of prospective integration with the regional and global economy.

In the meantime, as China has acquired increasing economic power as a result of the rapid economic growth over the previous two decades, the decision to participate in institutionalized regional economic cooperation as well as the WTO also reflects Beijing's growing confidence in overcoming the negative effects of deeper and broader integration into the global and regional economy.⁵⁴

In a further analysis, China's active participation in institutionalized regional cooperation can also be understood as China's efforts to dispel the growing concerns and worry in the region about the economic competition and threat from an increasingly powerful Chinese economy.⁵⁵

No doubt, China's free trade arrangements with East Asian economies, together with its WTO membership, are putting the country on an irreversible path of deepening and broadening integration with the global and regional economy.⁵⁶

Finally, whereas Chinese changing perspective on the development of a FTA in East Asia is the result of changing conditions in the global and regional economy over the period of the 1990s, China's new policy initiatives and moves in this respect will inevitably bring significant impact on not only the political economy of East Asia but also the global political economy at large.

NOTES

The author would like to thank the Center for International Business Education and Research of San Diego State University for funding the research for this article.

1. As China has made persistent efforts for GATT/WTO membership since 1986, there now exist plenty of studies on this issue by Western scholars. However, as regional free trade arrangement is a most recent policy issue facing the Chinese government, there is still a dearth of literature on the subject in the West. For a most recent series of discussion on China and WTO, see the articles by Pieter Bottelier (pp. 397–411), Paul Thiers (pp. 413–31), Icksoo Kim (pp. 433–58), Susan D. Blum (pp. 459–72), and Godfrey Yeung (pp. 473–93), all published in *Journal of Contemporary China*, Vol. 11, No. 32 (Aug. 1, 2002).
2. For a comprehensive discussion of the EU, see David M. Wood and Birol A. Yesilada, *The Emerging European Union*, Second Edition (New York: Longman Publishers, 2002).

3. For a comprehensive study of China's foreign economic policy during Mao's period, see Lawrence C. Reardon, *The Reluctant Dragon: Crisis Cycles in Chinese Foreign Economic Policy* (Seattle, WA: University of Washington Press, 2002). Also see Shuguang Zhang, *Economic Cold War: America's Embargo against China and the Sino-Soviet Alliance, 1949–1963* (Washington, DC: Woodrow Wilson Center Press, 2001).
4. Li Xiang-yang, 'The Feasibility of Establishing a Free Trade Area among Japan, South Korea and China', *China & World Economy*, Vol. 10, No. 1 (2002), p. 13.
5. Song Deling and Li Guanghui, 'Jia qiang dong ya qu yu he zuo cu jin zhong guo jing ji fa zhan' (Economic cooperation in East Asia Region enhanced to promote economic development in China [sic]), *International Economic Cooperation*, No. 5 (2002), p. 27; Tong Fuquan, 'Bi ran de gou xiang – zhong guo-dong meng zi you mao yi qu gou xiang yu nan ti' (A Just-in-Concept: The blueprint of China-ASEAN free trade zone [sic]), *Intertrade*, No. 2 (2002), pp. 24–25.
6. Song and Li, 'Economic cooperation in East Asia Region', p. 27; Zhong Wei, 'Wu ren fu ze ya zhou' (No one is responsible for Asia), *China Reform*, No. 2 (2002), pp. 16–17.
7. Song and Li, 'Economic cooperation in East Asia Region', pp. 28 and 30.
8. Wang Jian, 'Cong 'ni ke song zhu yi' kan shi jie xin ge ju' (To look at the pattern of the new world from Nigersonism [sic]), *China Reform*, No. 2 (2002), p. 12.
9. Ibid.
10. Kevin G. Cai, 'Is a Free Trade Zone Emerging in Northeast Asia in the Wake of the Asian Financial Crisis?', *Pacific Affairs*, Vol. 74, No. 1 (Spring 2001), p. 11; Richard Stubbs, 'ASEAN Plus Three: Emerging East Asian Regionalism?', *Asian Survey*, Vol. XLII, No. 3 (May/June 2002), pp. 448–50; Song and Li, 'Economic cooperation in East Asia Region', p. 27.
11. See, for example, Fang Du, 'Jing ji quan qiu hua yu qu yu hua ying xiang qu shi ji dui ce', (Economic Globalization and Regionalization: Impact, Trends, and Strategy), *International Economic Cooperation*, No. 7 (2002), pp. 42–43; Wang Hexing, 'Jing ji quan qiu hua ji qi shi dai te zheng', (Economic Globalization and its Characteristics of the Times [sic]), *International Studies*, No. 2 (2002), pp. 12–13; Li Changjiu, 'Jing ji quan qiu hua yu shi jie xing shi' (Economic Globalization and World Situation), *International Studies*, No. 2 (2002), pp. 14–20.
12. Wang, 'Economic Globalization and its Characteristics of the Times', p. 12.
13. Li, 'The Feasibility of Establishing a Free Trade Area', p. 12.
14. Song and Li, 'Economic cooperation in East Asia Region', p. 29.
15. Ibid., p. 27.
16. See, for example, Wang, 'To look at the pattern of the new world from Nigersonism', p. 12.
17. Weng Tiejun, 'Wu fa fu zhi de xian dai hua' (Modernization can't copy), *China Reform*, No. 2 (2002), p. 15.
18. For such a view, see He Fan, 'Zhong guo zhan lue – quan qiu hua' (China's Strategy – Globalization), *China Reform*, No. 2 (2002), pp. 24–25. For a review of competing views on the issue of globalization, see Lu Zhengyang, 'Guan yu jing ji quan qiu hua wen ti' (On Economic Globalization), *China Economic & Trade Herald*, No. 7 (2002), pp. 12–14.
19. Song and Li, 'Economic cooperation in East Asia Region', p.31; Qin Haijing, 'Zhong guo de xuan ze: 10+1' (Chinese Choice: '10+1'), *China Reform*, No. 2 (2002), pp. 20–21. Wang Yizhou also expresses a similar view when discussing the issue of Asian regional union, cited from Pan Guangjun, 'Shui lai ling dao ya zhou: ri ben hai shi zhong guo' (Who does lead Asia: Japan or China? [sic]), p. 19.
20. See, for example, Qin, 'Chinese Choice: "10+1"', p. 21; Gao Lianfu, 'Yu ji you li geng yu ren you li – Zhong guo he ri ben yu dong men guo jia qu yu jing ji he zuo fang an bi jiao' (Positive-sum – A Comparison of the Chinese and Japanese plans for Regional Economic Cooperation with ASEAN), *Intertrade*, No. 4 (April 2002), p. 20. But a few Chinese scholars do not think it necessary to have a leadership role in a regional economic organization. The scholars with this view are obviously in a minority. See Li, 'The Feasibility of Establishing a Free Trade Area', p. 13.
21. See, for example, Zhong, 'No one is responsible for Asia', p. 17.
22. See, for example, He Li-ping, 'East Asian Monetary Cooperation: Necessities and Constraints', *China & World Economy*, Vol. 10, No. 1 (2002), pp. 15–19; Liu Shuguang, 'Dong ya huo bi he zuo de qian jing yu zhong guo de zuo yong' (Monetary Cooperation in East Asia: Prospect and China's Role), *International Economic Cooperation*, No. 2 (2002), pp. 59–62.
23. Song and Li, 'Economic cooperation in East Asia Region', pp. 27–29.
24. See, for example, Chi Fulin, "'Zhong guo zi you mao yi qu' jian cheng qi hou' ('The free trade area of China' will form step by step), *China Reform*, No. 2 (2002), pp. 22–23; Wei Yanshen,

