Trade in goods among China, Japan, and South Korea and the road to a free trade area

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Trade in goods is of great importance to Northeast Asia, a region with highly developed manufacturing industries. Trade interdependency among China, Japan, and South Korea (CJK) is an important incentive and basis for the development of CJK free trade area (FTA) and cross-border investment. From 1991 to 2011, the value of bilateral trade as a share of total trade among China, Japan, and South Korea underwent significant changes. China's imports increased but exports decreased, Japan's imports and exports both increased, and South Korea's exports increased but imports decreased. These developments can help us understand the three countries' willingness of to continue the FTA negotiation process, in which commitment, environment, and demand uncertainty constitute disruptive factors in the CJKFTA negotiation process. The CJKFTA can be realized directly or indirectly, depending on the will of China, Japan, and South Korea.

Keywords: China, Japan, South Korea, trade in goods, trade independency, FTA

1. The development of CJK trade in goods

Trade in goods is not only the basis of international economic and trade relations but also the starting point of the development of a FTA. The development practices of current FTAs have gone beyond the scope of trade in goods and involve other issues, such as trade in services, investments, competition policies, the environment, and labor. Despite the expansion of the range of issues covered, trade in goods is always the foundation of any FTA, in the absence of an appropriate arrangement for which progress on any other issue would not be possible.

In light of the development of the CJKFTA, the significance of trade in goods lies in the division of manufacturing among China, Japan, and South Korea, which will play an important role for the next 10 years at least. This paper explores the interdependency of trade in goods among the three countries and tries to illustrate the material bases of their attitudes toward establishing the CJKFTA.

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1.1. *Trade in goods between China and Japan, and between China and South Korea*

Table 1
China's data on trade in goods (1991-2011)

Year	Exports(US$ 100 million)			Imports(US$ 100 million)		
	Total	To Japan	To South Korea	Total	From Japan	From South Korea
1991	718.43	102.18	21.76	637.91	100.31	10.66
1992	849.40	116.79	24.05	805.85	136.82	26.23
1993	917.44	157.77	28.60	1039.59	232.89	53.60
1994	1210.06	215.79	44.02	1156.14	263.27	73.19
1995	1487.79	284.67	66.88	1320.83	290.04	102.93
1996	1510.47	307.06	75.00	1388.33	291.81	124.82
1997	1827.92	318.39	91.27	1423.70	289.95	149.30
1998	1838.09	296.60	62.51	1402.37	282.75	150.14
1999	1949.31	324.11	78.08	1656.99	337.63	172.26
2000	2492.03	416.54	112.92	2250.94	415.10	232.07
2001	2660.98	449.41	125.19	2435.53	427.87	233.77
2002	3255.96	484.34	155.35	2951.70	534.66	285.68
2003	4382.28	594.09	200.95	4127.60	741.48	431.28
2004	5933.26	735.09	278.12	5612.29	943.27	622.34
2005	7619.53	839.86	351.08	6599.53	1004.08	768.20
2006	9689.36	916.23	445.22	7914.61	1156.73	897.24
2007	12200.60	1020.62	564.32	9561.15	1339.51	1037.52
2008	14306.93	1161.32	739.32	11325.62	1506.00	1121.38
2009	12016.47	979.11	536.80	10055.55	1309.38	1025.52
2010	15777.64	1210.44	687.66	13960.02	1767.36	1383.39
2011	18983.88	1482.69	829.20	17433.95	1945.68	1627.17

Source: United Nations Commodity Trade Database.

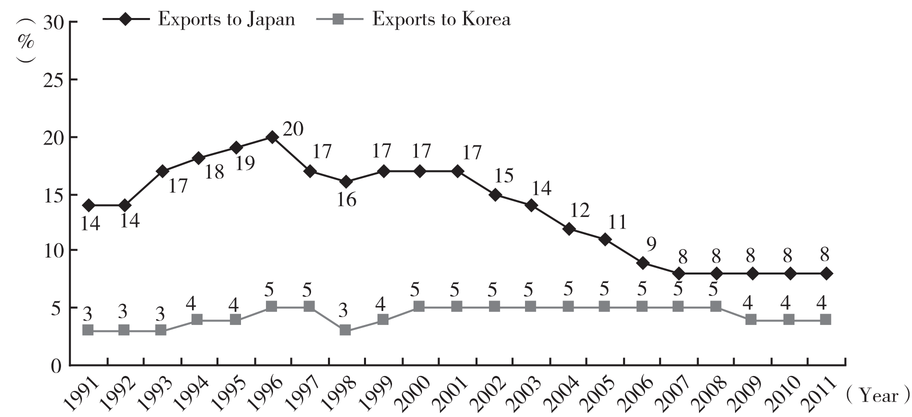

Figure 1. The ratios of China's exports to Japan and to South Korea to total exports, 1991-2011
Source: The calculation was done by the author on the basis of the data in Table 1.

