



Prospects for a China-Japan-Korea FTA: Light at the End of the Tunnel

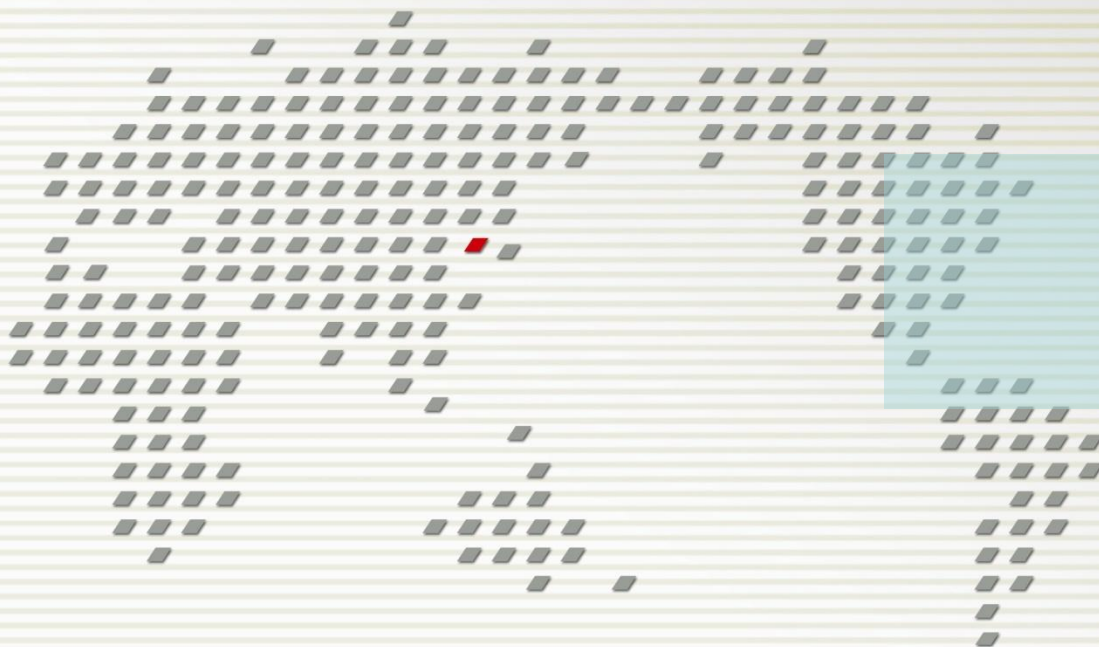
www.kiep.go.kr


Korea Institute for International Economic Policy

August 8, 2011

Chang Jae LEE (KIEP)

