



Asia-Pacific Regional Economic Cooperation and CJK Cooperation

Jiang Yuechun

The international financial crisis beginning in 2007 not only raises questions on but also poses challenges to the Western economic model. In contrast, emerging economies' position in the world economy is improving constantly, the center of world economy begins to shift to Asia-Pacific Region at an accelerated rate, and China as a rising emerging economic power brings about more opportunities to the world. In this context, both the US and Japan feel the need to revise their Asia-Pacific policies which focused on the "Trans-Pacific Strategic Economic Partnership" (TPP) agreements. The US hopes to regulate the regional cooperation "regimes" so as to normalize the Asia-Pacific cooperation process, whereas Japan wishes to influence and control the Asia-Pacific integration process by supporting the US TPP strategies. At a time when the prospect of Asia-Pacific cooperation is still uncertain, tendencies in China-Japan-Korea (CJK) cooperation will definitely catch more attention from the world.

Jiang Yuechun is Senior Research Fellow and Director of the Department for World Economy and Development, China Institute of International Studies.





Jiang Yuechun

I. Asia-Pacific regional cooperation in the background of changing international economic landscapes

In early 21st Century, particularly after the outbreak of the current international financial crisis, the world economy experienced some unprecedented changes.

1. Western economic model being questioned and challenged

One of the greatest changes of the world economy after the outbreak of the financial crisis is that the Western economic system is being seriously questioned. Although major western powers have learned their lessons from the 2008 economic crisis, the existing economic system appears quite feeble to cope with new risk factors such as debt crisis. This would inevitably expose the West to repeated economic risks. According to the Global Government debt clock, as of July 21st, 2011, the total debts of 86 countries and regions in the world accumulated to 45 trillion US dollars. One big difference between this crisis and historical ones is that the debtor countries of the current crisis are mostly developed countries. To avoid defaulting, the US introduced measures such as raising debt ceilings, “borrowing new debt to repay old debts”, self probation, etc. These measures considerably downgraded the US sovereign credit rating, ushering in what *Financial Times* (UK) termed “self destruction”.

The continuous fermentation of the European sovereign debt crisis caused people to question the sovereign credit ratings of the UK and France too. Even Germany failed to “stand alone”, as its economy grew only 1‰ in the second quarter this year. Meanwhile, the financial deficit of Japan more than doubled its GDP. The debt crisis appears therefore to have become a major obstacle to economic development worldwide. As the current world economic crisis





continues to drive developed countries' government debts to historical highs, IMF believes that the peak of developed countries' debt crisis is yet to come and the most difficult time should be the period of 2011 – 2018. Further, even though government spending could be brought down to 8.8% of GDP, debt ratio would not possibly drop to below 60% until 2030. If no measures were taken to cut spending, increase tax, improve labor market and competitiveness, the West's debt predicament may drag on to 2025.

2. Emerging economies' growing role in world economy

One of the most important characteristics of the world economy in the new century is that emerging economies are successively moving into fast lanes of growth. Of these emerging economies, China, India, Russia and Brazil have become the leaders of the world economy. According to IMF statistics, if calculated on a purchasing power parity (PPP) basis, contribution from emerging markets/developing countries accounted for around 70% of the world economic growth in the past five years. As half of this growth originated from BRIC countries, particularly China and India, these two countries are undoubtedly engines of the world economy today. At the end of 2011, the proportion of emerging economies in the world economy calculated in PPP terms matched that of developed economies for the first time in history.

According to an IMF report dated April 17th, 2012, the average annual growth rate of all developed economies dropped from 1.6% in the 2011 to 1.5% in 2012, whereas the growth rate of emerging economies/developing countries during the same period averaged 5.75%. Despite the impact of international financial crisis, the growth of emerging markets/developing countries remain robust. This may be attributed to the following factors: (1) Developing countries' industrialization and urbanization processes are not yet





Jiang Yuechun

completed and therefore there is still a lot of potential to tap. (2) Emerging economies/developing countries possess not only huge consumer markets, but also massive foreign exchange reserves and domestic savings. These allow them to expend more on R & D, devote more to high-tech sectors and eventually enable them to create more Fortune 500 companies with high market values. (3) The financial crisis did not stop the processes of economic globalization and regional economic integration which provide external driving forces for developing countries' robust economic growth. (4) Emerging markets' strong demand for commodities help keeping the prices of international commodities at reasonable levels, which allows resource exporting countries in Africa, the Middle East, CIS and Latin America to generate more revenues, improve financial conditions and have a more relaxed environment for growth. (5) The financial crisis strengthened cooperation among developing countries, giving leaders of emerging economics precious opportunities to improve risk control and management skills. (6) Middle classes in emerging market countries expand rapidly due to strong economic growth and increases in wealth.

