

## Analysis about the Progress and Resistance of China-Japan-ROK FTA

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**Abstract:** Nowadays, some countries or economies are actively exploring ways of regional economic integration to promote the effective and sustainable development of its own economy, in order to strengthen the economic cooperation among countries or economies in region. As an important centre of global economic activities, East Asia has obviously lagged behind the development process of the European Union and the north American Free Trade Area in regional economic integration. Although the construction of the "CHINA-JAPAN-ROK FTA AREA" is urgent, it still has a long way to go. Therefore, it is beneficial to the common development of the three countries to explore the process, resistance and Suggestions of the Free Trade Area construction.

### 1. Introduction

The idea of the "CHINA-JAPAN-ROK FTA AREA" was put forward in the leaders' summit of the three countries in 2002. In the imagination, the "CHINA-JAPAN-ROK FTA AREA" is a three-country Free Trade Area composed of a large market with a population of over 1.5 billion. Tariffs and other trade restrictions in the Free Trade Area will be lifted, goods and other things will flow more smoothly, then manufacturers in the Free Trade Area will afford a lower production costs, gain a larger market and benefits, and consumers will be able to obtain goods with lower prices. The overall economic welfare of China, Japan and South Korea can be increased. After nearly a decade of demonstration, the negotiation process has been slow and difficult.

The different industrial advantages of China, Japan and South Korea lead to the foundation of the FTA. Compared with developed Japan and South Korea, they have obvious competitive advantages, while Chinese competitive advantages are still mainly concentrated in resources or labour-intensive productions. With the change of the international situation and the adjustment of the economic structure of China, Japan and the ROK, whether this condition can be continued and how to reduce the cost through the establishment of the system need to be deeply considered.

There are many reasons and obstacles that lead to the slow construction of Free Trade Area. By analysing these obstacles, Suggestions can be put forward, thus promoting its development. This paper begins with the current economic and trade situation of China, Japan, South Korea and the construction process of the Free Trade Area illustrate the feasibility of the construction of the Free Trade Area. Then analysing the resistance of the Free Trade Area from different aspects such as politics, economy, sensitive areas and mentality of the three countries. Finally put forward some Suggestions for those reference.

Now let's briefly introduce the process of establishing the Free Trade Area. Here is Table 1, which to illustrate the progress of its construction.

Table 1 The progress of "CHINA-JAPAN-ROK FTA AREA".

Years	Events
1998	During the "10+3" meeting in Manila, leaders of the three countries held informal discussions on the construction, putting forward the concept of " CHINA-JAPAN-ROK FTA AREA" for the first time
2002	The trilateral summit first put forward the idea of FTA.
2003-2009	Non-governmental research institutions of China, Japan and the ROK have conducted a large number of studies on the feasibility of establishing a Free Trade Area.
2010-2012	A joint study on the FTA between the governments, enterprises and academia of China, Japan and South Korea.
2012	The signing of the " CHINA-JAPAN-ROK FTA AREA" investment agreement is the first legal document and institutional arrangement to promote and protect the investment activities of the three countries.
2012	Launch negotiations on China-Japan-ROK FTA.
2013	The first round of negotiations on the FTA will focus on the mechanism, areas and modalities.
2014	In the sixth round of negotiations, Japan rejected the proposal which proposed by China and Korea, and the negotiations entered a deadlock.
2015	The three leaders continued negotiations.
2018	The 14th of negotiations on the FTA has not reached a framework agreement by the end of this meeting.
2019	The 15th of negotiations about the FTA was held in Tokyo, Japan. The three countries had an in-depth exchange of views on trade in goods, trade in services, investment, rules and other important issues, making positive progress and reaching consensus.

## 2. Current Situation of China-Japan-ROK Economic and Trade Cooperation

### 2.1. Status of Building a “China-Japan-ROK AREA” is rising in the globe.

With the continuous and rapid development of foreign trade among China, Japan and South Korea, the status of the three countries in global trade is also improving. It can be seen from Table 2, which is compiled from WTO database data.

Since the Chinese reforming and opening up, Chinese economy has developed very rapidly, and Chinese trade volume in the total world trade volume has been rising from 1.75% in 1985 to 11.75% in 2018, an increase of 10 percentage points. Japan's share in the world trade volume has been declining in the past 20 years, while South Korea's share in the world trade volume has been rising, but not by much, increasing by only 1 percentage point in the past 20 years. But China, South Korea and Japan trade volume accounted for the proportion of total world trade have always growth trends in nearly 20 years, until 2000 the volume of trade in The Three Kingdoms of development with the attitude of Japan, China and South Korea trade fairly, 2000 years later, the acceleration of Chinese trade development, gradually catch up with Japan and South Korea, emerged as China, Japan and South Korea leaders in global trade.