- 'Ming zhi xuan ze – jian li zhong hua zi you mao yi qu chu tan' (A Wise Option: Tentative ideas on the establishment of China free trade zone [*sic*]), *Intertrade*, No. 5 (May 2002), pp. 29–32; Cao Xiaoheng, 'Zhong guo da lu jing ji zou xiang yu liang an jing ji he zuo qian zhan' (Mainland China's Economic Trend and Perspective of the Economic Cooperation between the Both Sides of the Taiwan Straits [*sic*]), *Taiwan Studies*, No. 2 (2002), pp. 15–22.
25. Yan Shenggang and Guo Can, 'Quan qiu hua bei jing xia de zhong guo ru shi: jin cheng, ji yu yu tiao zhan' (China's Entry into WTO in the Context of Globalization: Opportunities and Challenges), *International Studies*, No. 1 (2002), p. 19.
 26. Zhou Zhihui, 'Lun hai xia liang an jing mao guan xi de zhi du hua an pai' (On the Systematizing Arrangement of the Cross-Strait Economic and Trade Relations [*sic*]), *Taiwan Studies*, No. 2 (2002), pp. 7–14.
 27. See, for example, Feng Xiao-ming, 'China and ASEAN Can Share the Prosperity Together – Interview with Zhang Yun-ling, Director, Institute of Asia-Pacific Studies, CASS', *China & World Economy*, Vol. 10, No. 1 (2002), p. 7.
 28. For this view, see, for example, Li, 'The Feasibility of Establishing a Free Trade Area', pp. 9–14.
 29. Zhong, 'No one is responsible for Asia', p. 17.
 30. For more discussion on this issue, see Cai, 'Is a Free Trade Zone Emerging in Northeast Asia?', pp. 7–24.
 31. Feng, 'China and ASEAN Can Share the Prosperity Together', p. 7.
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 33. Tang Jiaxuan and Shi Guangsheng, 'Actively Participating in Regional Cooperation To Host the APEC Grand Meeting of the Century', *Renmin Ribao* (People's Daily), Oct. 16, 2001 (from 'China: Tang Jiaxuan, Shi Guangsheng on Hosting Successful APEC Meeting in Shanghai', FBIS-CHI-2001-1016, <http://wnc.fedworld.gov>, Oct. 16, 2001).
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 35. Feng, 'China and ASEAN Can Share the Prosperity Together', p. 3.
 36. For a discussion of APT and APO, see Stubbs, 'ASEAN Plus Three: Emerging East Asian Regionalism?', pp. 440–455.
 37. Song and Li, 'Economic cooperation in East Asia Region', p. 31.
 38. Wei Min, 'Zhong guo dong men zi you mao yi qu de gou xiang yu qian jing' (The Conceptualization of China-ASEAN Free Trade Area and Its Prospect), *International Studies*, No. 4 (2002), p. 51.
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 40. Gao, 'Positive-sum', p. 21.
 41. Wei, 'The Conceptualization of China-ASEAN Free Trade Area and Its Prospect', p. 52.
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 44. Wei, 'The Conceptualization of China-ASEAN Free Trade Area and Its Prospect', p. 53.
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 52. *Ibid.*, p. 25; Qin, 'Chinese Choice: "10+1"', p. 21. A Chinese scholar, Wang Yizhou, also expresses a similar view when discussing the issue of Asian regional union, cited from Pan, 'Who does lead Asia: Japan or China?' p. 19.
 53. For a general discussion of this issue, see Song and Li, 'Economic cooperation in East Asia Region', p. 31. For a specific discussion of SCO, see Li Gang and Liu Huaqin, 'Final Target: Research on Development Model of Regional Economic Cooperation for Shanghai Cooperation Organization', *Intertrade*, No. 3 (March 2002), pp. 4–11. For a specific discussion of the Tumen

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