A turning point for China's exports to Japan was 1996, when, its ratio to China's total export peaked at 20%. The ratio fluctuated over the next five years, then began to decrease in 2001, until bottoming out at 8% in 2011.

The value of China's exports to South Korea as a share of China's total exports has been basically stable during the past two decades. The ratio was 3% in 1991 and rose slightly to 4% in 2011. Clearly, the financial crisis in 1998 and global financial crisis in 2008 had negative effects on exports and the ratio decreased from 5% pre-crisis to 3% and 4%, respectively.

By comparison, China's total exports of goods continued to rise, from US$ 71.84 billion in 1991 to US$ 1.9 trillion in 2011, or 26 times. During the period, exports to Japan rose from US$ 10.22 billion to US$ 148.27 billion, or 14 times, which lagged behind the growth rate of China's total exports. This shows that dependency on the Japanese market decreased. At the same time, exports to South Korea grew 39 times from US$ 2.18 billion to US$ 82.92 billion. The growth rate was higher than that of China's total exports, indicating an increased dependency on the South Korean market.

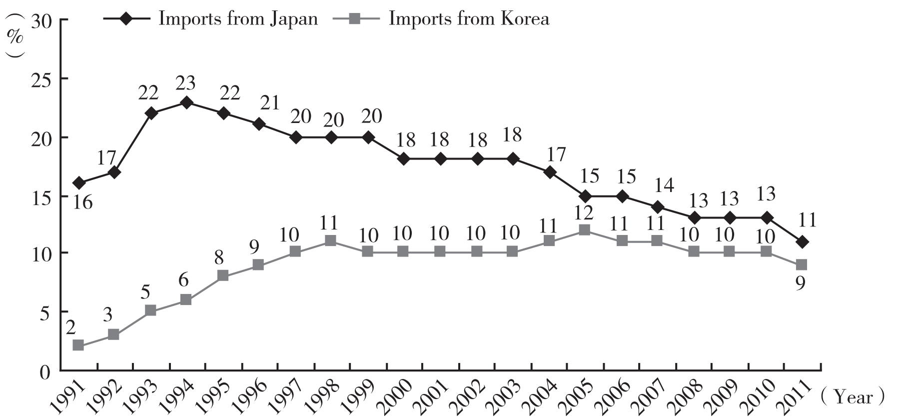

Figure 2. Imports from Japan and South Korea as percentages of China's total imports: 1991-2011
Source: The calculation was done by the author on the basis of the data in Table 1.

The year 1994 was a watershed for imports from Japan. Before that year, its ratio to China's total imports rose quickly. It was 16% in 1991 and 23% in 1994. The ratio hit 11% in 2011, the lowest point for the 21 years covered.

The situation with imports from South Korea turned around in 1998. Before then, its ratio to China's total imports increased from 2% in 1991 to 11% in 1998 and then swung up and down within a 3% margin until it peaked at 12% in 2005. In 2011, the ratio fell back to 9%.

China's total imports rose from US$ 63.79 billion in 1991 to US$ 1.74 trillion in 2011, by 27 times. China's imports from Japan grew by 19 times over the period, from US$ 10.03 billion to US$ 194.57 billion, indicating that the growth rate fell behind that of total imports and import dependency on Japan decreased. Over the period, imports from South Korea grew by 147 times, from US$1.07 billion to US$162.72 billion, representing a growth rate that was far above that of total imports. This shows that import dependency on South Korea increased.

1.2. The trade of goods between Japan and China, and between Japan and South Korea

Table 2
Japan's trade in goods: 1991-2011

Year	Exports(Unit: US$ 100 million)			Imports(Unit: US$ 100 million)		
	Total	To China	To south Korea	Total	From China	From South Korea
1991	3145.25	85.89	200.79	2367.37	142.02	123.41
1992	3396.51	119.26	177.93	2330.22	169.26	115.68
1993	3609.11	171.58	190.67	2406.70	204.37	116.39
1994	3956.00	186.94	243.18	2747.42	274.84	134.89
1995	4429.37	219.91	312.26	3360.94	360.17	172.81
1996	4109.47	218.87	293.28	3491.86	404.36	159.49
1997	4210.53	217.46	260.65	3388.42	418.77	145.84
1998	3881.36	200.86	153.63	2806.34	370.88	120.76
1999	4176.10	233.40	228.91	3099.94	428.53	160.35
2000	4792.76	303.82	307.00	3797.08	551.07	204.49
2001	4033.64	309.96	252.98	3493.00	578.66	171.98
2002	4167.15	398.23	285.69	3376.09	617.84	154.85
2003	4719.96	574.15	348.06	3834.52	754.69	179.03
2004	5657.61	739.39	442.57	4552.54	943.40	220.46
2005	5949.41	800.74	466.30	5158.66	1084.78	244.15
2006	6467.25	927.70	502.70	5790.64	1185.26	273.28
2007	7143.27	1092.71	543.33	6222.43	1279.22	273.07
2008	7814.12	1249.01	594.93	7625.34	1432.30	294.76
2009	5807.19	1097.27	472.73	5519.85	1225.74	219.84
2010	7698.39	1494.64	623.69	6926.21	1531.55	285.81
2011	8231.84	1620.35	661.74	8553.80	1838.82	398.11