Table 2. Trade volume of the three countries accounts for the proportion of globe. Unit: %

Years	CHINA	JAPEN	ROK	TOTAL
1985	1.75	7.75	1.55	11.05
1990	1.63	7.38	1.90	10.91
1995	2.69	7.45	2.49	12.63
2000	3.60	6.51	2.52	12.64
2005	6.65	5.20	2.55	14.40
2010	9.65	4.75	2.89	17.30
2014	11.29	3.95	2.88	18.13
2019	11.75	3.80	2.90	18.45

Data from WIND.

### 2.2. Chinese trade with Japan and South Korea is expanding.

Since China joined the WTO in 2002, the degree of Chinese opening to the outside world has

been constantly improved, and the bilateral trade between China, Japan and South Korea has also entered a stage of rapid development. Overview of trade development between China, Japan and South Korea is shown in Figure 1. From 2000 to 2018 in 18 years, Japan's total trade of the world from 8587. The \$600 million increase to 14870. 0 billion dollars, the average annual growth rate of 4.06%, South Korea on the world's total trade from 3327. The growth of \$4.9 billion to \$1.136984 trillion, while Chinese total trade with Japan from 831. The growth of \$6.4 billion to \$323.437 billion, an average annual growth rate of 16.05%, China and South Korea's total trade rose from \$34.5 billion to \$268.637 billion, average annual growth rate is 16.44%. The average annual growth rate of trade between China, Japan and Korea are higher than that between Japan and South Korea and the world. In addition to the global economic crisis in 2008, the trade volume between China, Japan and Korea decreased slightly, the trade volume between China, Japan and South Korea basically increased from 2000 to 2014.

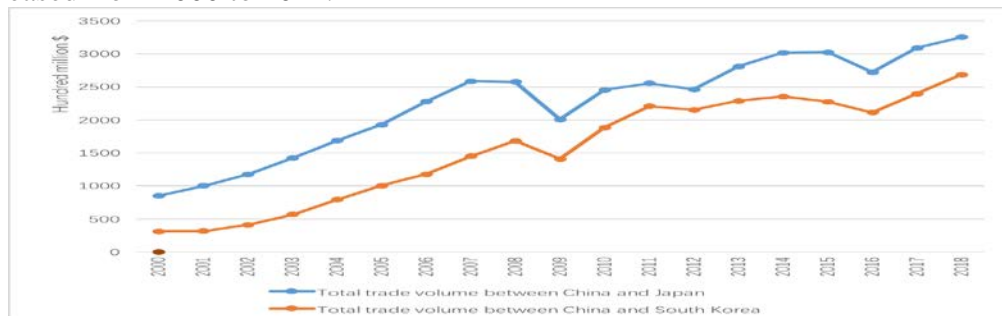


Figure 1 Trade volume between China, Japan and South Korea.

### 2.3. Chinese Position in Trading between Japan and South Korea is Growing

From the perspective of Chinese foreign trade, Japan's total import and export of Chinese foreign import and export proportion of the total amount of a downward trend in recent years, the overall because since Chinese accession to the WTO, with the opening to the outside world degree deepening, Chinese foreign trade rapid growth in China and the European Union, the United States and the Asian bilateral trade development more rapidly, the status of Japan in Chinese foreign trade showed a trend of decline year by year, but Japan is still Chinese third largest trading partner. In recent years, South Korea's position in Chinese foreign trade has been relatively stable, so far South Korea has been Chinese sixth largest trading partner.

From the perspective of foreign trade between Japan and Korea, China, as a trade partner of Japan and South Korea, plays an increasingly important role in their foreign trade.

## 3. Resistance about the Establishment of CHINA-JAPAN-ROK FTA

### 3.1. Political Factors

It is generally believed in various studies that the unfavorable factors in various aspects mainly involve China-Japan relations, Korea-Japan relations, Sino-us relations and us-Japan relations. In these four bilateral relations, Japan's behavior and choice have become the key and focus to form constraints.

#### 3.1.1. Historical issues

The aggression of Japanese militarism during world war ii brought grave disasters to relevant countries in Asia. On the issue of forced recruitment of comfort women during the war, they did not make due apology and compensation to the victims, but covered up or even distorted the historical facts, which hurt the feelings of the people of the victimized countries and aroused strong dissatisfaction of the people of the victimized countries.

#### 3.1.2. Territorial (maritime) sovereignty

There are territorial (maritime) sovereignty disputes between China and Japan and between South Korea and Japan. China and Japan have both claimed sovereignty over the Diaoyu Islands

(known as the Senkaku Islands in Japan) and their affiliated islands. The civil rights activities of the two countries to assert sovereignty, administrative law enforcement patrols and military patrols once led to a serious confrontation at sea. South Korea and Japan have a dispute over the Dokdo Islands, known as Takeshima in Japan, which Japan protested when then-president Lee Myung-bak visited the islands.