3. Shifting of world economic center to the Pacific region

In the current period of world economic transition, with the global power structure under US leadership being constantly challenged by emerging countries, the tendency of world economic center moving from Atlantic to Pacific is becoming increasingly obvious. As a result, the center of power begins to shift from developed economies to emerging economies at an accelerated rate. This power shift is primarily reflected in the diminishing Occidental economic power in comparison with bulging Oriental economic power. According to IMF statistics, during the period 2000 - 2010, the proportion of emerging markets/developing countries in the world economy





Asia-Pacific Regional Economic Cooperation and CJK Cooperation

calculated on market exchange rate basis increased from 13.4% to 37%, whereas the portion of developed countries dropped to 63% during the same period. According to IMF forecasts, from 2010 to 2015, the proportion of developed countries in the world economy would remain declining, no matter calculated in PPP terms or official exchange rate terms. If calculated in official exchange rate terms, the proportion would be lowered to 56.8%; if calculated in PPP terms, the proportion would be lowered to 42.8%. These represent a drop of 6.2% and 7.3% respectively.

The shift can also be evidenced by the eastward movement of the world's wealth. As most of the emerging markets have trade surpluses, their foreign exchange reserves have increased considerably. According to statistics from reliable sources, as of the end of 2011, the foreign exchange reserves of emerging markets/developing countries accumulated to 7 trillion US dollars. As a result, international capital began to flow reversely, namely, from developing countries to developed countries, particularly to the US. This is an unprecedented phenomenon.

Moreover, thanks to rapid economic growth, emerging economies saw their financial conditions considerably improved and their government debts lowered year by year, generally to only 30-40% of their GDPs. Compared with the financial conditions of developed countries, emerging economies' financial conditions are perhaps at their best after World War II.

II. Recent changes in the Asia-Pacific cooperation policies of the US, Japan and ASEAN as well as their objectives

1. TPP as a tool for the US to control Asia-Pacific cooperation

A tool for the US to return to Asia-Pacific economically, TPP enables the US to share the economic boom in East Asia and increase





Jiang Yuechun

US export to the region. In the past decades, Asia-Pacific region, particularly East Asia, has been the most dynamic region in the world economy. Countries in the region, especially China and India, are growing prosperous and developed through economic growth. These two countries are not only examples of successful economic development in the world, but also important engines for the world economic growth during the period of global economic crisis. It is against this background that the US realizes that if the US were excluded from the regional economic cooperation in this region in the future, it would not be able to lead the economic development in the region. This would undoubtedly impact the US global strategies.

Meanwhile, some mainstream economists in the US proposed a re-balancing theory of world economy, asserting that the US should reduce consumption and increase export of finished industrial goods to reduce trade deficit. These economists demanded China and other trade surplus countries to reduce export by focusing on domestic markets. It was under the influence of this theory that the Obama Administration proposed a “five year plan to double export”. The US hoped that through TPP negotiations it could make exporting to Asia-Pacific a top strategic priority.

Another strategic consideration of the US by assembling TPP is to contain China. At the end of last century, as the US did not think East Asian cooperation could produce something significant, it did not pay much attention to the process. However, in recent years, with East Asian integration making concrete progresses at many levels, the US gradually realized that if it did not join the process, China would sooner or later become the regional leader. Moreover, the rising of China in recent years also made the US feel nervous and threatened. Nevertheless, the influence of the US as a latecomer in all the existing frameworks of East Asian cooperation was constrained to a large extent. Similarly, even though the US is a





Asia-Pacific Regional Economic Cooperation and CJK Cooperation

member of APEC and APEC has been active in Asia for decades, the US did not feel its position in East Asia much improved by APEC, as APEC has failed on many of its stated goals and objectives and has only a bleak prospect. In comparison, trans-Pacific Strategic Economic Partnership (TPP), originally only a low level free trade agreement among a few small countries and nothing more than a simple blueprint without substantial content, makes an ideal tool for the US to create a competing platform together with Japan, Australia and some other countries.

