Working Paper Series

NUMBER WP 05-12 OCTOBER 2005

Prospects for Regional Free Trade in Asia

Gary Clyde Hufbauer and Yee Wong

Gary Clyde Hufbauer, Reginald Jones Senior Fellow, was the Marcus Wallenberg Professor of International Finance Diplomacy at Georgetown University (1985–92), deputy director of the International Law Institute at Georgetown University (1979–81), deputy assistant secretary for international trade and investment policy of the US Treasury (1977–79), and director of the International Tax Staff at the US Treasury (1974–76). He is coauthor or coeditor of numerous books, including *NAFTA Revisited: Achievements and Challenges* (2005), *NAFTA and the Environment: Seven Years Later* (2000), *Unfinished Business: Telecommunications after the Uruguay Round* (1997), *Flying High: Liberalizing Civil Aviation in the Asia Pacific* (1996), *Western Hemisphere Economic Integration* (1994), and *NAFTA: An Assessment* (rev. ed. 1993). Yee Wong, doctoral student at the Massachusetts Institute of Technology, was a research assistant at the Institute for International Economics. She coauthored *China Bashing*, International Economics Policy Brief PB04-5 (Institute for International Economics, 2004) and assisted with *NAFTA Revisited: Achievements and Challenges* (2005).

Abstract

Frustrated with lackluster momentum in the WTO Doha Round and the Asia Pacific Economic Cooperation (APEC) forum, and mindful of free trade agreement (FTA) networks centered on the United States and Europe, Asian countries have joined the FTA game. By 2005, Asian countries (excluding China) had ratified 14 bilateral and regional FTAs and had negotiated but not implemented another seven. Asian nations are also actively negotiating some 23 bilateral and regional FTAs, many with non-Asian partners, including Australia, Canada, Chile, the European Union, India, and Qatar. China has been particularly active since 2000. It has completed three bilateral FTAs—Thailand in 2003 and Hong Kong and Macao in 2004—and is initiating another 17 bilateral and regional FTAs. However, a regional Asian economic bloc led by China seems distant, even though China accounts for about 30 percent of regional GDP. As in Europe and the Western Hemisphere, many Asian countries are pursuing FTAs with countries outside the region. On present evidence, the FTA process embraced with some enthusiasm in Asia, Europe, and the Western Hemisphere more closely resembles fingers reaching idiosyncratically around the globe rather than politico-economic blocs centered respectively on Beijing, Brussels, and Washington.

Note: This paper was written for and presented at the RAND–China Reform Forum conference in June 2005.

JEL classification: F13, F14, N75
JEL keywords: Regional free trade agreements, China, trade liberalization, Asia, FTA strategy

INSTITUTE FOR INTERNATIONAL ECONOMICS

1750 MASSACHUSETTS AVENUE, NW | WASHINGTON, DC 20036-1903
TEL: (202) 328-9000 | FAX: (202) 659-3225 | WWW.IIE.COM

INTRODUCTION

According to the Sutherland Report (2005), commissioned by the director-general of the World Trade Organization (WTO), about 150 preferential trade agreements (PTAs) are in force, and the number is expected to double by 2007.[1] Among the major powers, the United States is leading the current drive for PTAs. Once the North American Free Trade Agreement (NAFTA) was implemented in January 1994, the Clinton administration pushed bilateral, regional, and global trade deals simultaneously. After 2000, the Bush administration embraced a strategy of "competitive liberalization," which led to seven completed free trade agreements (FTAs) with 12 countries—Jordan, Chile, Australia, Singapore, Morocco, Bahrain, and six small countries in Central America and the Caribbean (the Central American Free Trade Agreement–Dominican Republic, CAFTA-DR).[2] Another eight bilateral and regional agreements are under negotiation, and an additional eight have been proposed (see table 1). The economic case for bilateral agreements is hotly debated: They are criticized for "spaghetti-bowl" complexity, "trade diversion," and "attention diversion" (from the WTO system). In this paper, we will not rehearse the familiar arguments, pro and con. We do note, however, that FTAs are not purely an instrument of commercial policy. Foreign policy objectives are always important, and the post-NAFTA flurry of bilateral agreements is no exception.

The European Union has long used FTAs as a foreign policy tool, both as a way of preparing potential members for accession and as a means of extending EU influence to more distant countries.[3] While recent "out-of-area" EU FTAs are generally less comprehensive than US FTAs, since 2000 the European Union has concluded 12 bilateral FTAs with non-European countries, including Chile; Egypt; Jordan; Lebanon; Mexico; Morocco; and the African, Caribbean, and Pacific (ACP) countries.[4] Seven bilateral and regional agreements are under negotiation and another six have been proposed (see table 2). In comparison with the US FTA strategy, however, the European Union

[1] Currently, PTAs cover half the world trade; see Pangestu and Gooptu (2003).
[2] The nine completed free trade agreements (FTAs) include those that are signed but not yet ratified (Bahrain and CAFTA-DR).
[3] In the 1990s, the European Union signed bilateral trade agreements, known as Europe Agreements, with 10 EU candidate countries: Bulgaria, Czech Republic, Slovak Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, and Slovenia. In May 2004, most of these Central European countries joined the European Union. Another set of EU trade agreements seeks to embrace Southeast Europe. Under the Stability Pact for Southeastern Europe, the European Union aims to establish FTAs with Albania, Bosnia and Herzegovina, Croatia, Macedonia, and Serbia and Montenegro. These FTAs are labeled Stabilization and Association Agreements, and in this paper we consider them as out-of-area FTAs. So far, two are in force, with Macedonia (2004) and Croatia (2005).
[4] According to Brenton and Manchin (2002), recent EU trade agreements have restrictions that belie the EU slogan of "Everything but Arms."

places less emphasis on "competitive liberalization" and somewhat more weight on region-to-region agreements and multilateral WTO talks.[5]

Frustrated with the slow pace of the Doha Round and lackluster momentum in the Asia Pacific Economic Cooperation (APEC) forum, and mindful of US- and EU-centered FTA networks, Asian countries have joined the FTA game. FTAs in Asia began as regional groupings, starting with the Association of Southeast Asian Nations (ASEAN) in 1967 and later with APEC in 1989, but these have made limited progress in reducing significant trade barriers. In the late 1990s, many Asian nations shifted from a single-minded emphasis on the multilateral WTO system to a consideration of FTAs as part of their trade-negotiating strategy. By 2005, Asian countries (excluding China) had ratified 14 bilateral and regional FTAs and had negotiated but not implemented another seven (see table 3). Asian nations are also actively negotiating some 23 bilateral and regional FTAs, many with non-Asian partners, including Australia (a country that often thinks of itself as Asian), Canada, Chile, the European Union, India, and Qatar (see table 3).