E-mail: cjlee@kiep.go.kr





Contents

I

Trends of trade between China, Japan and Korea

II

Developments related to the CJK FTA

III

Reasons why a CJK FTA is likely to be realized in the coming years

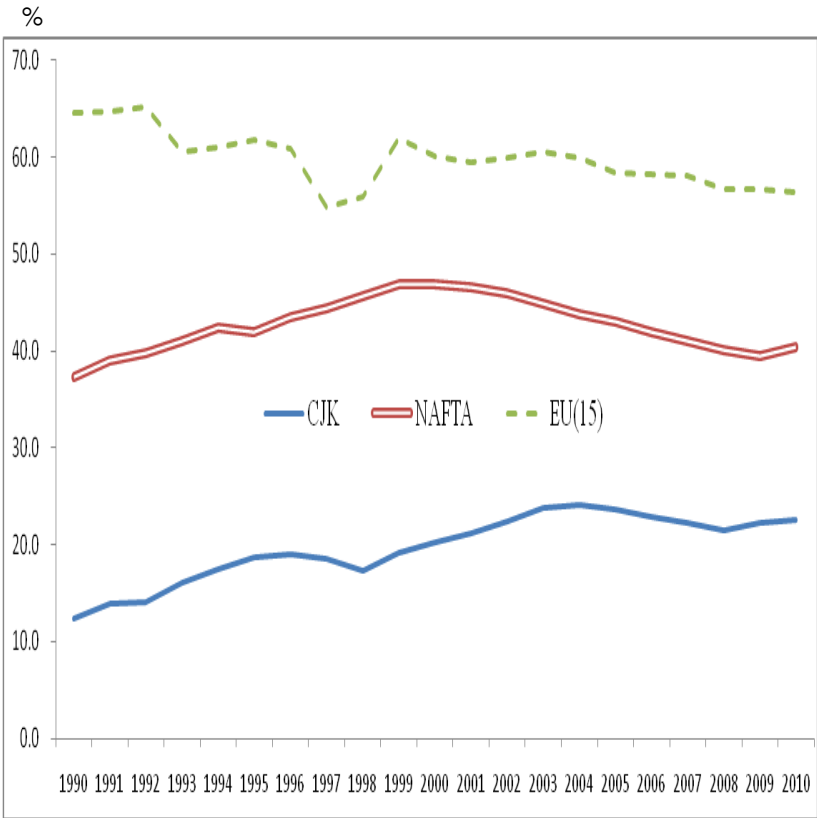
I

V

Role of a CJK FTA in economic integration in the Asia Pacific



❖ Shares of Intra-regional Trade



❖ Shares of Intra-regional Trade between CJK

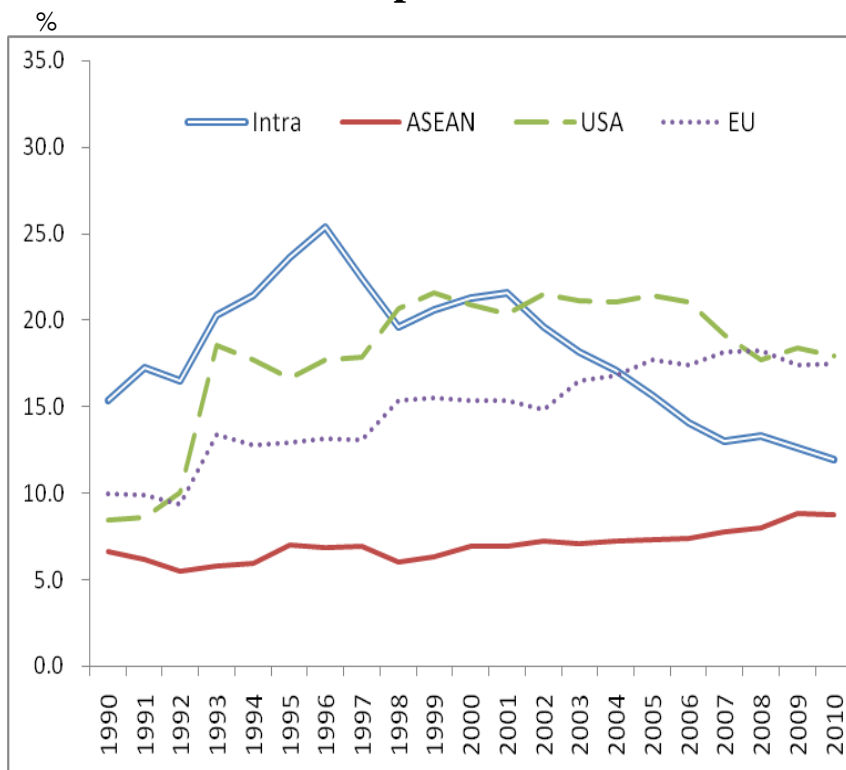


Source: IMF (2011), Direction of Trade Statistics.