Source: United Nations Commodity Trade Database.

Japan's exports to China as a share of Japan's total exports gradually climbed from 3% in 1991 to 6% in 2000, and then surged to 20% in 2011. The growth rate was 3 percentage points in the first decade and 14 percentage points in the second decade. During the entire period, the ratio of Japan's exports to South Korea's to Japan's total exports oscillated between 4% and 8% and remained stable at 8% after 2004.

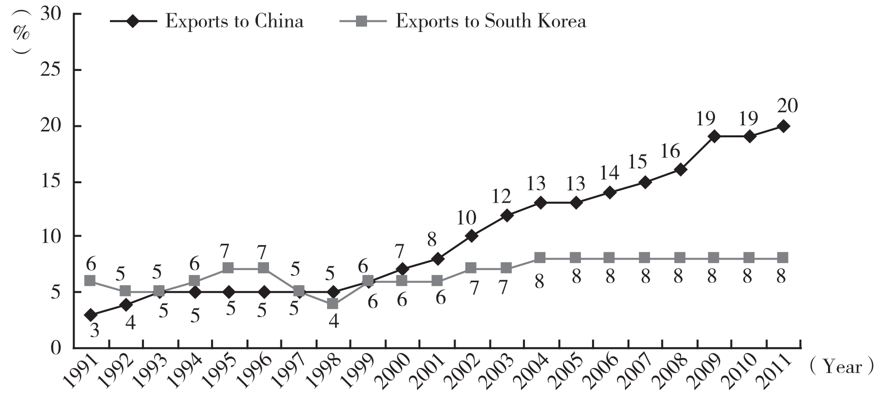

Figure 3. Japan's exports to China and to South Korea as percentages of Japan's total exports: 1991-2011
Source: This calculation was done by the author on the basis of the data in Table 2.

Japan's total exports were US$ 314.53 billion in 1991 and US$ 823.18 billion in 2011, doubling over the period. In the same period, Japan's exports to China grew by 18 times from US$ 8.6 billion to US$ 162.04 billion. The growth rate was far above that of Japan's total exports and the comparison shows that Japan's increasing export volume benefited from the expansion of exports to China. In the corresponding period, Japan's exports to South Korea grew 3 times, from US$ 20.1 billion to US$ 66.17 billion. The growth rate was a little more than that of Japan's total exports. Japan has also benefited from the expansion of the volume of goods export. Comparing the Chinese market with the South Korean market, their roles in Japan's exports have changed slightly. Because exports to China account for a fifth of Japan's total exports, Japan is now more dependent on the China market than it is on the South Korean market.

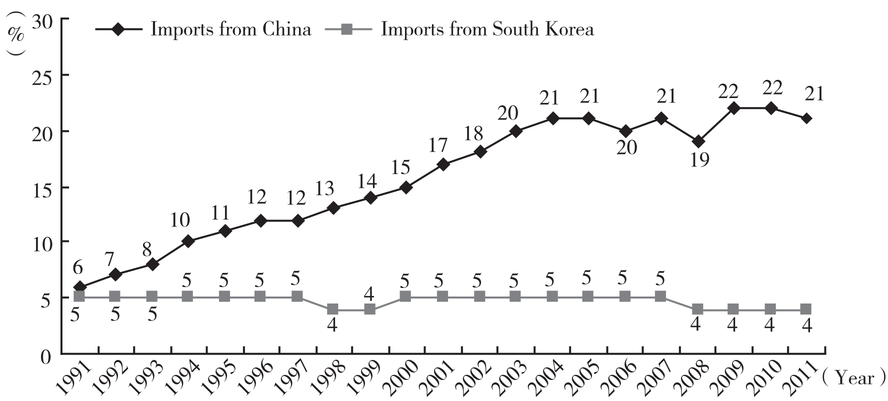

Figure 4. Japan's imports from China and South Korea as percentages of total imports: 1991-2011
Source: This calculation was done by the author on the basis of the data of Table 2.