Since 2000, China has been particularly active by completing three bilateral FTAs—Thailand in 2003 and Hong Kong and Macao in 2004[6]—and initiating another 17 bilateral and regional FTAs (see table 4). Since 2000, it has negotiated eight FTAs (three regional and five bilateral) and proposed another nine (two regional and seven bilateral).

Why is China pursuing FTAs? Seemingly for a blend of foreign policy and economic reasons, much like the United States and the European Union. Regional and bilateral talks offer a more efficient forum for liberalizing trade than the WTO, where agreements require a consensus of 148 sovereign nations. Asian FTAs also enable China to confirm its commitment to trade liberalization and acquire negotiating experience before defining a leadership role in the WTO. Economically, FTAs provide a framework to maintain an open trading system and minimize the likelihood of outright supply shortages in the event of commodity price spikes. Politically, FTAs can be an important tool of commercial diplomacy to institutionalize economic partnerships. China also uses FTAs, such as the ASEAN-China FTA, first proposed by former Premier Zhu Rongji in 2000, to allay neighbors that fear being hollowed out by Chinese competition.

[5] In September 2004, former EU Trade Commissioner Pascal Lamy cautioned Singapore that an EU-Singapore FTA was not in the cards because the European Union places first priority on multilateral liberalization under the WTO. If that fails, the European Union focuses on regional FTAs, such as a possible ASEAN-EU agreement. See Vikram Khanna, "EU Paving Way for Eventual FTA with ASEAN," *Business Times Singapore,* September 8, 2004.

[6] Of these three completed FTAs, only two, with Hong Kong and Macao, have entered into force.

CHINA'S ECONOMIC INFLUENCE

Thanks to an average annual growth rate of 9 percent over the past 25 years, China has emerged as an economic power. Correspondingly, China is now the dominant economic force in East Asia, where intraregional trade has grown faster than in other areas of the world economy. China is also the world's largest recipient of foreign direct investment, and much of the investment is aimed at export-oriented production. As a consequence of its trade and investment policies, China exemplifies the classic story of triangular commerce: exporting finished and semi-finished manufactures, while importing raw materials, semi-finished components, and capital goods.[7] China's trade surplus with the United States was $162 billion in 2004 and with the European Union, $98 billion, but it runs persistent trade deficits with several Asian countries, including Indonesia ($1 billion), Australia ($1 billion), Japan ($15 billion), Korea ($23 billion), Malaysia ($8 billion), Taiwan ($40 billion), and Thailand ($5 billion) (see table 5).[8]

While Chinese import markets provide the economic spark for much of Asia, Chinese exports offer fierce competition in third-country markets. Imports are concentrated in raw and semi-finished materials and capital goods; export competition is most keen in finished manufactures. China's share of total exports from newly industrialized economies (Hong Kong, Korea, Singapore, and Taiwan) increased from about 8 percent in 1990 to 15 percent in 1997 to nearly 20 percent in 2002 (Krumm and Kharas 2003). ASEAN is now the fourth largest supplier of raw materials to China.

CHINA AND FTA INITIATIVES

In economic terms, China's choice of FTA partners (after Hong Kong and Macao) foremost reflects China's demand for raw commodities (see table 5). China's pursuit of FTAs thus extends from the Gulf Cooperation Council to Brazil and Australia.[9] China is currently the second largest consumer and importer of petroleum, and its demand for crude oil is expected to grow by 4 percent annually over the next decade. In fact, bilateral trade with Australia is booming because of Chinese consumption of commodities, especially crude oil, natural gas, copper, and iron ore, which accounted

[7] According to Goldman Sachs, nearly 80 percent of intraregional exports to China are intermediate and capital goods and raw materials. See Zebregs (2004) and Ng and Yeats (2003).
[8] The cited figures are based on the US International Trade Commission (USITC) Interactive Tariff and Trade Dataweb and the European Union Eurostat databases. Note the statistical discrepancy between Chinese and non-Chinese trade sources. For example, table 4 is based on the UN Comtrade database, which reports Chinese trade statistics and suggests that official US and European figures may overstate bilateral trade deficits with China.
[9] Raw material imports dominate Chinese imports from potential FTA partners, ranging from 72 percent with Brazil to 89 percent with Australia and reaching 100 percent with Gulf countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates). See table 5.

for most of Australia's $1 billion trade surplus with China in 2003 (see table 5). By 2003, the Chinese state-owned petroleum company, China National Offshore Oil Corporation (CNOOC), had invested about $652 million in Australia's Gorgon liquefied natural gas (LNG) project in Western Australia. In the same year, CNOOC invested $348 million to supply 3 million tons of LNG annually to a terminal in the Guangdong province.[10] Hence it is not surprising that Australia has become a potential FTA partner.

Chinese trade pacts vary from highly concrete terms in the Hong Kong Closer Economic Partnership Agreement (CEPA) of 2004 to broad aspirations set forth in the Australia and New Zealand initial framework agreements (seen as templates for FTAs with other industrialized countries).[11] China evidently prefers a pragmatic approach, served by customized FTAs that take into account particular bilateral or regional commercial and strategic interests. Unlike the United States, China does not strive to create a template for WTO agreements, nor does it seem to think that each FTA will necessarily serve as a model for the next. Chinese FTAs are less comprehensive than US FTAs in that they typically exclude dispute settlement mechanisms, intellectual property, special sectoral arrangements, environment, and labor. Instead, Chinese FTAs focus primarily on liberalizing trade in goods and services.[12] Several FTAs are compared below.

Hong Kong CEPA. The Hong Kong CEPA, which entered into force in January 2004, is the most comprehensive Chinese FTA. (China likewise concluded a Macao CEPA, which also entered into force in January 2004 and is nearly identical to the Hong Kong CEPA.) The Hong Kong agreement, which is only about 13 pages, outlines a phaseout schedule for tariff and nontariff barriers on goods, liberalizes services, and promotes trade and investment. CEPA rules of origin require that, to be eligible for zero tariffs, Hong Kong exports must contain at least 30 percent local value added content (raw materials, labor costs, and product development costs).[13] Given that Hong Kong was already among the freest economies in the world, the CEPA entailed a one-sided concession from China to unilaterally reduce tariffs on imports to zero by 2006.[14] Moreover, since

[10] See "China's CNOOC's Australia LNG Deal," *Xinhua Financial Network News*, October 24, 2003.
[11] Similarly, the United States uses Trade and Investment Framework Agreements (TIFAs) as a "warm-up" device for FTAs.
[12] The most comprehensive liberalization of services is outlined under the Hong Kong and Macao CEPAs. Bilateral services liberalization includes the following sectors: financial services, banking, insurance, securities, management consulting, advertising, accounting, real estate and construction, logistics, shipping, telecommunications, legal services, and tourism.
[13] See Hong Kong CEPA, Annex 2, available at www.tid.gov.hk/english/aboutus/tradecircular/all_in_one/2003/as582003.html (accessed on May 30, 2005).
[14] The Hong Kong CEPA was initially proposed to help boost Hong Kong's economy, which suffered two recessions and a prolonged downturn. Under the Hong Kong CEPA, China pledges to reduce tariffs to zero on 273 product categories by January 2004, including medicines and toys; all other tariffs will be eliminated by January 2006, including food, chemical, and electronic products. See the Hong Kong CEPA main text, available at www.tid.gov.hk/english/cepa/trade_goods.html (accessed on May 30, 2005).

the rule of origin is relatively liberal, Hong Kong will become the port of entry for semi-finished components entering China. Under the CEPA, the share of Hong Kong goods exported to China tariff-free will jump from 20 to 90 percent. Apart from being free from antidumping (AD) or countervailing duty (CVD) actions by Hong Kong, China gained little mercantilistic advantage from the CEPA.