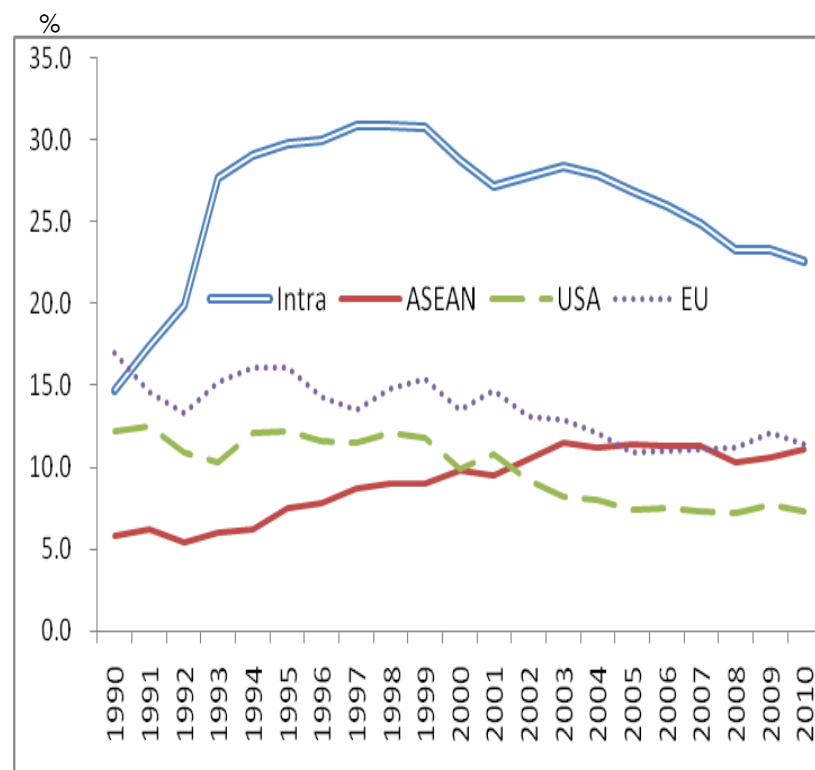


❖ China's Major Trading Partners

- Export -



- Import -

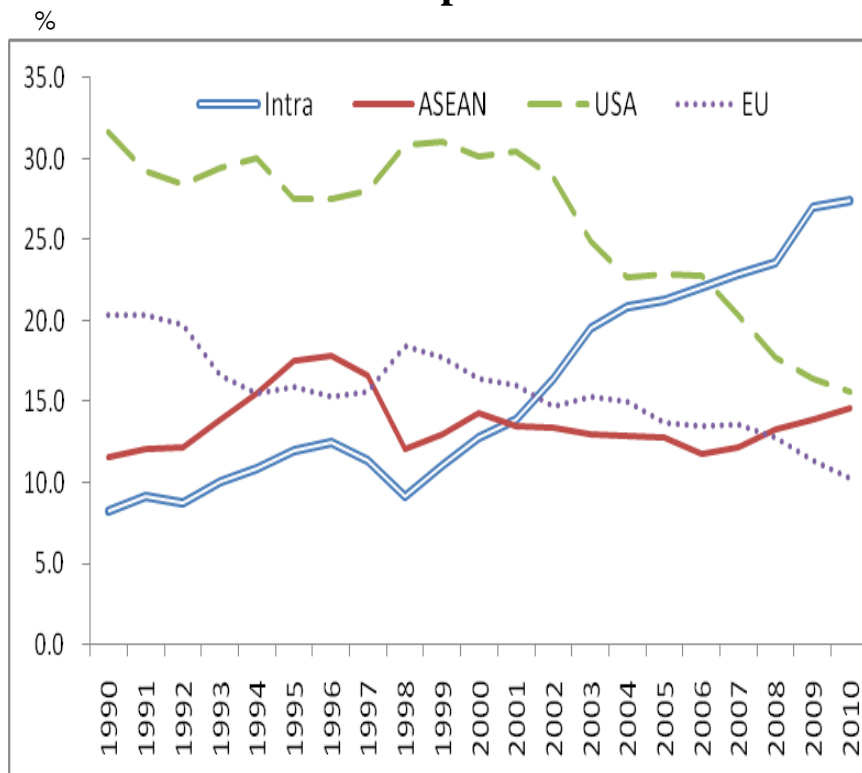


Source: IMF (2011), Direction of Trade Statistics.