Japan's imports from China as a share of Japan's total imports rose from 6% in 1991 to 21% in 2011. From 1991 to 1993, the ratio was less than 10%. From 1994 to 2002, the ratio was in the 10%-20% range. In the period from 2003 to 2011, the ratio was stable around 20%. In 2008, it fell slightly below 20% because of the negative influence of the global financial crisis.

From 1991 to 2011, Japan's imports from South Korea as a percentage of Japan's total imports remained at 4%-5% without much fluctuation.

Japan's total import volume was US$ 236.74 billion in 1991 and US$ 855.38 billion in 2011, growing more than 3 times. In the corresponding period, imports from China increased from US$ 14.2 billion to US$ 183.88 billion, growing nearly 13 times, which was higher than the growth rate of Japan's total imports. Imports from South Korea grew from US$12.34 billion to US$ 39.81 billion, more than 3 times, which was basically even with the growth rate of Japan's total imports.

1.3. South Korea's trade in goods with China and Japan

Table 3
South Korea's trade in goods: 1991-2011

Year	Exports(Unit: US$ 100 million)			Imports(Unit: US$ 100 million)		
	Total	To Japan	To China	Total	From Japan	From China
1991	718.70	123.56	10.02	815.20	211.20	34.40
1992	766.31	115.99	26.54	817.58	194.58	37.25
1993	822.32	115.64	51.51	837.94	200.15	39.29
1994	960.08	135.23	62.03	1023.43	253.88	54.63
1995	1250.56	170.49	91.44	1351.13	326.04	74.01
1996	1297.13	157.67	113.77	1503.34	314.48	85.38
1997	1361.51	147.71	135.72	1446.14	279.06	101.17
1998	1323.02	110.69	109.67	932.81	165.37	62.27
1999	1436.85	158.62	136.85	1197.51	241.42	88.67
2000	1722.67	204.66	184.55	1604.79	318.27	127.99
2001	1504.31	165.02	181.87	1410.97	266.33	133.03
2002	1624.66	151.40	237.53	1521.24	298.55	174.00
2003	1938.17	172.76	351.10	1788.26	363.13	219.09
2004	2538.45	217.01	497.63	2244.61	461.44	295.85
2005	2844.18	240.27	619.15	2612.36	484.03	386.48
2006	3254.57	265.34	694.59	3093.79	519.26	485.57
2007	3714.77	263.70	819.85	3568.42	562.50	630.25
2008	4220.03	282.52	913.89	4352.71	609.56	769.27
2009	3635.31	217.71	867.03	3230.82	494.27	542.46
2010	4663.81	281.76	1168.38	4252.08	642.96	715.73
2011	5552.09	396.79	1341.85	5244.05	683.20	864.31

Source: United Nations Commodity Trade Database.

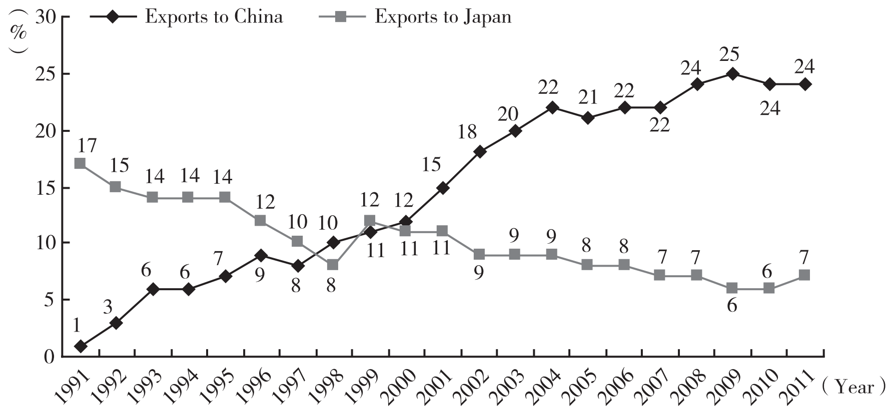

Figure 5. South Korea's exports to China and Japan as percentages of total exports: 1991-2011
Source: The calculation was done by the author on the basis of the data in Table 3.

South Korea's exports to China as a share of South Korea's total exports increased from 1% in 1991 to 24% in 2011, and the number for South Korea's exports to Japan decreased from 17% in 1991 to 7% in 2011.

The greatest concern is the transition of the role of South Korea over the past 21 years, which has shifted from mainly exporting to Japan to mainly exporting to China. The transition happened between 1998 and 2001 in the global and regional context of the Asian financial crisis. In addition, China's accession into the WTO in 2001 accelerated the growth of South Korea's exports to China. Because of China's WTO commitments and economic development, not only did China's share as a target market exceed Japan, but the volume of trade with China was higher than that for Japan for five years starting in 2007.