### **3.1.3. America's pivot to the Asia-Pacific**

As well as the military pivot to the Asia-Pacific, which will shift naval power to the region by 2020, with 60 per cent of US warships deployed in the Pacific, the "strategy" includes an economic pivot to the region.

As mentioned above, in the actual FTA negotiations between China, Japan and South Korea, it once again shows that political issues have always been more important than economic issues among East Asian countries. From this point of view, a number of contradictions between China, Japan, South Korea and Japan are mainly due to the lack of sufficient political mutual trust, which undoubtedly becomes a major obstacle to promoting the trade cooperation and its economy. But it also has difficulty about balancing trade structure.

### **3.1.4. Obstacles to agricultural trade disparity**

China is a traditional agricultural country; agriculture has always been a dominant industry. The agricultural development of Japanese and South Korea was greatly restricted due to the small land, insufficient total resources, serious aging of agricultural production labour force and other factors. In the past 20 years, Japan's food self-sufficiency rate has been floating at around 40%, while South Korea's has been even lower, staying between 25% and 30% for many years. Therefore, in terms of trade balance of agricultural products, it is impossible for the three countries to reach equal complementarity, but more can only be single supplement. But after Japan and South Korea Free Trade Area was built in the future, as the agricultural tariffs reduce to zero tariff, Chinese agricultural products will influx Japan and South Korea market, it will be much on the negative impact of the two countries' agriculture, with the current Chinese agricultural production capacity.

### **3.1.5. Industrial structure homogeneous competition and heterogeneity complement**

In terms of the industrial structure of China, Japan and South Korea, they are relatively homogeneous in structure. China, Japan and South Korea all show relative structure heterogeneity. On the homogeneity competition about Japan and South Korea, on the other hand, when they enter the Chinese market, the competition will bring to the Chinese consumers, at the same time, Chinese products due to less competitive, has had to drop out of the home market, and the other to find new markets for their products, and must be at low price advantage to gain and maintain market share (which is actually the "made in China" has been in the international market for low-end value chain reason). On the other hand, Japan and South Korea may charge more for opening up their markets to China during FTA negotiations, mindful of the unpredictable adverse effects of homogenized competition on their companies. In terms of differentiation, industrial complementarity has always been regarded as a "match made in heaven" for trade. However, this rule may be overturned in the future operation of China-Japan-ROK Free Trade Area. In the process of building the FTA among China, Japan and the ROK, trade negotiations based on the industrial structure of the three countries at the present stage, whether homogeneous competition or heterogeneous complementation, will hardly meet the ideal expectations of Japan and the ROK in terms of trade types, quantity, tax reduction range and excessive duration of Chinese market opening.

## **3.2. Relations between Japan and South Korea have deteriorated**

The rare setback in Japan-ROK relations in the past 50 years has once again cast a shadow over the trilateral cooperation mechanism and process. There has been an outcry in Japan over the South Korean military comfort women agreement and a ruling by the country's Supreme Court in October that ordered Japanese companies to pay compensation for the forced recruitment of Korean workers. Since then, there have been incidents of military aircraft fire control radar from Japan and South

Korea, Korean people set up a bronze statue of "comfort women" in China, which finally led to the situation that the Japanese government strengthened the restriction on the export of semiconductor materials from South Korea, which led to the dissatisfaction of South Korea and the boycott of Japanese goods.

### **3.3. Tariff, Financial System Sex Obstacle**

Although China, Japan and the ROK are members of the WTO, they belong to different customs zones and have different tariff standards according to the WTO's trade rules. For example, agricultural tariff, the simple average MFN applied tax rate of agricultural products in China, Japan and South Korea in 2010 was 15.6%, 17.3% and 48.5% respectively. Located in different customs zones, different WTO member countries often have great differences in exchange rates. In the future Free Trade Area among these three countries, some goods need to implement zero tariff jointly. The resulting exchange rate adjustment will involve different interests and will be difficult to adjust.

### **3.4. Different Mentality of the Three Countries**

In the construction of China-Japan-ROK Free Trade Area, the three countries have different attitudes towards the construction of Free Trade Area due to the dual considerations of politics and economy and differentiated interests.