Compared with other bilateral FTAs, the CEPA provides unique opportunities to Hong Kong service providers, who gained preferential access to Chinese markets by January 2004 instead of December 2007 (the date committed in China's WTO accession agreement). Service firms that meet the qualifications for being a "Hong Kong service supplier" under the CEPA thus have a key time advantage over third-country competitors.[15] Under the terms of its WTO accession, China requires minimum assets of $20 billion for overseas financial institutions to establish branches in China. However, under the CEPA, the minimum asset requirement for a Hong Kong financial institution is only $6 billion. China gave few concessions to other WTO members in legal services. By contrast, under the CEPA, Chinese law firms can employ Hong Kong barristers or solicitors and Hong Kong law firms can establish representative offices in China that operate in association with mainland law firms.

Although there appear to be few mercantilistic gains for China under the CEPA, China will enjoy the substantial economic benefit of greater competition from Hong Kong suppliers of goods and particularly services. Moreover, there are long-term political benefits. By using Hong Kong (and to a lesser extent Macao) as successful examples of "One Country, Two Systems," China may demonstrate an acceptable pattern for integrating Taiwan into the "Greater China Economic Circle" (see Wang 2004).

ASEAN FTA. In 2000, former Chinese Prime Minister Zhu Rongji proposed a bilateral ASEAN-China FTA. In 2002, China and ASEAN countries concluded a framework for the FTA, which includes an agreement to remove tariffs on all goods by 2015. Known as the Framework Agreement on Comprehensive Economic Cooperation, China and the original ASEAN members (Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand) agreed to implement zero tariffs by 2010 and with newer ASEAN members (Cambodia, Laos, Myanmar, and Vietnam) by 2015. The ASEAN-China FTA is still a work in progress and has not yet been notified to the WTO.

There are strong economic incentives for the ASEAN-China FTA. In 2005, ASEAN became China's fourth largest trading partner, after the European Union, the United States, and

[15] Several criteria are used to determine whether a firm qualifies as a Hong Kong service supplier. Along with other requirements, the firm must be established in Hong Kong for no less than three years (five years for construction, banking, and insurance services) and pay profit taxes, and more than 50 percent of the staff must be permanent Hong Kong residents. See Hong Kong CEPA, Annex 5, available at www.tid.gov.hk/english/cepa/fulltext.html (accessed on May 30, 2005).

Japan. Since bilateral trade with China currently represents just 3 percent of total ASEAN exports and 5 percent of ASEAN imports, it is expected to grow rapidly.[16] Studies estimate that the ASEAN-China FTA might increase bilateral trade by 50 percent, with Chinese exports to ASEAN increasing by 55 percent and ASEAN exports to China increasing by 48 percent (ASEAN Secretariat 2002).[17] These estimates may be conservative, since gravity model coefficients suggest that an FTA can double trade between the partners (DeRosa and Gilbert 2005, table 1). Eventually, the ASEAN-China FTA might become the world's largest free trade area with intraregional trade totaling $1.2 trillion.

ASEAN firms face competition from Chinese companies in third-country markets (especially the United States, the European Union, and Japan) and domestic markets in products ranging from labor-intensive manufacturing (textiles, footwear, and toys) to high technology (chip manufacturing). For example, ASEAN textile and apparel firms must compete openly with Chinese firms in Japan, where the Chinese market share of cotton knit apparel jumped from about 47 percent in 1996 to 77 percent in 2001 (Pangestu and Gooptu 2003).

Under the FTA, China will benefit from better access to ASEAN's 410 million consumers and more assured supplies of raw commodities and food. The FTA could also be an important vehicle for attracting Chinese FDI into Southeast Asia. ASEAN represents just 20 percent of total Chinese outward FDI, a share that could grow significantly. For reasons of natural resource security, Chinese firms are already investing in fuels and minerals. In 2002, CNOOC paid $584 million to acquire Spanish oil company Repsol-YPF, largely for its Indonesian oil and gas assets. The Chinese government is aggressively encouraging Chinese companies to invest and bid for engineering and construction projects in ASEAN economies, partly to access commodities.

A key aspect that makes the ASEAN-China FTA proposal more attractive to ASEAN countries, by comparison with Japanese and South Korean initiatives, is the Early Harvest program, which aims to reduce tariffs on most goods to less than 5 percent during 2004–10. Specifically, all parties will eliminate tariffs on eight categories of agricultural products by 2010.[18] Tariffs on other sensitive goods, including sugar, iron, steel, and cars, will be reduced to less than 20 percent by 2012. The FTA's Early Harvest program thus gives ASEAN exporters, especially agricultural producers, a significant advantage over other WTO members. After tariffs on Chinese imports of fruits and vegetables were eliminated, Chinese imports from ASEAN increased by 39 percent within the first

[16] Based on total exports and imports between China and original ASEAN members, known as ASEAN-6.
[17] Moreover, according to the ASEAN Secretariat (2002), the ASEAN-China FTA would increase GDP by 0.9 percent in ASEAN and by 3 percent in China.
[18] Agricultural products eligible under the Early Harvest program include live animals, meat, fish, dairy products, other animal products, live trees, edible vegetables, and edible fruits and nuts. Moreover, under the program, quotas and quantitative restrictions will be replaced by tariffs on other agricultural products, such as palm oil, rice, and sugar. Concerned about competition from Chinese agricultural imports, the Philippines is the only country not participating in the program.

six months of 2004. During the same period, Thai vegetable exports to China increased by 38 percent and fruit exports jumped by 80 percent.[19] While the ASEAN-China FTA has yet to address sensitive issues, such as Chinese restrictions on palm oil imports, the pact has helped mitigate commercial fears of Chinese dominance.