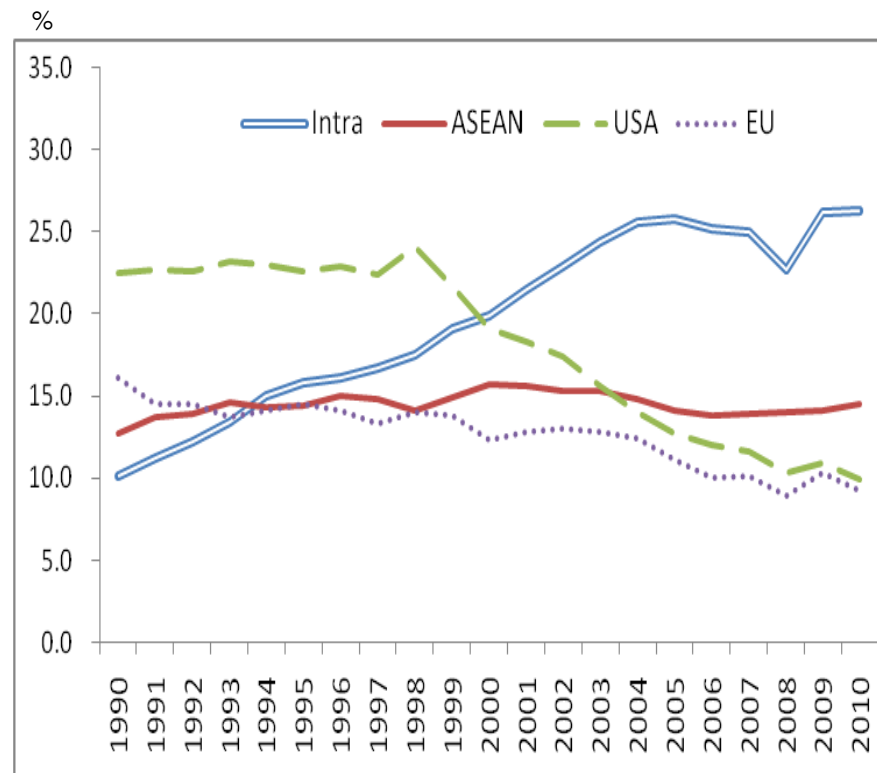


❖ Japan's Major Trading Partners

- Export -



- Import -

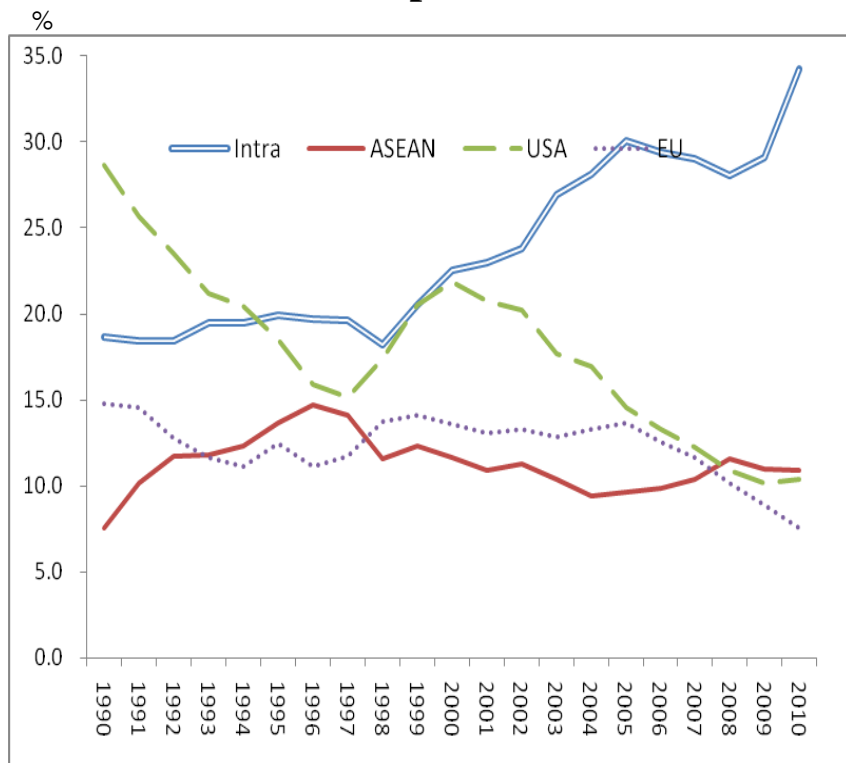


Source: IMF (2011), Direction of Trade Statistics.