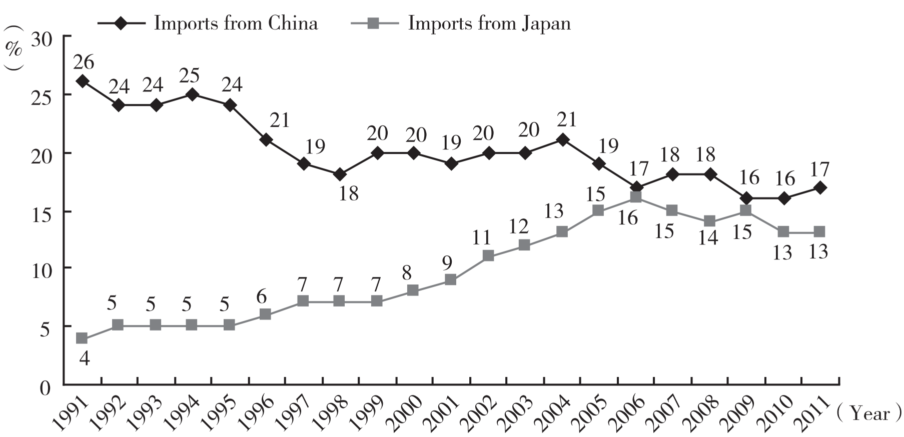

Figure 6. South Korea's imports from China and Japan as percentages of total imports: 1991-2011
Source: This calculation was done by the author on the basis of the data in Table 3.

Japan used to be the more important source of goods for South Korea, accounting for 26% of South Korea's total exports in 1991, but this had decreased to 13% by 2011. During the period, the share of imports from China increased from 4% to 16%. It is interesting that the sum of the two ratios was 30% in 1991 and 29% in 2011, these numbers break down differently by country and for the two source countries the changes are in opposite directions.

Through the above analysis, we can conclude that there were several obvious changes in the interdependency of trade in goods among the three countries.

First, China's exports to Japan and South Korea combined as a share of China's total exports decreased from 17% to 12%, a result of 6 percentage points drop of the share of the Japanese market and a 1 percentage point increase in the share of the South Korean market. China's imports from Japan and South Korea combined as a share of China's total imports increased from 18% to 20%, a result of 5 percentage points drop of the share of the Japan market and 7 percentage points increase in the share of the South Korean market.

Second, Japan's exports to China and South Korea combined as a share of Japan's total exports climbed from 9% to 28%, a result of 17 percentage points increase in the share of the China and 2 percentage points drop in the share of the South Korean market. Japan's imports from China and South Korea combined as a share of Japan's total imports increased from 11% to 26%, with the increase in the share of the China market accounting for most of it. Japan's imports from South Korea as a share of Japan's total imports stayed flat.

Third, South Korea's exports to China and Japan combined as a share of South Korea's total exports rose from 18% to 31%, a result of 23 percentage points increase in the share of South Korea's exports to China and 10 percentage points drop in the share of South Korea's exports to Japan. The value of South Korea's imports from China and Japan combined as a share of South Korea's total imports declined from 30% to 29%, a result of the share of South Korea's imports from China growing by 12 percentage points and the share of South Korea's imports from Japan falling by 13 percentage points.

1.4. The relationship between trade in goods and GDP

The link between trade in goods and GDP underlines the any country's attitude to the former. Table 4 lists the ratios of the volume of trade in goods to GDP for the three countries and compares them with those of the EU, NAFTA, and the global average. China's ratio was 50%, Japan's was 29%, and South Korea was 97%. By comparison, those for EU, NAFTA and the global average are 25%, 29%, and 26%, respectively.

Table 4
Goods trade and GDP: 2011

	GDP (Unit: US$ 100 million)	Goods trade(Unit: US$ 100 million)	Ratio of goods trade in GDP
China	72981.5	36420.6	50%
Japan	58694.7	16789.7	29%
South Korea	11162.5	10808.9	97%
EU	175776.9	44744.1	25%
NAFTA	179856.8	52911.9	29%
Global average	696596.3	182170.0	26%

Source: These data come from the IMF website and China's Department of Commerce and ratios are calculated by the author.

The ratio of trade in goods to GDP illustrates the changing role of trade in goods in the three countries, which has influenced their attitude toward establishing the CJKFTA.

