

Impact of Regional Economic Integration on the Expansion Strategies of Domestic and Multi-national Enterprises in China

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I. The state of China-Japan-Korea economic integration and the significance of East Asian regional cooperation

Statistics show that as of May 1, 2004 the WTO had received 208 notifications regarding regional trade agreements. East Asia is a young and dynamic market characterized by close intra-regional economic ties and a focus on exports. With the rapid increase in the number of regional trade arrangements all over the world, especially the expansion of the two major trading blocs, EU and NAFTA, every country is reformulating its foreign economic relation strategy and actively participating in intra-regional and cross-border free trade negotiations. In East Asia, bilateral contacts are frequent. Within the cooperative framework of “ASEAN + China-Japan-Korea” (10+3), China signed with ASEAN the *Framework Agreement on ASEAN-China Comprehensive Economic Cooperation* and the negotiations on goods trade have entered a substantial phase. Japan signed the JSEPA with Singapore, issued with ASEAN a joint statement on CEP and participated in bilateral FTA negotiations with several countries. Negotiations on a bilateral free trade relationship between Korea and Singapore are ongoing while Japan-Korea bilateral FTA has entered an official negotiation stage.

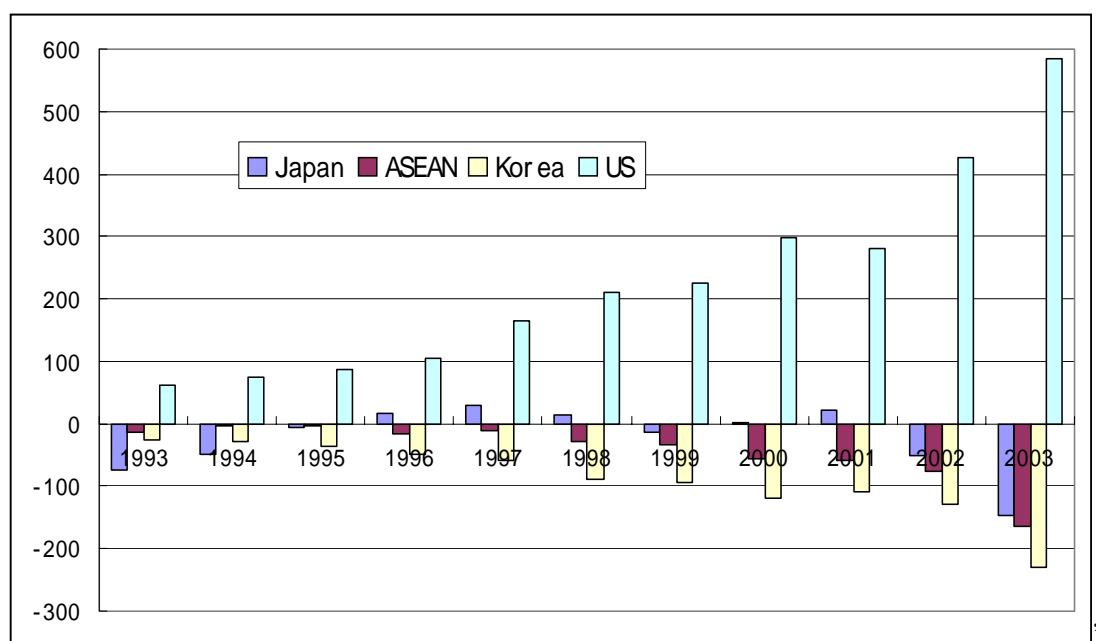
In the past ten years, market forces have driven trade and investment relations among China, Japan, and Korea to develop rapidly and economic integration to further deepen. The three countries’ intra-regional trade growth exceeded that of the global trade. The intra-regional trade has continuously expanded, making up 12% of the three countries’ total foreign trade in 2003 and economic ties became closer and closer. However, in comparison to regional trade groups such as EU, NAFTA, MERCOSUR and ASEAN, intra-regional trade among China, Japan and Korea was still at a low level. In terms of mutual investment, Japan was a capital exporter, China the importer, and Korea got FDI inflow from Japan and FDI outflow to China. The three countries’ intra-regional investment percentage rose only slightly year by year. From 2000-2003, according to Japan’s official statistics, Japan’s investment in China