New Zealand FTA.*[20]* The New Zealand Trade and Economic Cooperation Framework Agreement (TECF), signed in May 2004, represents a general statement of economic intent rather than a concrete agreement to liberalize trade.[21] Under Annex 1, the TECF enumerates specific areas for future cooperation, including in agriculture, forestry, environmental protection, and intellectual property rights.[22]

The TECF paved the way for FTA negotiations, which began in 2005. China is New Zealand's fourth largest trading partner, and New Zealand is expected to make significant economic gains with the bilateral FTA. Based on New Zealand statistics (which differ sharply from Chinese statistics), in 2004, New Zealand merchandise exports to China (mostly dairy and other agricultural products) reached $1.7 billion, and services exports totaled $1.1 billion.[23] Chinese merchandise exports to New Zealand were about $3.4 billion in 2004 (based on New Zealand statistics), mostly textiles and apparel, footwear, electronics, and manufacturing goods. Economic models (Joint Study Report 2004) suggest that the FTA will increase New Zealand goods and services exports between 20 and 39 percent over a 20-year period (2007–27), translating into an annual average increase of between $180 million to $280 million. Again, gravity models suggest that these estimates are too conservative (DeRosa and Gilbert 2005). New Zealand stands to make the largest gains in agriculture (especially dairy), fruits and vegetables, and processed food.[24] However, China is particularly wary that agricultural trade liberalization would adversely affect its farmers, especially in the dairy sector.

[19] The Early Harvest proposal also benefits poorer ASEAN countries (Cambodia, Laos, and Vietnam) by including technical assistance and extending most-favored nation treatment of China's WTO accession commitments to non-WTO members.

[20] China also signed a Trade and Economic Framework with Australia in October 2003, and the proposed bilateral Australia-China FTA is nearly identical to the New Zealand FTA.

[21] The objectives of the New Zealand TECF are particularly vague, including objectives to "lay foundations for future economic and trade cooperation" between China and New Zealand. See New Zealand Ministry of Foreign Affairs and Trade (2005). While there is no negotiating deadline, the FTA is expected to be implemented by January 2007. See Fran O'Sullivan, "China Keen for Wide Trade Deal," *New Zealand Herald,* June 1, 2005.

[22] The TECF also includes a mutual pledge to reduce technical barriers to trade and encourage New Zealand firms to provide training, investment, and trade opportunities in the poorer northeastern and western Chinese provinces.

[23] Based on Statistics New Zealand (2005), which are different than UN Comtrade figures (derived from Chinese trade data) reported in table 4.

[24] Based on the Joint China–New Zealand Feasibility Study, which uses a dynamic CGE model. New Zealand currently faces high Chinese import tariffs on agricultural products ranging from milk powder (10 percent) to kiwi fruit (20 percent). Out-of-quota wool exports face duties of 38 percent. For its manufactured exports, New Zealand would benefit from lower tariffs in specific products, including fridge-freezer and air-conditioner units. See New Zealand Ministry of Foreign Affairs and Trade (2005).

Similarly, Chinese officials are concerned that agriculture could remain a stumbling block in ongoing FTA negotiations with Australia.[25]

By contrast, the FTA will provide China with comparatively small export opportunities. The joint New Zealand FTA feasibility study estimates Chinese exports to New Zealand will increase by between 5 and 11 percent over the same 20-year period (2007–27), translating into an average annual increase of between $37 million and $66 million. Again, it must be emphasized that such ex ante forecasts of trade gains from an FTA, based on computable general equilibrium (CGE) models, are often wide off the mark (DeRosa and Gilbert 2005).

Forecasts aside, why is China interested in an FTA with New Zealand? China is keen on using the New Zealand FTA to position itself as a free trader when negotiating FTAs with larger industrial countries. Moreover, since the FTA will result in zero tariffs, China plans to use the FTA to advance domestic economic reforms. The FTA is particularly attractive because New Zealand is the first industrialized country to grant China market economy status. By recognizing China as a market economy, New Zealand agrees to waive discriminatory AD measures under Sections 15, 16, or paragraph 242 of China's WTO accession protocol. Instead, New Zealand will apply the same AD and CVD methodology that it applies to other WTO members.[26]

PAN-ASIAN FTA

Former Malaysian Prime Minister Mahathir Mohamad first proposed the idea of an Asian economic bloc in 1990. In response, former US Secretary of State James Baker dismissed the Mahathir proposal for "drawing a line down the Pacific" and instead proposed APEC. Yet Mahathir's vision was realized in 1993—in watered-down form and with different political overtones—through the ASEAN+3 cooperative framework, which includes the 10 ASEAN members and China, Japan, and South Korea.[27]

---

[25] See Tracy Sutherland and John Breusch, "Textiles and Agriculture Will Be Sticking Points," *Australian Financial Review,* April 20, 2005.

[26] AD measures based on the nonmarket economy methodology were pioneered by the United States in the 1970s and are codified in the WTO Antidumping Code (technically known as the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994). According to the New Zealand government, there is "no universally accepted definition of a 'market economy' " and China "now has enough of the key characteristics of a 'market economy' to be regarded as one." See New Zealand Ministry of Foreign Affairs and Trade (2005, 2004). In April 2005, Australia became the second industrial country to grant China market economy status. Like New Zealand, Australia waived its right to apply discriminatory AD and safeguard measures against China as outlined under the Chinese WTO accession protocol. See Australia Government Department of Foreign Affairs and Trade, "Market Economy Status," available at www.dfat.gov.au/geo/china/fta/facts/market_economy.html (accessed on June 1, 2005).

[27] The ASEAN+3 has been holding regular meetings of its finance ministers since 1998 and plans to hold the first East Asia Summit in 2005. Other proposals to promote Asian economic regionalism include a docking mechanism within a web of Japanese bilateral agreements. For example, China and ASEAN would be included in a bilateral Japan-Korea FTA. See Evenett, Venables, and Winters (2004).

Unlike the sequence followed by the European Union and NAFTA, Asian financial integration has actually preceded trade cooperation. The ASEAN+3 swap arrangement, known as the Chiang Mai initiative, served as the precursor for expanding trade and financial cooperation. Established in 2000, the Chiang Mai proposal is based on a network of bilateral currency swap arrangements intended to provide a bulwark against a future Asian financial crisis. In May 2005, the ASEAN+3 finance ministers agreed to at least double their initial $39.5 billion currency swap arrangements.[28] The Chiang Mai initiative is thus seen as the first step in the creation of an Asian Monetary Fund (AMF). As much as anything, the AMF concept is inspired by resentment over US-EU dominance of the International Monetary Fund (IMF) and the perceived mismanagement of the 1997–98 Asian financial crisis.

A regional Asian FTA that includes two highly protected sectors—agriculture and services—could lead to significant economic benefits. However, the core gains, and the biggest obstacles, are to be found in Northeast Asia—an FTA that links China, Japan, and Korea. According to one estimate (again probably conservative), a Northeast Asian FTA would raise Chinese GDP by more than 2 percent (Scollay and Gilbert 2001).