For the US, promoting TPP is like “killing three birds with one stone”. Firstly, this would increase US export to Asia; secondly, it would reverse the passive situation faced by the US in the East Asian integration process; third and most importantly, it would increase US influence in the region and create a favorable situation for the US to contain China by directing regional cooperative and development trends in favor of US global strategies.

However, TPP as a high standard and wide-ranging free trade agreement is difficult to implement in practice. The greatest difficulty lies in its high threshold, i.e. wide discrepancies among member states’ economic conditions make its operation rather difficult. In the past, TPPs were created only as free trade agreements among several small countries whose economies are at similar levels of development.

However, with the participation of the US, Japan, Australia, Vietnam, etc, the discrepancies among member states became huge. For example, according to the 2010 IMF ranking on countries’ per capita GDPs (calculated on international exchange rate basis), the per capita GDP of Australia was 54,869 USD and that of the US was 47,132 USD. In comparison, the per capita GDP of Vietnam was only 1,162 USD. In other words, the per capital GDP of Australia was 47 times of that of Vietnam and the per capita GDP of the US was 40 times of that of Vietnam. As for current tariff levels of the





Jiang Yuechun

TPP countries, the tariff rate for imported agricultural products in Vietnam was 18.9% and the highest level of Vietnamese tariff for automobiles was 83%, both considerably higher than those of other TPP member states. The Japanese tariffs for imported agricultural products are even more shocking. For example, Japan's tariff rate for imported rice is 778%, for wheat 252%, for milk and dairy products 360%, for sugar 328%. These variations in tariff rates among member states mean that it would be rather difficult to adopt a uniform tariff rate.

More aggravating could be the fact that TPP negotiations may touch upon a series of wide-ranging topics, such as market admission, technical barriers to trade, legal system, cross-border services, competition, investment, environment, agriculture, industrial products, textile, rules of origin, intellectual property, labor, sanitary and quarantine measures for imported animals and plants, customs cooperation, IT, commerce, entry and exit of business people, financial services, capacity building, governmental procurement, trade remedy measures, etc. In all the domains listed above, there are issues difficult to resolve. In addition, how to properly handle the relationship between TPP and existing bilateral and multilateral FTAs and how to create consensuses among member states' domestic fractions are both challenges for the member states.

2. Japan hedges bets on TPP/CJK to lead Asia-Pacific regional cooperation

On the one hand, Japan chose to participate in TPP negotiations despite domestic oppositions during the Noda Administration; on the other hand, Japan's attitudes towards Northeast Asian cooperation, especially FTA negotiations among China, Japan and the Republic of Korea (ROK), experienced some positive changes. This summarizes the major changes in Japan's position on Northeast





Asian cooperation. Japan's hedge bet is probably grounded on the following considerations:

Firstly, Japan attempts to use TPP to strengthen its alliance with the US. Confronted with a rising China and continued tensions on the Korean Peninsula, Japan welcomes US return to Asia and hopes to express its support by joining the TPP. Further, it wishes to take this opportunity to compromise with the US on the Futenma Base relocation dispute so as to consolidate its alliance with the US and gain weight against China. At the same time, the US is Japan's second largest trading partner after all. Japan has been holding FTA talks with the US over years but produced no results. TPP talks happen to bring such opportunities for Japan to engage in FTA talks with the US once again.

Secondly, both China and the ROK are Japan's close neighbors. China is the largest trading partner of Japan, whereas the ROK is deemed the backyard of Japanese economy. With economic and trade relations among the three countries growing deep and intertwined, a partnership based on interdependence gradually formed among the three countries. In recent years, frequent summit meetings among the three countries produced significant results in many aspects and it is well known that Japan has profited greatly from cooperation with China and the ROK. In comparison, TPP as an advanced level FTA describes only an ideal state of free trade and has no practical use. Moreover, at least in the domain of agriculture, there exists a possibility that once TPP is introduced, Japan's agricultural sector would collapse. Therefore, it is quite natural for Japan to regard TPP only as a long-term goal while treating FTA among CJK as a realistic target to pursue.