continued to rise and China was the largest destination in East Asia for Japanese investment. According to Chinese statistics, Japan was China's third largest source of investment and in the past four years, Japan invested in China a total of US\$ 16.5 billion. In recent years, Korea's investment in China saw the fastest growth. In the past four years, the investment totaled US\$ 10.6 billion. In other words, in Northeast Asia, direct investment made by Japan and Korea in China is the key element affecting intra-regional industrial cooperation and structure. Meanwhile, the industry transfer through FDI of Japan and Korea does not weaken their manufacturing competitiveness. Instead, the diversion expanded their exports to China. China's FIEs trade contributed more than 50% to China's trade with Japan and Korea.¹ In particular, Japanese and Korean investors played a dominant role in the contribution. In 1991 – 2002, FIEs' annual average growth of imports and exports with Japan respectively were 31.2% and 41.2%, much higher than the average level of China-Japan total imports and exports (17.9% and 16.1%) in the same period. In 2002, FIEs' proportion in China's imports and exports with Korea were as high as 63.3% and 48.7% respectively.

China, Japan, and Korea are major players in the economic development of East Asia and the world. In the past ten years, the three countries' macroeconomic indicators have accounted for an increasing proportion of world totals. In 2003, the three countries' total population accounted for around 25% of the world total, about 20% of world total GDP and exports around 14.2% of the global total. The combined GDP and foreign trade of China, Japan, and Korea accounted for 90% and 70% respectively in the totals of the 13 countries in East Asia. In addition, intra-regional FDI in East Asia also exert impact on trade balance between East Asian countries and regions as well as that between China and countries outside the region. Since China's down-stream position in East Asia's production chain, Japan and Korea and ASEAN countries tend to increase investment into China for export processing. Transfer trade has led to increasingly greater deficits in China's trade with Japan, Korea and ASEAN (see Figure 1). In contrast, China's trade surplus with the US is expanding. Therefore, economic ties among China, Japan and Korea and their regional trade agreements have a significant impact on economic cooperation in the entire East Asian region.

¹ With regard to processing trade, FIEs represent as much as 77% of China's trade with Japan and Korea.

Figure 1: Balance of China's trade with Japan, Korea, ASEAN and the US
Unit: USD 100 m



summit meeting held in Cambodia, under the proposal of the former Chinese premier Zhu Rongji, the three countries' leaders agreed to carry out research on the economic impact of the CJKFTA. In 2003, the representative research institutes of the three countries conducted research on "Macro-economic Impact of a Possible FTA among China, Japan and Korea". During the "10 + 3" meeting in Bali, the three countries' leaders issued a joint statement confirming that research institutes of the three countries had made great progress. In 2004, China, Japan, and Korea decided to establish the Three Party Committee to promote cooperation. The three representative research institutes conduct research on "Industrial Impact of the CJKFTA".

II. Impact of regional trade liberalization on industries

1. CGE model simulation analysis: impact of regional trade liberalization on China's industries

Under complete market competition, trade liberalization will accelerate convergence of production factors in every country into their more efficient industries with comparative advantages. In every country, such phenomena as resource allocation optimization, efficiency increase and diversion of producer surplus into consumer surplus will increase the country's general welfare gains. From a macroeconomic perspective, establishing a China-Japan-Korea FTA will have positive impacts on the macro-economy of the three countries. In other words, their economies

will grow more rapidly, overall welfare will increase, and the growth, balance and terms of trade will also improve.

In regard to the effect of regional trade liberalization on industries, CGE model analysis shows that compared with the reference scenario, elimination of import duties among China, Japan and Korea will lead to great changes in output, imports, and exports in China’s sectors (see Table 1). China’s sectors that see an upturn in output growth include manufacturing industries such as textiles and clothing, electronics, leather, and agricultural sectors such as fishery, grain, vegetables and fruit. Export growth in such sectors as agricultural products and electronics was higher than import growth. But in some sectors, output growth does not result from net increase of imports and import growth is higher than export. For example, import growth in the textiles and clothing industry may be faster than export, because China’s textiles and clothing represent a high percentage of Japan’s imports. After the tariffs are removed, there is limited space for China’s export growth and the imports of high-end products from Japan and Korea will see more rapid growth, though such results will not weaken China’s overall comparativeness in such industries.