2. Chinese scholars' general views on CJKFTA

Earlier research focused on the interplay among the three countries, paid attention to the influence of monetary policy and exchange rate policy on the macro-economy, explored the connection between the appreciation of the yen and the increasing exports of China and South Korea, and studied the influence of the depreciation of the yuan on China's exports increase and the growth of exports to Japan and South Korea (Shi, 2001). We believe that the establishment of an FTA is inevitable, but cannot be completed in the short term. Taking into account the ASEAN reality, we would need to accelerate the three "10+1" cooperation process (Lu & Shao, 2002). Establishing an institutional foundation for the regional economic cooperation is in line with all concerned countries' long-term interests. It should be noted, however, that the development of institutional cooperation between Japan and South Korea is slow and coordination based on common interests and bargaining power has not yet formed on either a global or regional scale.

On the basis of cooperative research on the possibility of establishing an FTA among the three countries, we will improve the existing government dialogue and coordination mechanism, and conduct joint research on regional trade liberalization and industry division of labor relations among the three countries (Zhang, 2003). Areas of cooperation in East Asia include finance, trade and also non-traditional security. But more significant is the cooperation process itself, which transcends different levels of development, different ideologies, and different cultural backgrounds, and despite many historic grievances. The potential of trade collaboration is greater than that on the financial aspect, and problems such as cooperation power, the axis of cooperation, and political environment are inevitable (Chai, 2004).

A CJKFTA will promote the regional GDP growth, increase employment, expand the scale of trade and investment, and speed industrial gradient transfer, therefore all of the three countries will benefit from the FTA. But in the short term, developed Japan has a comparative advantage in industry and will capture more benefits. In medium and long term, because developing China possesses development potentiality and market space superiority, it will benefit more (Song & Chen, 2004).

Establishing CJK FTA regional integration is a requirement for competition in the world economy. Because the three economies are highly complementary, the FTA is a "win-win-win" choice. Nevertheless, we need to harmonize cooperation motives and properly consider the trilateral trade balance. Since Japan and South Korea invest more in China's manufacturing then they do in China's tertiary industry, we can try to take the sub-regional cooperative approach from junior to senior morphological development (Tang, 2004).

With technical cooperation and trade facilitation as the starting points for comprehensive economic cooperation, CJK FTA is the key to promoting regional cooperation in East Asia and to cooperating in specific fields for setting up the institutional arrangements of the FTA. (Liu, 2004). China, Japan and South Korea share the same target countries as FTA partners, however they achieve it through different paths. China's FTA strategy is to stabilize the imports market of raw materials and export markets, and is strong on practicality and flexibility. Japan emphasizes the bilateral EPA system, which covers trade and investment, while South Korea's strategy is to optimize the economic structure and institutional arrangements for trade, which are for it the two most important objectives (Liu & Sheng, 2008).

Trade liberalization of the manufacturing sector is the largest benefit of the CJKFTA, and the FTA would allow the three countries to achieve a win-win-win situation on the macroeconomic level (Zhang, Lü & Xu, 2008). China, Japan and South Korea should strengthen intra-regional trade in order to accommodate the development model which highly depends on external demand and is difficult to change in the short term (Tian, Li & Sun, 2010).

China, Japan and South Korea differ with respect to agricultural products trade, manufacturing competition, and investment agreements. Therefore, establishing a China-South Korea free trade area in advance may become a path of choice for achieving a CJKFTA (Shen, 2011). CJKFTA establishment must be within the framework of the "10 +3" and WTO if it is to accelerate the three "10+1" cooperation processes (Yuan, 2011). China, Japan and South Korea have signed investment agreements that create the conditions for promoting free trade area negotiations. CJKFTA can help boost economic growth and trade but has different influences on the major industries of each country. However, the lack of political trust, the vested interest of different groups, and external interference make trilateral integration more difficult (Xu, 2012).

3. The approach to establishing a CJKFTA

Ten years ago, the governments of China, Japan and South Korea set up a trilateral joint study group to study the feasibility of an FTA. Although the research results are valuable, the concerned parties did not agree to begin negotiations until recently. Due to a variety of factors, this process has not been smooth.

3.1. Uncertainty as a prominent feature of the road to a CJKFTA

The primary uncertainty concerns political will, which is key to the establishment of CJKFTA. The development of economic cooperation in Northeast Asia has been uncertain. Without political-level support and the intention to cooperate, a CJKFTA would only be an illusory vision and difficult to materialize.

The second uncertainty concerns economic environment. With the continuation of the U.S. economic downturn and the deadlock of the European debt crisis, the global economy is still in a deep crisis. Even though the rise of China's economy has made important contributions to the growth of the global economy, the country faces many sources of trade friction. As a symbol of the US strategic return to Asia, the Trans-Pacific Partnership (TPP) will become not only an instrument for achieving US objectives in the region, but also a new variable influencing regional dynamics.