Thirdly, Japan wishes to change its passive position in Asia-Pacific regional cooperation through TPP. Since 1990s, with the rapid economic growth of China, China's role in leading Asia-Pacific





Jiang Yuechun

regional cooperation has been growing constantly. For example, China-ASEAN free trade zone was officially launched in January 2010, ECFA between Chinese mainland and Taiwan was signed in June of the same year, China's FTA arrangements with New Zealand and Australia preceded those of Japan, and China will start FTA talks with the ROK very soon. In comparison, Japan saw its influence in East Asian regional cooperation weakened in recent years. As one of the earliest initiators of Asia-Pacific regional cooperation, Japan would by no means accept this passive situation. This would be especially so if one considers the fact that Japan's ambition in Asia-Pacific regional cooperation was greatly thwarted by China's overtaking Japan as the second largest economy in the world. By participating in the TPP framework, Japan wishes to change its passive position in this respect.

Of course, another reason for Japan's hedge bet is that it does not want to confront with China openly. The US support to TPP is obviously aimed at controlling Asia-Pacific regional cooperation. By inviting China to join such a framework only after TPP rules have been laid, the US plans to put China in a very awkward position in the process. Unwilling to follow the US suite too closely and offending China too much, Japan chose to strengthen cooperation with China and the ROK at the same time.

Inside Japan, there exist different voices concerning TPP. For example, in both the ruling Democratic Party and LDP (the largest opposition party), there are groups for and against TPP. Inside the ruling Democratic Party, Yoshihiko Noda, Seiji Maehara, Naoko Kan, Yoshito Sengoku and others are strong supporters of TPP, whereas Hatoyama Yukio, Watanabe Kozo, Haraguchi Kazuhiro and others are strongly against TPP. Likewise, inside LDP, there are two completely opposing opinions. As for other political parties, except "Your Party", all parties including Komeito, Communist Party, Social Democratic Party, etc. are against TPP. Such a situation would





doubtlessly influence the final decision of the Japanese government.

3. ASEAN's aspiration to lead Asia-Pacific cooperation by launching RCEP

On the 18th ASEAN Economic Ministers' Meeting held in Naypyidaw on February 26th, 2011, a draft on Regional Comprehensive Economic Partnership (RCEP) was adopted after comprehensive negotiations among the parties on how to reach comprehensive free trade agreements with non-ASEAN partners. On the 2011 ASEAN Summit Meeting, the leaders from ten ASEAN countries ratified RCEP. And on the economic ministers' meeting held at the end of August 2012, ASEAN, China, Japan, the ROK, India, Australia and New Zealand principally agreed to form RCEP. RCEP is a regional integration platform initiated and led by ASEAN countries in recent years that aims to help member states to open markets and achieve economic integration. Once established, RCEP would become a regional cooperation organization taking half of the world population and one thirds of global GDP.

A tool to eliminate internal trade barriers, create/improve free investment environments and increase service trade, RCEP will also cover other areas such as intellectual property protection and competition policies etc. It will offer a much higher degree of liberty than the existing FTAs between ASEAN and its six partner countries.

Background of RCEP

Firstly, the formation of RCEP is the objective requirement of economic globalization. In today's world where economic globalization is developing continuously, multilateral talks targeting promotion of global free trade may sometimes be difficult to implement. In the context of more and more negative consequences from economic globalization, if a country wishes to be successful and achieve





Jiang Yuechun

some growth, it has to resort to regional economic integration and common growth by adopting zero tariff, mutually opening markets and creating closer economic ties with its neighbors.

Secondly, regional economic integration processes are undergoing rapid development. It is expected that the ten ASEAN countries would create an ASEAN economic community by 2015. ASEAN has already set up free trade zones with China, Japan, the ROK, Australia, New Zealand and India. The TRA talks among China, Japan and the ROK should commence in this year. The TPP led by the US will take about 40% of the global economy, but with only 9 countries involved in the negotiation right now, it cannot represent all East Asian countries.