China’s sectors with a slowdown in output growth include automobile, oil, chemicals, iron and steel, machinery and food processing, etc. Export growth in machinery and iron and steel is higher than import. Import growth in automobiles, product oil, iron and steel and machinery sectors has a great potential and is higher than that of export.

Table 1: China-Japan-Korea FTA’s impact on major China’s industries

Output growth	Up	Textiles, clothing, electronics, leather, agricultural products, and nonmetallic mineral products.
	Down	Automobiles, oil, chemicals, iron and steel, machinery, non-ferrous metals, and food processing.
Export growth higher than import growth		Agricultural products, machinery, electronic products, and iron and steel.
Export growth lower than import growth		Textiles, clothing, oil, chemical and automobiles.

Data source: DRC research team.

2. Empirical Analysis: The impact of CJKFTA on China’s industries

There exist some restrictions in using CGE models to analyze the impact of regional trade liberalization on China’s industries, including the failure to update

GTAP data and consider the important factor—cross-border capital movement—in the static analysis. Hence, we analyze the impact of China-Japan-Korea FTA on China's industries, based on the statistical data in terms of China's tariff structure and level, import and export trade (including Sino-Japan and Sino-Korea bilateral trade), outputs, foreign investment stock, and employment distribution.

The export trade dependence of China's manufacturing industry is higher than its import trade dependence (28.6% and 26.4% respectively), while its dependence on exports to Japan and Korea are all less than its import dependences. It shows that China's manufacturing industry is less competitive than that of Japan and Korea as a whole.

Due to different comparative advantages, the trade liberalization among the three countries will exert various impacts on China's industries: First, the labor-intensive industries and the industries that have advantages in labor-intensive processing links may enjoy more benefit from the CJKFTA, such as telecom equipment, office machinery, clothing, shoes and hats, and agricultural and food processing. The openness of these industries (FIEs' proportions of investment stock and output) is high, and its dependence on exports to Japanese and Korean markets is high. The enterprises engaged in these industries may obtain more business opportunities, provided Japanese and Korean enterprises expedite their industry transfer to China, and the tariff is reduced.

Second, China's capital-intensive industries are at a disadvantage compared with Japanese and Korean ones. China's domestic demand in these sectors needs to be satisfied by imports including from Japan and Korea while export is relatively small, thus resulting in trade deficits with Japan and Korea. At present, foreign investment stock represents only a small proportion in these industries such as steel and petrochemicals. After the removal of tariff barriers, Chinese enterprises will face fierce competition pressure while Japanese and Korean products' comparative advantages become more obvious by lower import cost; Japanese and Korean enterprises also need to make a choice between enlarging investment and expanding exports while in face of huge business opportunities.

Third, in respect of mixed labor- and capital-intensive industries, such as textiles, rubber fabrication, plastic manufacture, electric appliances, and machinery, the three countries enjoy different comparative advantages. Thus, for some products in these sectors, Chinese imports from Japan and Korea will increase rapidly and the

short-term impact will be rather great. At the same time, the cost of processing enterprises will probably be reduced with more export opportunities.