While a pan-Asian FTA that encompasses Northeast Asia would have significant economic payoff, it faces enormous hurdles. Japan and South Korea are strongly opposed to removing agricultural barriers. Historic animosity and possible military rivalry between Japan and China also make a pan-Asian FTA even more problematic.[29]

CONCLUSION

So far there is little evidence that the FTA process—whatever its shortcomings—is leading to a three-bloc configuration of the world economy. To be sure, the European Union is an economic bloc, but its "out-of-area" FTAs do not add up to an EU-centered bloc. While the United States is the anchor of FTAs in the Western Hemisphere, including NAFTA, CAFTA-DR, and the Free Trade Area of the Americas (FTAA), currently it is most actively engaged in concluding multiple FTAs in the Middle East. Moreover, the FTAA project is not doing well at the moment.

The ASEAN-China FTA is probably the most ambitious and active initiative in East Asia. However, in addition to ASEAN-China, about eight regional agreements are associated with

---

[28] East Asian governments also agreed to double the share of emergency funds that could be disbursed, without the recipient government implementing an IMF program, from 10 to 20 percent. See Victor Mallet, "Support Deal 'Could Become Asian IMF'," *Financial Times,* May 6, 2005; and Hae Won Choi, "Swap Arrangements By Central Banks To Aid Liquidity," *Asian Wall Street Journal,* May 30, 2005.

[29] While visiting Japan in May 2005, Chinese Vice Premier Wu Yi proposed a bilateral FTA. But bilateral relations reached a historic 30-year low when he abruptly cancelled a meeting with Japanese Prime Minister Koizumi over Koizumi's visits to the controversial Yasukuni war shrine.

ASEAN.[30] Excluding ASEAN-related FTAs, Asian countries initiated some 74 regional and bilateral FTAs; and Asian countries also participate in about 59 FTAs with non-Asian partners.[31] As a result, the impression that East Asian countries are forming a contiguous, regional bloc is, for the moment, misleading.

As mentioned earlier, China is an active player in the FTA game. However, only two of its FTAs, with Hong Kong and Macao, have been implemented, and new FTA proposals on the drawing board are not as comprehensive. If China manages to successfully implement FTAs with significant goods and services liberalization, the agreements would give a strong push to regional liberalization. At this writing, a regional Asian economic bloc led by China seems distant, even though China accounts for about 30 percent of regional GDP. Moreover, as in Europe and the Western Hemisphere, many Asian countries are pursuing FTAs with countries outside the region (see table 3).

Despite the political obstacles, booming Asian intraregional trade suggests there are strong reasons for greater policy coordination, perhaps through a pan-Asian FTA. During 1975–2001, East Asian intraregional trade far outpaced intraregional trade in the European Union or NAFTA, growing by about 16 percent per year. In emerging Asia, the contribution of intraindustry trade expansion to total expansion increased from about 43 percent in 1986–90 to 75 percent in 1996–2000.[32] By 2003, the intraregional trade ratio in East Asia was about 53 percent, which is higher than NAFTA (45 percent) and catching up to the European Union (60 percent) (Iwao 2005).

As is commonly known, GDP growth among the core EU countries is anemic. The European Central Bank recently cut its growth forecast for the European Union to between 1.1 and 1.7 percent.[33] The recent rejection of the EU constitutional treaty by France and the Netherlands suggests that political unity in the European Union is a distant proposition (Shell International Ltd. 2005). A single European voice on foreign policy and a pan-European military force are both remote. A looming if low-probability economic concern is a crisis in the euro area as Italy approaches national bankruptcy. Thus, while the European Union has successfully enlarged its economic membership to include ten peripheral economies, as a political venture the European Union faces significant obstacles.

---

[30] ASEAN-related FTAs and financial integration measures include ASEAN, ASEAN+CER, ASEAN-Japan, ASEAN-Korea, ASEAN-China, ASEAN+3, and the Chiang Mai initiative (see table 3).

[31] Asian FTAs are based on East and Southeast Asian partners. Non-Asian FTAs include South Asian (India and Pakistan) and Pacific partners (Australia and New Zealand).

[32] Emerging Asia includes China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand. See Zebregs (2004).

[33] German GDP is expected to grow by only 1.1 percent in 2005. In France, more than one worker in ten is unemployed.

In the post-NAFTA era, US trade with Canada and Mexico has grown twice as fast as US trade with the rest of the world.[34] The past decade has been prosperous in the United States and Canada. Mexico has not performed nearly up to its potential but, after the peso crisis, Mexico did better than most of Latin America. Putting the economic benefits of regional integration aside, political differences divide North America, ranging from the lack of Canadian and Mexican support for the Iraq war to the absence of an immigration accord. Prospects for concluding a trade and investment bloc in the Western Hemisphere through other FTAs, notably the FTAA, are not assured. Even if the FTAA is concluded, it certainly does not portend a political bloc organized around Washington.

To conclude, on present evidence, the FTA process embraced with some enthusiasm in Asia, Europe, and the Western Hemisphere more closely resembles fingers reaching idiosyncratically around the globe than the formation of politico-economic blocs centered respectively on Beijing, Brussels, and Washington.

[34] For more details about the economic gains from NAFTA, see chapter 1 of Hufbauer and Schott (2005) and Pastor (2004).

REFERENCES

Antkiewicz, Agata, and John Whalley. 2004. *China's New Regional Trade Agreements*. NBER Working Paper 10992 (December). Cambridge, MA: National Bureau of Economic Research.

ASEAN (Association of South-East Asian Nations) Secretariat. 2002. *Southeast Asia: A Free Trade Area*. Jakarta: ASEAN Secretariat. www.aseansec.org/viewpdf.asp?file=/pdf/afta.pdf (accessed on May 30, 2005).

Brenton, Paul, and Miriam Manchin. 2002. *Making EU Trade Agreements Work: The Role of Rules of Origin*. CEPS Working Document 183. Brussels: Centre for European Policy Studies (March).

China National Bureau of Statistics. 2004. *China Statistical Yearbook*. Beijing: China Statistics Press.

DeRosa, Dean, and John Gilbert. 2005. The Economic Impacts of Multilateral and Regional Trade Agreements in Quantitative Economic Models: An Ex Post Evaluation. Draft paper prepared for the Institute for International Economics. Washington: Institute for International Economics (June).

European Commission Directorate General for Trade. 2005. Bilateral Trade Relations. europa.eu.int/comm/trade/issues/bilateral/index_en.htm (accessed on August 16, 2005).

Evenett, Simon J., Anthony J. Venables, and L. Alan Winters. 2004. The Sequencing of Regional Trade Initiatives in Europe and East Asia (February). Prepared for the European Commission. Brussels: European Commission.

Hufbauer, Gary, and Jeffrey Schott. 2005. *NAFTA Revisited: Achievements and Challenges*. Washington: Institute for International Economics (forthcoming).

Iwao, Matsuda. 2005. *Free Trade Vision for East Asia*. CEAC Commentary. Tokyo: Council on East Asian Community (April).

Krumm, Kathie, and Homi Kharas. 2003. *East Asia Integrates*. Washington: World Bank.