Thirdly, trade and investment between ASEAN and CJK experienced rapid growth. In the past two years, due to the side effect of European debt crisis and the general economic downturn of developed countries, ASEAN countries' import and export were negatively influenced. However, trade between ASEAN and CJK still experienced rapid growth. For example, ASEAN trade with CJK in 2011 reached 678.2 billion USD, representing an increase of 26.2% over previous year and taking 28.4% of ASEAN's total trade volume. Direct investment from CJK to ASEAN also experienced rapid growth. In 2011, total investment from CJK to ASEAN reached 41.2 billion USD, representing a 29.5% growth over the 31.8 billion USD in 2010 and taking 46.2% of the total FDI received by ASEAN in the year.

Main objectives of RCEP

The first objective is to consolidate and develop ASEAN's leading position in the regional cooperation. With ASEAN being a leading force in East Asian regional cooperation, ASEAN's stability and growth concerns if ASEAN's international position could be enhanced and if





Asia-Pacific Regional Economic Cooperation and CJK Cooperation

it can play a bigger role in international affairs. The second objective is to integrate and optimize the existing free trade arrangements among ASEAN countries. So far, ASEAN has signed FTA with six countries including CJK. However, due to redundant regulations and operational chaos, it is very necessary that a high-quality FTA be established to promote common growth of all countries concerned. The third objective is to further improve economic ties and cohesion among ASEAN countries through RCEP. Inside ASEAN, there are already many realistic challenges and difficulties and these can be resolved only by deepening political trust and strengthening economic ties among member countries. The fourth objective is to cope with new changes in Asia-Pacific cooperation. The US-led TPP and the CJK-led Northeast Asia FTA talks to be started soon would inevitably change the cooperation landscape in Asia-Pacific region. In this context, ASEAN wishes to use RCEP as a tool to expand, within FTA frameworks, its commodity trade, service trade and investment arrangements with its six dialog partners, i.e. China, Japan, the ROK, India, Australia and New Zealand.

Feasibility of RCEP

Firstly, the RCEP framework will easily win support from countries concerned. ASEAN's existing FTA partner countries, namely, China, Japan, the ROK, India, Australia and New Zealand, will be included in the RCEP framework. These countries are all members of East Asia summit meetings which have been in operation and playing an important role in promoting regional cooperation for many years. ASEAN signed 5 free trade agreements with these 6 countries, with Australia and New Zealand covered in the same FTA with ASEAN. With all six countries having expressed their support to ASEAN-led RCEP, these five "10+1" FTAs would doubtlessly lay a solid foundation for RCEP. This is an important precondition for





Jiang Yuechun

the realization of RCEP. As for the other two members of East Asia summit, namely the US and Russia, since they have not signed FTAs with ASEAN, they would not be included as RCEP members for the time being. ASEAN plans to get the US and Russia involved only after RCEP has been developed to a certain stage among the 16 countries. To this arrangement, the US has indicated no objection so far.

Secondly, ASEAN's leading position is well recognized. In the process of East Asian regional cooperation over past decades, ASEAN as an initiator of the process received support and recognition from countries concerned. Even CJK with strong economic powers strongly supported ASEAN to play a leading role in the process. For example, in the 5th CJK summit meeting in May 2012, by making a joint declaration on promoting comprehensive partnership, CJK unanimously reaffirmed their support to ASEAN's leading role in East Asia cooperation.

Thirdly, moderate threshold means higher feasibility. Although the degree of openness among RCEP member states is intended to be higher than that of existing FTAs signed by ASEAN, sufficient consideration has been given to factors such as comfort level and easiness to accept for member states. It is quite possible that a step-by-step and gradual approach would be adopted when introducing RCEP to member states so as to mitigate their worries on high threshold, as negative examples in this respect are not rare. For example, although the US claimed that it is open to all APEC members, most ASEAN countries still find it difficult to overcome the trade barriers to enter the US market. More ironical is that even some ASEAN countries which have already been admitted into TPP fail to meet TPP standards. For example, Vietnam failed to meet the TPP standards on protective tariff and SOE subsidizing, while Malaysia had difficulties with environmental and labor standards.