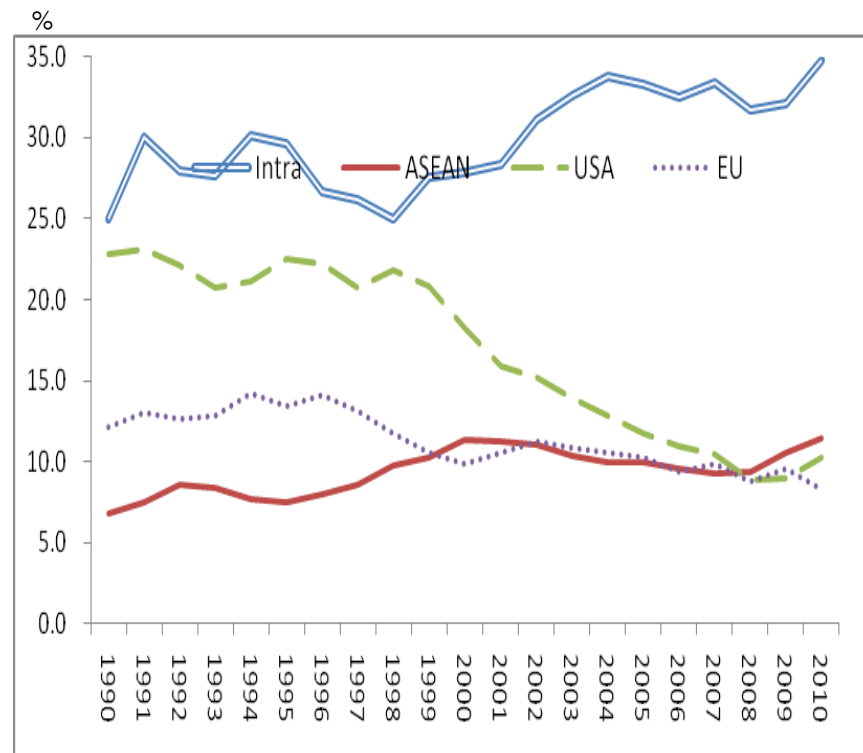


❖ Korea's Major Trading Partners

- Export -



- Import -



Source: IMF (2011), Direction of Trade Statistics.



❖ Share of Export of CJK by Production Process with Major Trading Partners

(Unit: %)

Region	Goods	China		Japan		Korea		CJK	
		2000	2009	2000	2009	2000	2009	2000	2009
Intra	Intermediate	32.3	42.0	71.5	73.0	74.0	71.2	58.4	61.1
	Capital	11.0	21.4	24.0	17.0	11.4	22.7	16.2	20.1
	Consumption	48.8	33.3	3.4	6.6	13.9	5.2	22.0	16.0
ASEAN	Intermediate	53.4	51.3	71.2	73.3	80.0	72.3	69.9	62.6
	Capital	17.9	30.3	23.1	20.5	13.1	22.1	20.3	25.5
	Consumption	21.6	17.2	5.5	5.7	6.4	5.1	8.4	11.1
EU	Intermediate	31.2	30.6	44.9	52.2	41.3	38.1	40.5	35.8
	Capital	25.7	32.3	31.4	22.2	34.6	49.5	30.4	32.1
	Consumption	41.1	36.4	23.5	25.4	23.9	12.2	28.4	31.5
USA	Intermediate	23.9	25.8	43.1	46.5	45.0	41.7	39.0	32.9
	Capital	20.3	33.5	24.3	17.8	26.4	35.8	23.8	29.7
	Consumption	54.3	40.3	32.5	35.5	28.4	22.4	36.8	37.1

Source: UNCTAD, UNCOMTRADE Database [online].



❖ FTAs involving China, Japan and Korea

● FTAs concluded by CJK

- ✓ Japan: Singapore, Mexico, Brunei, Indonesia, Malaysia, the Philippines, Thailand, Vietnam, ASEAN, Chile, Switzerland, Peru and India
- ✓ Korea: Chile, Singapore, the EFTA, ASEAN, the United States, the European Union, India and Peru
- ✓ China: *Hong Kong, Macao*, Chile, Pakistan, ASEAN, New Zealand, Singapore, Peru and Costa Rica

● Ongoing FTA negotiations by CJK

- ✓ Korea: Canada, Mexico, the GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the UAE), Australia, New Zealand, Colombia and Turkey
- ✓ Japan: Australia and the GCC
- ✓ China: Australia, the GCC, Iceland, Norway and SACU (Southern African Customs Union)