Lincoln, Edward J. 2003. Testimony on China's Growth As a Regional Economic Power: Impacts and Implications (December). US-China Economic and Security Review Commission. Washington: US House of Representatives.

New Zealand Ministry of Foreign Affairs and Trade. 2005. China Free Trade Agreement Frequently Asked Questions. www.mfat.govt.nz/tradeagreements/nzchinafta/faqs.html (accessed on May 30, 2005).

New Zealand Ministry of Foreign Affairs and Trade. 2004. Joint Study Report on a Free Trade Agreement Between China and New Zealand. www.mfat.govt.nz/tradeagreements/nzchinafta/jointstudyreportindex.html (accessed on August 16, 2005).

New Zealand Ministry of Foreign Affairs and Trade. 2004. Trade and Economic Cooperation Framework, Paragraph 10 (May). www.mfat.govt.nz/tradeagreements/nzchinafta/tecfmay04.html (accessed on May 30, 2005).

Ng, Francis, and Alexander Yeats. 2003. *Major Trends in East Asia: What Are Their Implications for Regional Cooperation and Growth?* World Bank Policy Research Working Paper 3084. Washington: World Bank (June).

Pangestu, Mari, and Sudarshan Gooptu. 2003. New Regionalism: Options for China and East Asia. In *East Asia Integrates*, eds. Kathie Krumm and Homi Kharas. Washington: World Bank.

Pastor, Robert A. 2004. North America's Second Decade. *Foreign Affairs* (January/February).

Schott, Jeffrey J. 2001. Free Trade Agreements: The Cost of US Nonparticipation. Testimony before the Subcommittee on Trade Committee on Ways and Means (March). Washington: House of Representatives.
www.iie.com/publications/papers/paper.cfm?ResearchID=405 (accessed on August 16, 2005).

Scollay, Robert, and John P. Gilbert. 2001. *New Regional Trading Arrangements in the Asia Pacific?* Washington: Institute for International Economics.

Shell International Ltd. 2005. *Global Scenarios to 2025*. London: Shell Center.

Statistics New Zealand. 2005. New Zealand–China: Free Trade Agreement. www.mfat.govt.nz/tradeagreements/nzchinafta/importexports.html (May 30, 2005).

Sutherland, Peter, ed. 2004. *The Future of the WTO: Addressing Institutional Challenges in the New Millennium*. Geneva: World Trade Organization.

USTR (US Trade Representative). 2005. Trade Agreements. www.ustr.gov/Trade_Agreements/Section_Index.html (accessed on August 16, 2005).

Wang, Jiangyu. 2004. China's Regional Trade Agreements: The Law, Geopolitics, and Impact on the Multilateral Trading System. *Singapore Yearbook of International Law and Contributors* 8.

Zebregs, Harm. 2004. *Intraregional Trade in Emerging Asia*. IMF Policy Discussion Paper. Washington: International Monetary Fund (April).

Table 1 Implemented, negotiated, and proposed FTAs: United States, 1985–2005

Partner country	Type of FTA[1]	Year[2]	Two-way trade, **2003** (millions of dollars)	Percent of US total two-way trade
Implemented				
Israel	Bilateral	1985	17,336	0.9
Canada, Mexico	Regional (NAFTA)	1994	593,072	31.2
Jordan	Bilateral	2001	1,153	0.1
Chile	Bilateral	2004	6,422	0.3
Morocco	Bilateral	2004	859	0.0
Singapore	Bilateral	2004	29,180	1.5
Australia	Bilateral	2005	18,918	1.0
Central America[3]	Regional (CAFTA-DR)	2005	31,233	1.6
Subtotal			**698,182**	**35.1**
Negotiated but not implemented[4]				
Bahrain	Bilateral	2004	875	0.0
Subtotal			**32,109**	**1.7**
Proposed [5]				
Asia Pacific[6]	Regional (APEC)	1989	1,230,160	64.7
Canada, Mexico, Central America, Caribbean, South America[7]	Regional (FTAA)	1994	716,023	37.7
ASEAN[8]	Regional (EAI)	2002	122,416	6.4
Middle East[9]	Regional (MEFTA)	2003	54	0.0
Southern Africa[10]	Regional (SACU)	2003	8,343	0.4
Andean Nations[11]	Regional	2004	37,478	2.0
Colombia	Bilateral	2004	9,842	0.5
Egypt	Bilateral	2004	3,766	0.2
Korea	Bilateral	2004	59,455	3.1
Oman	Bilateral	2004	924	0.0
Panama	Bilateral	2004	1,989	0.1
Sri Lanka	Bilateral	2004	1,950	0.1
Thailand	Bilateral	2004	20,474	1.1
Caribbean Basin[12]	Bilateral	2005	11,231	0.6
Malaysia	Bilateral	2005	35,445	1.9
New Zealand	Bilateral	2005	4,135	0.2
United Arab Emirates	Bilateral	2005	4,455	0.2

(table continues next page)

Table 1 *(continued)*

1. Regional initiative free trade agreements (FTAs) refer to plans for partner countries to gradually increase trade and investment with the United States: first through trade and investment frameworks agreements (TIFAs), followed by bilateral investment treaties (BITs) and comprehensive FTAs. As an example, one US objective is to establish the Middle East Free Trade Area (MEFTA) by 2013.

2. For implemented FTAs, date is based on when the agreement was entered into force. For FTAs under negotiation, date is based on when negotiations began.

3. Central American partners in CAFTA-DR include: Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua.

4. Represents FTAs that have been signed but not yet entered into force.

5. Includes FTAs that are under negotiation but not yet signed or entered into force.

6. Asia Pacific partners under APEC include Australia, Brunei, Canada, Chile; China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, Taiwan, Thailand, and Vietnam.

7. South American partners under the Free Trade Agreement of the Americas (FTAA) include Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, and Venezuela.

8. ASEAN partners under the Enterprise for ASEAN Initiative (EAI) include Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

9. Middle Eastern partners involved in the MEFTA include Algeria, Bahrain, Egypt, Israel, Jordan, Kuwait, Morocco, Saudi Arabia, Tunisia, and Yemen.

10. South African partners under the proposed Southern African Customs Union (SACU) FTA include Botswana, Lesotho, Namibia, South Africa, and Swaziland.

11. Andean partners include Bolivia, Colombia, Ecuador, Peru, and Venezuela.

12. Caribbean Basin partners include Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

Source: USTR (2005).