III. Inception of and positive changes in CJK FTA talks

1. Breakthroughs in CJK cooperation leading to sooner start of CJK FTA talks

The CJK negotiation on investment was successfully concluded in late March 2012. This negotiation has lasted for five years since its initiation, involving 13 rounds of official talks and numerous unofficial talks. The agreement reached contains 27 articles and one additional protocol covers almost all important aspects of a typical international investment agreement, including definition of investment, scope of application, most favored nation treatment, national treatment, levies, transfer, proxy, taxation, general exceptions, dispute resolution, etc. The agreement is regarded as an important milestone in the CJK economic cooperation.

Being the first legal document and institutional arrangement among the three countries for promotion and protection of investment activities in CJK, the agreement will provide CJK's investors with a stable and transparent investment environment, further inspire their investment passions, generate more economic and trade activities and eventually promote the common growth and prosperity of the three countries. On the 5th CJK summit meeting on May 13th, 2012, the investment agreement was officially signed.

Meanwhile, a consensus was reached on initiating the CJK talks on FTA during the year. Following that, on the 21st ASEAN summit meetings in Phnom Penh in November 2012, the three countries announced after a CJK ministers' meeting that the three countries would soon initiate FTA talks. At a time when China and Japan were still caught in the territorial dispute over Diaoyu Islands, CJK's choice to stick to their original commitment and initiate the talks as planned proves that the three countries have all realized the importance of





Jiang Yuechun

FTA to their national interests and regional integration.

2. CJK FTA talks beneficial to Japan and the ROK's recoveries and in the interests of all

It is a common sense that a country whose traditional export market shrinks after a financial crisis may urgently look for new export destination with huge potential. This is very true in the cases of Japan and the ROK, as export is an important economic growth factor for both countries. Due to the grim international economic situation, Japan had its first trade deficit in 31 years in 2011. Likewise, the ROK began to have trade deficits too in January 2011.

Four factors led to Japan's trade deficit. The first factor was the earthquake which disrupted Japan's industrial supply chains. After the earthquake, the power shortage in Japan lowered Japan's domestic production, causing a sharp decline in its export of electric appliances, automobiles and advanced equipment. The second factor was the rapid appreciation of Yen which undercut both the competitiveness and export volume of Japan's export-oriented enterprises. The third factor was the European debt crisis – the crisis led to a sluggish recovery of world economy and a weak international market, which cast a direct impact on the Japanese export. The last factor was Japan's rising import as a result of post-earthquake reconstruction and domestic supply shortages.

Three factors accounted for South Korea's trade deficit. Firstly, the tension on the Korean Peninsula caused South Korea to increase import of strategic resources and goods; secondly, rises in international crude oil prices led to a sharp rise in the ROK's import; thirdly, like Japanese export, South Korea's export was also negatively influenced by the weak international market.

Due to the weak markets in Europe and America, Japan and the ROK became increasingly dependent on Asian market, particularly





East Asian market, to boost its trade and economic development. China, Japan and the ROK happen to be in a position to act as one another's export destination. So far, trade among these three countries is taking only 10-20% of CJK's total export value, while investment among them is only 10% of their gross overseas investment.

This implies a huge potential for these three countries whose economies happen to be quite complementary. In this context, the initiation of a CJK free trade zone would not only neutralize the negative impact on CJK's export from deteriorating external environments, but also reduce inevitable trade frictions among the three. Growth-promoting mechanisms developed through trade and investment related talks among the three countries would not only facilitate CJK's regional economic and trade initiatives but also prove beneficial to all parties concerned.

3. Huge potential for CJK cooperation regardless of remarkable achievements made so far

The cooperation among China, Japan and the ROK still has huge potentials. The first potential is in the area of new energy development and utilization. Japan and the ROK are technically advanced in this area, whereas China's new energy development momentum is very strong. According to statistics, China's total power output from solar energy jumped from 50 Megawatts in 2003 to 4 Gigawatts in 2010 and by 2020 the figure will jump to 10 Gigawatts. Therefore, there is a huge potential between China, Japan and the ROK for cooperation in the area of regenerative energy sources, particularly the manufacturing of solar energy equipment.