● Many FTAs under study or preparation involving CJK



❖ **NO FTA between China, Japan and Korea**

● Japan-Korea FTA

- ✓ Korea-Japan FTA negotiations started in December 2002 and have been stalled since November 2004
- ✓ Currently only **Director-General-Level Consultations** on a Korea-Japan FTA are under way

● China-Korea FTA

- ✓ **Official tripartite joint study on a Korea-China FTA**, which started in March 2007, was concluded in May 2010



❖ China-Japan-Korea FTA

- Trilateral joint research on a CJK FTA
 - ✓ DRC, NIRA/IDE-JETRO, KIEP (2003~2008,9)
 - ✓ In 2009, it recommended **upgrade of Joint Research on the CJK FTA** by commencing discussion among three government officials

- Joint Study Committee on a CJK FTA
 - ✓ Agreed at the Trilateral Summit Meeting in Beijing, in October 2009
 - ✓ Five meetings since May 2010, and two more meetings to be held by the end of 2011
(Sixth meeting scheduled to take place in Changchun on Aug. 31~Sept. 2)
 - ✓ At the Trilateral Summit Meeting, which was held in Tokyo in May 2011, **the leaders agreed to conclude the Joint Study within the year**
 - ✓ The outcome of the Joint Study Committee will be submitted at the next year's Trilateral Summit Meeting



❖ Basic Reasons

1 CJK are neighboring countries

✓ FTA is a type of RTA (**regional** trade agreement)

2 CJK are **major trading partners** for each other

✓ Dependency on intra-regional trade (2010)

- China's export: 12.0 percent
import: 22.5 percent
- Japan's export: 27.5 percent
import: 26.2 percent
- Korea's export: 34.3 percent
import: 34.7 percent



❖ Demands of the times

- # 3 FTA has become a world-wide phenomenon
 - ✓ Although CJK have concluded many FTAs over the past ten years, respectively, there is **no FTA among them**
- # 4 Given the **economic difficulties of the EU and US**, CJK cannot continue to depend heavily on those markets, especially for final goods
 - ✓ A large regional market is needed
- # 5 Given the proliferation of bilateral and plurilateral FTAs, a region-wide FTA is necessary
 - ✓ In order to achieve **a region-wide FTA in East Asia**, an FTA(s) regardless of type, including a CJK FTA, should be formed among the three countries
- # 6 Japan's trade dependency on the intra-regional trade has increased substantially.
 - ✓ Among the three countries, Japan has been considered most reluctant to a CJK FTA
 - ✓ **Intra-regional dependency of Japan's export and import rose significantly** from 8.2 percent (1990) to 27.5 percent (2010), and from 10.1 percent (1990) to 25.2 percent (2010), respectively



❖ Institutional Developments

7 Joint Study Committee for a CJK FTA

- ✓ It will conclude its work within this year, and **its outcome will be submitted to the leaders at the next Trilateral Summit Meeting**, which will be held in China

8 Establishment of the **Trilateral Summit Meeting**

- ✓ Since the first independent Trilateral Summit Meeting was held in Fukuoka in December 2008, the Trilateral Summit Meeting has become an annual event
- ✓ The leaders provided the political leadership by launching the Joint Study Committee for a CJK FTA
- ✓ **Political leadership** could also be provided for the launch of the CJK FTA negotiations and the conclusion of the CJK FTA

9 Likelihood of launching **the China-Korea FTA negotiations**.

- ✓ It would prompt the resumption of the Japan-Korea FTA negotiations, and/or the CJK FTA negotiations



❖ Role of a CJK FTA in Asia Pacific Economic Integration

- Regional economic integration initiatives
 - ✓ EAFTA (East Asia FTA) among ASEAN+CJK
 - ✓ CEPEA (Comprehensive Economic Partnership in East Asia) among ASEAN + CJK + India, Australia and New Zealand
 - ✓ FTAAP (Free Trade Area for the Asia Pacific)
 - ✓ *TPP (Trans-pacific Strategic Economic Partnership)*
- CJK FTA will be essential for the formation of either EAFTA or CEPEA
- CJK FTA as well as a region-wide FTA in East Asia will be a contributing factor in economic integration in the Asia Pacific



Thank you