Table 2 Implemented, negotiated, and proposed FTAs: European Union, 1994–2005

Partner country	Type of FTA[1]	Year[2]
Implemented		
Europe[3]	Regional (EEA)	1994
Tunisia	Bilateral (AA)	1998
Africa, Caribbean, and Pacific[4]	Regional EPA (ACP)	2000
Mexico	Bilateral	2000
Morocco	Bilateral (AA)	2000
Jordan	Bilateral (AA)	2002
Chile	Bilateral (AA)	2003
Lebanon	Bilateral (AA)	2003
Macedonia	Bilateral (SAA)	2004
Croatia	Bilateral (SAA)	2005
Negotiated but not implemented[5]		
Palestine	Bilateral (AA)	1997
Algeria	Bilateral (AA)	2002
Syria	Bilateral (AA)	2004
Proposed[6]		
Mediterranean[7]	Regional (EMFTA)	1995
Gulf Cooperation Council[8]	Regional (GCC)	1999
South Africa[9]	Bilateral	2000
South America[10]	Regional (Mercosur)	2000
Singapore	Bilateral	2002
Albania	Bilateral (SAA)	2003
Central America	Regional	2003
India	Bilateral	2003
Peru	Bilateral	2003
Russia	Bilateral	2003
Andean[11]	Regional (AA)	2004
Egypt	Bilateral (AA)	2004
Southeast Asia[12]	Regional (ASEAN)	2004

1. AA refers to European Association Agreements, which are similar to US bilateral or regional free trade agreements (FTAs). SAA refers to European Stabilization and Association Agreements that replaced bilateral FTAs between the EU and southeast European countries.

2. For implemented FTAs, date is based on when the agreement was entered into force. For all other agreements under negotiation, date is based on when negotiations began, or when framework agreements were signed.

3. EEA refers to the European Economic Area Agreement, which extended the EU Single Market legislation to Iceland, Liechenstein, and Norway.

4. Includes 78 signatories based in west Africa, central Africa, southern Africa, and the Caribbean Pacific.

5. Represents FTAs that have been signed but not yet entered into force.

(table continues next page)

Table 2 *(continued)*

6. Includes FTAs that are under negotiation but not yet signed or entered into force.
7. EMFTA refers to the Euro-Mediterranean Free Trade Area, or an agreement to establish an FTA between the European Union and 12 countries by 2010, including Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Authority, Syria, Tunisia, and Turkey.
8. Gulf Cooperation Council (GCC) includes the following partners: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
9. EU-South Africa FTA is partially implemented on certain goods, pending the establishment of a comprehensive FTA by 2012.
10. Mercosur countries include Argentina, Brazil, Paraguay, and Uruguay.
11. Andean partners include Bolivia, Colombia, Ecuador, Peru, and Venezuela.
12. ASEAN partners include Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

Note: EU bilateral and regional trade agreements are not as comprehensive as the United States'. Most FTAs are labeled as Association Agreements, which sometimes excludes free trade in services and investment. Note however, that this table does not include European Economic Partnership Agreements (EPAs) with African, Caribbean, and Pacific (ACP) countries. EPAs seek to establish a more reciprocal relationship than existed under the previous Lome accords (1975) which eventually transforms into an FTA. Currently there are 78 ACP countries under EPAs. Including EPAs would thus raise the total number of EU FTAs from 26 to 104.

Sources: Based on various media reports, European Commission Directorate General for Trade (2005), and Schott (2001).

Table 3 Implemented, negotiated, and proposed FTAs: Asia (except China and Taiwan), 1992–2005

Asian country or regional grouping	Partner(s)	Type of FTA	Year
Implemented			
AFTA (ASEAN FTA)	Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam	Regional	
India	Nepal	Bilateral	1991
India	Sri Lanka	Bilateral	1999
Japan	Mexico	Bilateral	2005
Korea	Chile	Bilateral	2004
Singapore	New Zealand	Bilateral	2001
Singapore	Japan	Bilateral	2002
Singapore	Jordan	Bilateral	2005
Singapore	Australia	Bilateral	2003
Singapore	Switzerland, Iceland, Liechtenstein, and Norway (EFTA)	Regional	2003
Singapore	United States	Bilateral	2004
Thailand	Australia	Bilateral	2005
Thailand	Laos	Bilateral	1991
Thailand	New Zealand	Bilateral	2005
Negotiated but not yet implemented[1]			
India	Mercosur[2]	Regional	2005
Korea	Switzerland, Iceland, Liechtenstein, and Norway (EFTA)	Regional	2005
SAFTA	Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka	Regional	2004
Singapore	India	Bilateral	2005
Singapore	Korea	Bilateral	2005
Singapore	Pakistan	Bilateral	2005
Sri Lanka	Pakistan	Bilateral	2005

(table continues next page)

Table 3 *(continued)*

Asian country or regional grouping	Partner(s)	Type of FTA	Year
Under negotiation [3]			
ASEAN	India	Regional	2003
ASEAN	Japan	Regional	2005
ASEAN	Korea	Regional	2005
ASEAN+CER[4]	Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam + Australia, New Zealand	Regional	2005
Hong Kong	New Zealand	Bilateral	2001
India	Chile	Bilateral	2004
Japan	Indonesia	Bilateral	2005
Japan	Malaysia	Bilateral	2005
Japan	Philippines	Bilateral	2004
Japan	Thailand	Bilateral	2004
Korea	Canada	Bilateral	2005
Korea	Japan	Bilateral	2003
Malaysia	Australia	Bilateral	2005
Malaysia	New Zealand	Bilateral	2005
Malaysia	Pakistan	Bilateral	2005
Singapore	Canada	Bilateral	2001
Singapore	Mexico	Bilateral	2000
Singapore	Peru	Bilateral	2005
Singapore	Qatar	Bilateral	2004
Thailand	Bahrain	Bilateral	2002
Thailand	India	Bilateral	2003
Thailand	Peru	Bilateral	2004
Thailand	United States	Bilateral	2004
Trial balloons [5]			
ASEAN +3	Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam + China, Japan, Korea	Regional	2001
East Asia FTA	China, Japan, Korea	Regional	2002

(table continues next page)

Table 3 *(continued)*

Asian country or regional grouping	Partner(s)	Type of FTA	Year
India	Mexico	Bilateral	2004
Indonesia	United States	Bilateral	2005
Japan	Australia	Bilateral	2005
Japan	Canada	Bilateral	2004
Japan	Chile	Bilateral	2005
Korea	Australia	Bilateral	2000
Korea	India	Bilateral	2005
Korea	Mercosur	Regional	2005
Korea	Mexico	Bilateral	2002
Korea	New Zealand	Bilateral	2000
Korea	Thailand	Bilateral	2003
Korea	United States	Bilateral	2005
Malaysia	European Union	Bilateral	2005
Malaysia	India	Bilateral	2005
Malaysia	United States	Bilateral	2004
Pacific 5	United States, Chile, Australia, New Zealand, and Singapore	Regional	1998
Pakistan	United States	Bilateral	2005
Singapore	Bahrain	Bilateral	2003
Singapore	Egypt	Bilateral	2004
Singapore	Kuwait	Bilateral	2004
Singapore	Panama	Bilateral	2004
Singapore	Sri Lanka	Bilateral	2003
Singapore	United Arab Emirates	Bilateral	2005
Thailand	Israel	Bilateral	2005
Thailand	Pakistan	Bilateral	2005

ASEAN = Association of Southeast Asian Nations
EFTA = European Free Trade Association
SAFTA = South Asia Free Trade Association
SEP = Strategic Economic Partnership

1. Represents FTAs that have been signed but not yet entered into force.
2. Mercosur partners include full members (Argentina, Brazil, Paraguay, and Uruguay) and associate members (Chile, Bolivia, Peru, Venezuela, and possibly Mexico).
3. Represents the year when formal negotiations began.
4. CER: Australia-New Zealand Closer Economic Partnership.
5. Represents informal intergovernmental talks or government-sponsored studies preliminary to negotiation and includes proposals made by at least one responsible government official for discussion or study.