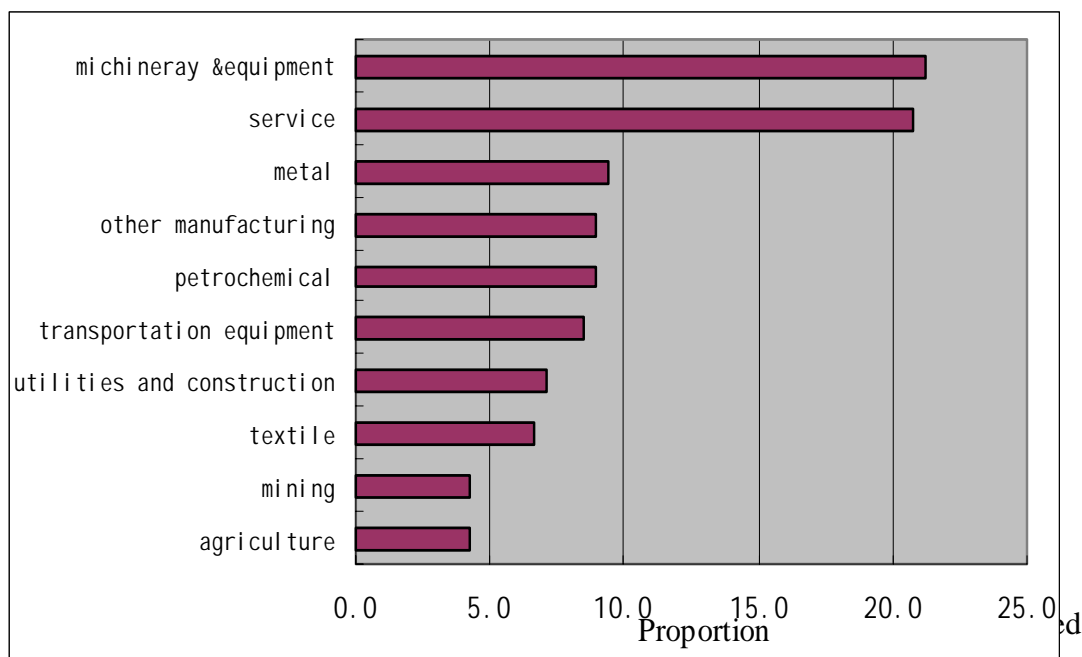
III. Viewpoint of Enterprises toward the CJKFTA

In order to understand the viewpoint of Chinese local enterprises and FIEs on the establishment of CJKFTA as well as the impact on their business strategies, in 2003, DRC team sent questionnaires to 1,650 enterprises in China. With 203 valid responses received, the feedback rate was 12.3%.²

The opinions of the surveyed enterprises are mainly on four aspects: firstly, general views on CJKFTA; secondly, the impact of CJKFTA on the regional integration in Northeast Asia; thirdly, strategies of enterprises after the establishment of CJKFTA; fourthly, policy measures that enterprises expect the three governments to adopt to promote regional economic integration in Northeast Asia.

1. Attributes of Surveyed Enterprises

1) Most surveyed enterprises are engaged in such lines of business, in the sequence of reducing proportions, as the manufacture of machinery and equipment, service industry, ferrous and non-ferrous metals, petrochemical industry, transportation equipment, textile and clothing industries, electrical equipment, mining, and agriculture sector.



² Japan and Korea research teams also conducted the same questionnaire survey with feedback rates of 18% and 8.2%, respectively.

enterprises are large and medium-sized (see table 2).

Table 2: Size of Surveyed Enterprises

Number of Employees		Capital		Sales Volume	
Category	Proportion	Category	Proportion	Category	Proportion
Less than 100	9.95	Less than \$1 million	5.5	Less than \$1 million	4.5
101-1000	29.4	\$1-10 million	21.1	\$1-10 million	9.0
1000 - 5000	32.8	\$10-100 million	48.2	\$10-100 million	38
Over 5000	27.8	Over 100 million	25.1	Over 100 million	48.5

2) Ownership of surveyed enterprises. Table 3 shows that 53% are state-owned or state-holding companies; about 27% are foreign invested or joint ventures. The proportion of private enterprises is only 5%. Among all surveyed enterprises, 48.8% are listed companies. And the proportion of group companies is 4%. The above results indicate that state-owned large and medium-sized enterprises as well as FIEs pay much more attention to the economic integration in Northeastern Asia.

Most surveyed FIEs are Japan- or Korea-invested enterprises in China, in which 67% are Japan-invested, 18% are Korea-invested ones, and some subordinated companies of Hong Kong, ASEAN and EU countries also participated in the survey. It shows that Japanese-and Korean-invested enterprises in China are more concerned with the institutional arrangements of economic cooperation in Northeastern Asia compared with those invested by other countries or regions.