The second potential is in the area of advanced electronics and IT technologies. The electronics and IT industries in China's coastal areas have been enjoying rapid growth and higher degree of internationalization since 2000. However, the structures of China's





Jiang Yuechun

electronics and IT industries are not yet rationalized and Chinese manufacturers who generate only lower value-added are taking only the lower end of international industrial value chain.

Moreover, the mismatch between China's software and hardware capacities due to lack of independent R&D capabilities means that China lacks core technologies of integrated circuits, basic software and large-size LCD panel development. To reverse the situation, China has formulated a series of favorable policies to revive its electronics and IT industries. Japan and the ROK, on the other hand, see the international and domestic markets for their electronic and IT products shrinking considerably in the mean time. If the three countries could cooperate with one another in the areas of advanced electronics and IT technologies, then their cooperation has a huge potential and space.

The third potential is in the area of ship building and high-end equipment manufacturing. China enjoys competitive advantages in several industrial sectors such as construction machinery, pressure equipment and power transmission, etc. However, to develop high-end products, China still depends heavily on foreign technologies. For example, China has only a few technology-intensive major equipments, China's set equipment integration capability is still weak and China's telecom and navigation equipments are almost all imported.

Moreover, the localization rate for mainstream ships in China is low, as China's ship-building management methods are backward and unable to meet the requirements of modern ship-building. In comparison, Japan and the ROK are more advanced in these aspects. If the three countries could cooperate with one another in these areas, they would all benefit from such cooperation of huge potential.





4. The importance of CJK cooperation in advancing Asia-Pacific integration

So far, ASEAN is the leading force in the promotion of the East Asian regional cooperation.

However, whether an East Asian community can be successfully established and what kind of community would be set up are still decided by CJK, three most powerful countries in the region. Being members of Chinese culture circle and Confucian civilizations, the three countries have similar cultural backgrounds. In 2011, the aggregate GDP of CJK accounted for around 20% of world GDP, and took 85% of the 13 countries under the “10+3” structure. These ratios continued to grow in following years. With a combined population of 1.5 billion, the three countries are important trade partners to one another.

For example, CJK’s combined trade volume accounts for almost 1/3 of the world total, with intra-CJK trade volume taking 54% of the East Asian regional subtotal and more than 45% of the NAFTA regional subtotal. Based on these figures, one can note that CJK builds the core of East Asia regional cooperation at both cultural and economic/trade levels.

Of course, due to sensitive historical, political and economic factors, it should be noted too that the creation of an economic community among the three countries would be much more complicated than the creation of NAFTA and ASEAN free trade zone, and its creation may even be more difficult than any of the “10+1” free trade zones ASEAN set up with CJK. Nevertheless, based on the momentum of the recent CJK summit dialogs, one can see that the three parties have reach consensus on many cooperation issues to accelerate regional cooperation. Therefore, it may be safe to conclude that CJK cooperation today is growing more harmonious





Jiang Yuechun

and enjoys more opportunities. In this light, one may have enough reason to believe that CJK would play an even more important role in the regional integration process in the future.

After more than three decades of reforming, China has grown to the second largest economy in the world. The economic interdependence between China and other Asia-Pacific countries is also developing continuously. China will continue its tradition of regional integration. While monitoring and studying recent progresses of TPP, China should not neglect other integration frameworks and processes in East Asia either. By launching trade and investment networks centered on large-scaled enterprises, China should focus on building the existing ASEAN-China free trade zones good and solid and integrating regional supply chains. As long as concrete progresses can be made in the ASEAN-China free trade zones, China does not have to worry about existing East Asian cooperation processes being encroached upon by other FTA arrangements.

On the other hand, while actively promoting CJK FTAs, China should give sufficient consideration to the recently initiated RCEP talks and monitor its progress closely. By supporting ASEAN to play a leading role in the regional integration process, China could promote effective and substantial regional economic and trade cooperation among East Asian economies from a broader perspective, thereby making more contribution to the formation of East Asian/Asia-Pacific regional cooperation framework.