Sources: Krumm and Kharas (2003); personal communication with Noboru Hatakeyama, 2005.

Table 4 Implemented, negotiated and proposed FTAs: China, 1989–2005

Partner country	Type of FTA	Year[1]	Two-way trade, **2003** (millions of dollars	Percent of China total two-way trade
Implemented				
Hong Kong, Macao[2]	Bilateral	2004	88,859	10.4
Negotiated but not implemented[3]				
Thailand	Bilateral	2003	12,655	1.5
Proposed[4]				
Asia Pacific[5]	Regional (APEC)	1989	596,882	70.1
East Asia	Regional (Japan, Korea, China)	2000	284,173	33.4
Southeast Asia	Regional (ASEAN)	2002	78,254	9.2
Brazil	Bilateral	2004	7,986	0.9
Gulf Cooperation Council[6]	Regional (GCC)	2004	16,876	2.0
India	Bilateral	2004	7,595	0.9
Mexico	Bilateral	2004	4,944	0.6
New Zealand[7]	Bilateral	2004	1,826	0.2
Peru	Bilateral	2004	1,114	0.1
Singapore	Bilateral	2004	19,349	2.3
South Africa	Regional (SACU)	2004	4,015	0.5
South America	Regional (Mercosur)	2004	11,504	1.4
Australia[8]	Bilateral	2005	13,564	1.6
Chile	Bilateral	2005	3,532	0.4
Iceland	Bilateral	2005	68	0.0
Japan	Bilateral	2005	133,557	15.7
Korea	Bilateral	2005	63,223	7.4
Pakistan	Bilateral	2005	2,430	0.3

1. For implemented free trade agreements (FTAs), date is based on when the agreement was entered into force or signed.

For agreements under negotiation, date is based on when negotiations began, or when framework agreements were signed.

2. Bilateral trade agreements with Hong Kong and Macau are known as Closer Economic Partnership Agreements (CEPAs).

3. Represents FTAs that have been signed but not yet entered into force.

4. Includes FTAs that are under negotiation but not yet signed or entered into force.

5. Asia Pacific partners under APEC include Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, Taiwan, Thailand, and Vietnam.

6. Gulf Cooperation Council (GCC) includes the following partners: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

7. China signed a Trade and Economic Framework Agreement (TEFA) with New Zealand in May 2004. FTA negotiations began shortly after a joint feasibility study endorsed a bilateral New Zealand-China FTA in November 2004.

8. Similar to the US Trade and Investment Framework Agreements (TIFAs), China signed a TEFA with Australia in October 2003. After a joint feasibility study endorsed a Australia-China FTA, bilateral FTA negotiations are discussed. Australian Trade Minister Mark Vaile expressed confidence that a bilateral FTA would be completed by the end of 2007.

Sources: Lincoln (2003), Antkiewicz and Whalley (2004), Krumm and Kharas (2003), various media reports, and UN Comtrade database (2005).

Table 5 China's trade with major partners, 2003 (in millions of dollars)

Country/region	Imports: Raw materials	Imports: Manufactured goods	Imports: Total	Trade balance
Northeast Asia				
Hong Kong	2,109	9,009	11,119	65,156
Japan	16,438	57,711	74,148	-14,739
Korea	14,068	29,060	43,128	-23,033
Macao	11	175	186	1,094
Taiwan	n.a.	n.a.	49,360	-40,356
Subtotal	**32,626**	**95,954**	**177,941**	**-11,879**
	(18)	**(54)**		
Southeast Asia (ASEAN)				
Brunei*	312	0	312	-278
Cambodia*	14	12	26	269
Indonesia*	3,820	1,927	5,747	-1,265
Laos*	11	0	11	87
Malaysia	4,463	9,524	13,986	-7,845
Myanmar*	162	7	170	741
Philippines	490	5,817	6,307	-3,214
Singapore	3,956	6,529	10,485	-1,621
Thailand	3,919	4,908	8,827	-4,999
Vietnam*	1,305	147	1,457	1,726
Subtotal	**18,451**	**28,872**	**47,327**	**-16,401**
	(39)	**(61)**		
South Asia				
India*	3594	657	4251	-908
Pakistan	83	492	575	1,280
Subtotal	**3,677**	**1,150**	**4,826**	**372**
	(76)	**(24)**		
Pacific Asia				
Australia*	6,490	810	7,300	-1,036
New Zealand*	868	156	1024	-221
Subtotal	**7,358**	**966**	**8,324**	**-1,258**
	(88)	**(12)**		
South America				
Argentina*	2,565	164	2,729	-2,282
Brazil*	4,231	842	5,842	-3,699
Chile*	2,231	17	2,248	-965
Venezuela*	541	1	542	-343
Subtotal	**9,568**	**1,024**	**11,362**	**-7,289**
	(84)	**(9)**		

(table continues next page)

Table 5 *(continued)*

Country/region	Imports: Raw materials	Imports: Manufactured goods	Imports: Total	Trade balance
Gulf States*	**8,756**	**34**	**8,790**	**-704**
	(100)	**(0)**		
European Union				
France	1,387	4,716	6,103	1,227
Germany	3,672	20,619	24,292	-6,850
Italy	922	4,159	5,081	1,572
Sweden	515	2,201	2,716	-1,888
United Kingdom	1,201	2,369	3,570	7,253
Subtotal	7,697	34,063	41,761	1,315
Subtotal *(European Union as a whole)*	**n.a.**	**n.a.**	**53,017**	**19,115**
	(18)	**(82)**		
Other				
Russia*	8,240	1,488	9,728	-3,698
	(85)	**(15)**		
North America				
Canada*	2,840	1,535	4,374	1,258
United States	14,458	19,486	33,944	58,682
Mexico	586	1,090	1,677	1,590
Subtotal	**17,884**	**22,111**	**39,995**	**61,530**
	(45)	**(55)**		
World	155,270	257,489	412,760	25,468
	(38)	**(62)**		

n.a. = not available

* Countries where raw material imports dominate trade (50 percent or more).

Note: Figures in parentheses are share of total imports in percent.

Sources: Taiwan data are based on the *China Statistical Yearbook* (2004); data on all other countries are based on the United Nations Comtrade database (2005).