Table 3: Types of Enterprise (138 valid responses)

Type of Ownership	Proportion	Foreign Enterprises	Proportion
State-owned or State-holding Enterprise	52.97	Japan	66.7
Solely Foreign Invested Enterprises	9.41	Korea	18.2
Chinese-Foreign Joint Venture	17.33	Hong Kong	9.1
Chinese-Foreign Cooperative Venture	0	ASEAN	6.1
Group Enterprise	3.96	EU	24.2
Private Enterprise	5.45	US	0
Others	10.89	Other countries	3.0

3) Foreign trade business of surveyed enterprises. As far as the source of import is concerned (Table 4), 75% of surveyed enterprises import from Japan. The proportion of surveyed enterprises with imports from the US, EU and Korea is 45% respectively, followed by Korea, Hong Kong and ASEAN countries.

The export markets for surveyed enterprises are rather wide: Japan is the major

export market. About 72% surveyed enterprises export to Japan, then to the US and EU (accounting for 59% and 60% respectively). 50% of surveyed enterprises export to Hong Kong and Korea, and 30~40% of surveyed enterprises export to ASEAN, the Middle East, and other regions or countries in the world.

Table 4: Structure of Major Import and Export Markets of Surveyed Enterprises

Source of Import	Proportion	Target Market for Export	Proportion
Japan	74.8	Japan	71.5
US	45.5	US	58.7
EU	44.9	EU	60.5
Korea	44.3	Hong Kong	52.3
Hong Kong	31.7	Korea	48.8
Other places in the world	22.2	ASEAN countries	42.4
ASEAN countries	14.4	Other places in the world	38.4
Latin-America	8.4	Middle East	37.2
Other Asian Countries or Regions	9.6	Other Asian Countries	30.2
Middle East	4.2	Latin-America	29.7

2. General Views on the FTA among China, Japan, and Korea

Generally speaking, most surveyed enterprises support the idea of establishing the CJKFTA. The percentage of respondents answering “Support” to this question was 79 percent in Japan, 71 percent in Korea, and 85 percent in China. Among the surveyed enterprises in China, that of FIEs is even higher, reaching 91.7%.

Table 5-1: Do you agree or disagree with the idea of CJKFTA? (Unit:%)

	China	FIEs in China	Japan	Korea
Approval	85.3	91.7	78.7	70.9
Objection	1.5	8.3	5.9	13.3
Conditional approval or objection	13.2	0	14.2	15.8

Table 5-2: Views on CJKFTA by industry (Unit:%)

	Ag.	Mining	Textiles	Petro-chem.	Metals	Mach.	Transpt. equipt.	Other mfg.	Const.	Svcs
Approval	77.8	77.78	78.57	73.68	80	82.2	88.9	89.5	73.3	81.8
Conditional approval or objection	0.0	0	0	5.263	0	0	11.1	0.0	6.7	0.0
Objection	22.2	22.22	21.43	21.05	20	15.6	0	0.0	20.0	15.9

As for the specific reasons of supporting the FTA establishment, Table 4 shows that the highest percentage of respondents in all three countries chose the answer “Because an FTA will bring expansion of exports to the other two countries”, with 70

percent in China, 67 percent in Japan, and 69 percent in Korea. The second highest answer in China was “Because of reduction in importation costs from Japan or Korea,” while in Japan and Korea it was “Because of reduction in costs of customs and procedures”. Most FIEs in China regard the CJKFTA can expand exports to Japan and Korea, reduce cost of import from Japan and Korea, and enterprises could benefit from specialization within three countries.

Table 6: Reasons for Approval of the CJKFTA

	China	FIEs in China	Japan	Korea
Expansion of exports to other two countries	69.8	61.7	66.7	68.8
Reduction in cost of customs and procedures	55.7	63.8	66.7	51.4
Reduction in importation cost from other two countries	63.0	23.4	46.7	45.8
Reduction in transaction cost with affiliated or subordinated company in other two countries	14.6	36.2	38.0	22.2
Promotion of cultural and personnel exchange, therefore political stabilization of this region	47.4	36.2	20.4	34.7
Promotion of investment from the other two countries	59.4	63.8	3.9	5.6
Benefit from specialization within three countries	48.4	55.3	29.0	26.4
Stabilization of import and (or) export prices	35.4	46.8	17.3	30.6
Other	3.1	0	2.7	1.4

As for the most appropriate time of launching the CJKFTA negotiation, most surveyed enterprises responded with a positive attitude. The percentage of respondents answering “The sooner, the better,” or “Within 3 years” to this question was 83 percent in China, 79 percent in Japan, and 69 percent in Korea. Respondents in China were the most active in supporting the trilateral FTA and early negotiations, those in Korea were the most cautious, and those in Japan rested in-between the two positions. The attitudes of most FIEs in China are fairly positive. In general, an early launch of CJKFTA negotiation was universally supported (Table 7).