#### **3.4.1. Japan.**

In terms of politics and national security strategy, Japan's disputes with neighbouring countries in terms of territory, historical issues and other aspects have always been under siege. In view of the significant gap in comprehensive national strength between Japan and China and Russia as well as its alliance with the United States after world war ii, Japan is absolutely dependent on the United States for military protection. Therefore, in the global strategic layout, Japan has to obey the will of the United States. Economically, with the establishment of Chinese status as the world's second largest economy, Chinese huge market potential and the advantages of Japan-China geographical location, Japan will never give up its participation in the construction of the trilateral Free Trade Area. But entangled in different political and economic options, Japan has adopted a "slow lead" strategy on the Free Trade Area among the three countries, in order to seek its own best interests in the gap between China and the United States, which are both cooperative and sometimes "awkward". In the FTA meetings, Japanese "competes" with its uncompromising territorial sovereignty. In this way, the Japanese government can "kill two flies with one arrow", win domestic public opinion, safeguard the so-called "territorial sovereignty", and win more interests for itself in the FTA negotiations. Not only that, but Japan also pre-emptively joined the TPP to "respond" to China and South Korea's free trade agreement. It is to be expected that Japan's "no initiative, no initiative and no surrender" attitude will continue until its desired interests and goals are achieved.

#### **3.4.2. South Korea**

On June 1, 2015, China-ROK Free Trade Area agreement was officially signed. Therefore, South Korea is relaxed about the process of the Free Trade Area among the three countries and is not eager to achieve it. The reasons are as follows: first, South Korea and Japan have fierce competition in both capital-intensive and technology-intensive industries. Facing such a huge market as China, South Korea is reluctant to share with Japan. Second, the soon-to-be approved China-south Korea free trade zone would allow Korean products to be the first to "dig deep" in the Chinese market and avoid fierce competition with Japan. Finally, there is a Free Trade Area agreement between the ROK and Japan. The conclusion of the China-Japan-ROK free trade agreement will not produce more obvious trade and investment creation effects between the two countries.

#### **3.4.3. China**

What China seeks is not only the development of regional economy, but also a long-term strategy of regional politics and security. In view of the containment and restriction of the us-Japan

alliance, the differences between China and Japan on territorial (maritime) and historical issues are principled, firm and uncompromising. Though China actively promote the negotiation process, in order to reduce dependence on European and American markets, but if the Japanese, on the question on the principle of China and other a variety of options, without fundamental political and economic interests in the country and the long-term strategic interests, such as (sea) sovereign territory, the history of world war ii victory conclusion break through the baseline concessions, national economic security and other issues. In the construction of the Free Trade Area among the three countries, Chinese mentality is to actively strive for it, but it is not in a hurry to achieve it or even has enough patience to "wait and see what happens".

#### **4. Conclusion**

We will properly handle sensitive historical issues with high political wisdom. In view of the fact that territorial disputes and historical issues between China, Japan and the ROK and Japan cannot be avoided, we should focus on the future on the premise of clarifying historical facts and make more efforts to seek common ground for development and the combination of interests. For example, for territorial (sea) disputes, we may shelve the disputes first, take common protection as the basic principle, delimit global nature reserves in relevant areas, and let the countries concerned jointly fulfil the obligation of protection. Third party intervention is strictly prohibited.

The three countries should actively reduce the cost of industrial cooperation, expand the degree of openness, reduce tariffs on intermediate products and promote industrial cooperation and exchanges among the three countries. We will change the traditional vertical division of labor among China, Japan and the ROK and promote cooperation in capital - and technology-intensive industries. Then, enterprises should improve the technological content of products and technological innovation ability, so as to improve the scale benefit of enterprises. Enterprises should actively through the introduction of foreign advanced production efficiency to cope with the crisis. At the same time, the government should adjust and restructure the industry, promote the development of high-tech industry, optimize the industrial structure and promote industrial upgrading. Finally, China should change the trade pattern of manufactured goods industry, because in the industrial division of labor model, labour-intensive industries are mainly carried out vertically. Therefore, China should actively promote the shift of industries to the horizontal division of labor among capital and technology-intensive industries, so as to improve the level of industrial trade and international competitiveness.

We should promote cooperation among the three countries in local areas or regions first. Through communication between local governments, we will promote non-governmental trade exchanges to carry out cooperation in local areas and regions of the three countries first. For example, China can take coastal cities in Shandong, Liaoning, Jiangsu, Zhejiang and other provinces as the leading and support, establish sub-regional economic and trade cooperation with relevant cities in Japan and South Korea, implement bilateral and multilateral cooperation models, vertical division of labour and horizon division of labour, and actively promote the development of inter-regional free trade.

On the specific issues concerning the construction of the FTA among the three countries, the negotiations should be accelerated and the interests of all parties should be taken into account in accordance with the principle of fairness and mutual benefit. First, on the basis of the existing framework, we can speed up the construction of technical facilities, standardization and policies, reduce the procedures for trade and investment, and speed up the free flow of goods, capital and services. Improve efficiency, enhance the ability and level of optimal allocation of resources.

In a word, although construction of China-Japan-ROK Free Trade Area is more beneficial and useful than its disadvantages to these three countries, the progress bar of the FTA is still slow due to the interests and needs of all parties and other considerations. In this regard, as China, we should keep a positive attitude and not rush for success. We believe that the construction of China-Japan-ROK Free Trade Area is within sight.

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