The third uncertainty relates to trade. In the past 10 years, Japan and South Korea have achieved a certain degree of progress in free trade area, while their national economic structure and trade structure underwent tremendous changes. The pattern of trade in goods, which dominates economic and trade cooperation among the three countries, and cross-border investments have see changes, which have led to subtle shifts in the significance an FTA would have for each country.

Existing research suggests that the economic impact of a trilateral FTA would be greater than the economic impact of any bilateral FTA. FTA negotiations between Japan and South Korea discontinued years ago. While South Korea has launched FTA negotiations with China, China-Japan FTA negotiations have yet to be put on the agenda. Japan and South Korea agreed to begin FTA negotiations in 2012, but they have been stymied by regional tensions caused by recent the "islands dispute".

3.2. Trans-Pacific Partnership Agreement (TPP)

3.2.1. We should pay attention to America's thinking and the content of TPP

When the U.S. participates in regional trade arrangements, it always insists on the inclusion of labor and environmental standards in the negotiations. While those issues could not be achieved in the Uruguay Round of negotiations, the U.S. has instead focused on the development of regional trade arrangements, such as NAFTA and the free trade area with the six countries of Central America, and finally achieved its demands on labor and environment under international economic and trade rules. The US has adhered to the same basic principle in the TPP negotiations and implementation process.

The United States formally proposed the expansion of the Trans-Pacific Partnership in 2009. The expansion would turn TPP into a new type of free trade agreements that is comprehensive in scope, covering not just trade in goods and services but also a wide range of issues such as agriculture, labor, environment, government procurement, investment, intellectual property protection, rules of origin, safeguard measures, and others. This new FTA model can both help to clarify the multitude of existing bilateral trade agreements among members and provide an important platform for the US-led regional trade arrangements to facilitate its implementation of new international trade rules.

3.2.2. TPP as an important factor in the development process of the CJKFTA.

TPP's predecessor was a four-state-sponsored Trans-Pacific Strategic Economic Partnership in 2005 among Brunei, Chile, New Zealand, and Singapore. In 2008, the United States announced its participation and invited Australia and Peru to join the negotiations. Malaysia, Vietnam, and Canada also joined subsequently.

China, Japan, and South Korea's relationships with the TPP are quite interesting. On March 15, 2013, Japan formally announced it would join TPP negotiations, while South Korea is undecided, and for a variety of reasons, China has not even been invited to participate in the negotiations.

In addition, ASEAN recently proposed a regional Comprehensive Economic Partnership (RCEP), the so-called "10+6" model, which includes 10 ASEAN countries, Australia, New Zealand, Japan, South Korea, and India. If this vision is realized, the 16-nation unified market will be established through the reduction of tariffs and non-tariff barriers. This initiative covers China, Japan, and South Korea, which increases the number of variables in CJK FTA development.

3.3. "10+3," three "10+1," CJKFTA

The development of CJKFTA is inseparable from ASEAN's regional partnership. Cooperation of China, Japan, and South Korea with ASEAN is not only the wish of the three countries in the development of their free trade areas, but also an important factor in the development of the three countries' own free trade areas, which has a profound impact on the three countries' trade area needs.

3.3.1. The "10+3" provides new thinking for CJK FTA development

Since the 1997 Asian financial crisis, East Asian countries have increasingly recognized the importance of regional economic cooperation. The early vision of the "East Asian Economic Bloc" later changed to the "East Asia Economic Forum," and then in 1997 ASEAN leaders' informal meeting held in Kuala Lumpur formed a so-called "10+3" Summit model and the three "10+1" mechanisms for bilateral summits. In 1999, the third summit issued a "Joint Statement of East Asian Cooperation," which emphasized promoting dialogue and cooperation among East Asian countries and identified eight priority areas of cooperation, including economic, monetary and financial matters, social and human resource development, science and technology, development cooperation, culture and information, political, security, and transnational issues. In 2000, the "Finance Ministers' Meeting in Chiang Mai," produced the "Chiang Mai Initiative," which marked an important step in East Asian cooperation. In the same year, the "10+3" leaders began a formal meeting and the concept of "10+3" free trade zone began to be institutionalized. In 2004, the "10+3" Summit formally proposed the establishment of the East Asian free trade area, with which the world changed into a three-plate pattern. In 2011, the ASEAN East Asia Summit took the "10 +1" and "10 +3" as the main channels for promoting the East Asian integration process.

China has been proactively pushing forward the development of an East Asian FTA. Since 2002, China has repeatedly urged faster establishment of the FTA. In addition, three recommendations were made in 2011, including (1) carrying out substantial actions to speed up the establishment of the East Asian FTA, (2) performing the core functions of ASEAN and

(3) doing it by a gradual and "incremental" approach under the FTA framework to handle the different development needs of different countries.

3.3.2. The competitive position of "10+3" potential economic scale

The proposed ASEAN, China, Japan, and South Korea FTA will form an economy with a GDP of US$ 15 trillion and a trading scale of US$ 8 trillion, accounting for 20% and 40% of the world's total, respectively. Such scale is comparable to that of the existing North American FTA (GDP: US$ 18 trillion; trading scale: US$ 5.3 trillion) and the European Union (GDP: US$ 17.6 trillion; trading scale: US$ 4.5 trillion) and would lead to a tripartite balance of forces in the world.

The uncertainties over the global economy caused by the US economic slowdown and the ongoing European debt crisis have made the Asian economy the major engine of global growth. The Chinese economy, which has maintained long-term, steady growth, has become an important factor for global economic stability.

The ASEAN, China, Japan, South Korea FTA would establish a three-area pattern for the world economy that would help balance regional economic development. It would also foster free trade in the world, representing a significant contribution towards a better framework for global governance. From the perspective of carrying out the functions of the WTO in world trade, the potential and positive influence of the ASEAN, China, Japan, South Korea FTA proves once again the proportional relationship between the size of an FTA and its influence on free trade promotion and the efficiency enhancement impact of WTO regulations. The larger the FTA is, the more powerfully it promotes free trade.

3.3.3. Two paths toward a CJKFTA

There are two possible paths for realizing the FTA. The first is through the three "10+1" and one "10+3." China, Japan and South Korea may separately form FTAs with ASEAN, and then the three "10 +1" may be integrated to form the "10+3" FTA.

China and ASEAN: In 2001, China and ASEAN agreed to establish a free trade area in 10 years. In November 2002, the "China-ASEAN Framework Agreement on Comprehensive Economic Cooperation" was signed, which marked the official start of negotiations. After the formal establishment of a China-ASEAN Free Trade Area on January 1, 2010, bilateral trade volume exceeded US$ 300 billion in 2011 and achieved 24% annual growth. During the period, the two sides advanced the opening of the market by carrying out an Early Harvest Plan in 2004 where products of common interest or those of complementary nature were identified and targeted for faster and bigger tariff reductions so as to facilitate the implementation of the Framework Agreement. Since the onset of dialogue between China and ASEAN in the 1990s, bilateral trade volume has expanded by 37 times in 20 years, significantly pushing forward bilateral trade development and regional trade liberalization.

Japan and ASEAN: The Japan-ASEAN Comprehensive Economic Partnership Agreement was signed in October 2003. In 2004, Japan signed a free trade agreement with Singapore and specified the objective of completing the negotiations with the six founding ASEAN members by 2012 and transitional arrangements for the remaining four members of different economic development.

South Korea and ASEAN: The idea of South Korea-ASEAN FTA was put forward by the Korean side during the South Korea-ASEAN summit in October 2003, followed by the first meeting of experts in 2004. FTA talks began in 2005. During the ninth South Korea-ASEAN Summit in December 2005, the Agreement on Trade in Goods under the Framework Agreement on Comprehensive Economic Cooperation and the Joint Declaration on Comprehensive Cooperation Partnership were signed.

The second path is to form a China, Japan, and South Korea FTA through negotiations directly among the three nations.

The first basis for such negotiations is the Joint Study on FTA. While private studies emerged in 2002, the Joint Study on FTA was inaugurated in 2010. The sixth East Asia Summit in 2011 proposed to complete the study within the year.

The second basis is the China-Japan-South Korea Investment Agreement, negotiations for which were launched in 2007 and completed in early 2012. The Agreement among the three governments for the Promotion, Facilitation and Protection of Investment was officially signed in Beijing in May 2012, laying the foundation for trilateral FTA talks.

The third basis is FTA talks. During the sixth East Asia Summit in 2011, the three countries proposed starting talks in 2012. On the day the Investment Agreement was signed, the consensus about launching FTA talks in 2012 was reiterated. However, as a non-economic factor, the heightened international tension in Northeast Asia caused by island disputes has had an unpredictably negative impact on the start and development of the trilateral FTA talks.

If we isolate and compare the two approaches, it is clear that the former would be easier. It would allow China, Japan and South Korea to form FTAs with ASEAN or some ASEAN members separately first before their influence grew until it extended to the East Asian economy. The horizontal and vertical integration of the East Asian economy would be advanced with the ultimate objective of establishing the ASEAN, China, Japan, South Korea FTA. The latter approach is more complicated in light of the difficult factors underlying the prospect of the China-Japan-South Korea FTA. Nevertheless, if the two approaches can be combined, the interests of the different sides may be better served, advancing the goal of the expeditious establishment of an ASEAN, China, Japan, South Korea FTA.

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