Table 7: To Launch the FTA Negotiation among the Three Countries

	China	FIEs in China	Japan	Korea
As an immediate action (as soon as possible)	47.4	50	46.7	23.6
Along a short-term plan (within 3 years)	35.9	39.6	32.5	45.8
Along a medium-term plan (within 5 years)	14.6	10.4	18.0	25.7
Along a long-term plan (within 10 years)	2.1	0	2.0	4.9

The survey also asked a question on the reasons other enterprises objected to the FTA (Table 8). The highest percentage of respondents in China and Korea chose the answer “Because excessive external competition pressures in the domestic market will bring about our failures in business”. In Japan, while the percentage of respondents

choosing this answer was high, the highest percentage answered “Other reasons, such as hollowing-out of industries”. In addition, some enterprises in the three countries are not sure whether the enterprises of the counterpart will obey relevant laws and keep their promises on trade liberalization, and there are insurmountable cultural and historical barriers among the three countries (which is relatively prominent in FIEs). This indicates that these enterprises lack the confidence in the institutional arrangements of economic integration among the three countries. The three governments should endeavor more efforts to improve the environment for regional integration.

Table 8: Reasons of Objection to the FTA among the Three Countries

	China	FIEs in China	Japan	Korea
Excess external competition pressures in domestic market will bring our failure in business	55.6	40	47.4	48.1
Can't be certain partner countries obey relevant laws and mutual promises	40.7	20	57.9	18.5
Cultural and historical obstacles cannot be bypassed.	18.5	40	10.5	3.7
Others	3.7	0.0	63.2	22.2
The FTA will bring de-industrialization; therefore it hinders economic growth.	3.7	0.0	0	3.7

3. Impact of the FTA among China, Japan and Korea

1) Impact on Regional Integration in Northeastern Asia

Survey results show that most surveyed enterprises think the establishment of the CJKFTA will positively push forward the regional integration in Northeastern Asia (Table 9); 88% believe it will improve the mobility of resources (goods, persons, and capital); about two-thirds think it will enhance the competitiveness and influence of Northeastern Asia in the global economy. Half of surveyed enterprises believe the FTA among the three countries will promote the industrial restructuring of China, Japan and Korea, which is conducive to the stability and security of the region. FIEs in China also hold similar opinions on this issue, comparatively high support ratio on “conducive to regional stability and security”. Only 10% surveyed enterprises do not think the CJKFTA will promote regional integration.

Table 9: Impact of FTA on Regional Integration

	China (%)	FIEs in China (%)
To improve the mobility of resources (goods, persons, and capital)	88.1	87.5
To improve the competitiveness and influence of Northeast Asia in the world	66.84	52.1
Be conducive to structural adjustment in the Northeast Asia	51.3	54.2
Be conducive to regional stability and security	50.8	66.7
The FTA cannot be expected to contribute regional integration	9.8	8.3
Other impact	1.6	0.0
I do not have any idea.	1.1	0.0

2) Impact on China's Macro-economy

Surveyed enterprises hold a positive view that the FTA among the three countries will improve China's macro-economy. 73% think it will help to raise the economic growth in China; 63% think it will increase employment; about 34% and 22% believe it will contribute to China's stabilization of consuming prices and the improvement of international balance of payment. Only less than 10% have no idea or are of objection to the above opinions, thinking the FTA will not improve China's macro-economic situation. FIEs in China have pretty much the same views.

Table 10: Impact on the Improvement of China's Macro-economy

	China (%)	FIEs in China (%)
Higher rate of economic growth	72.5	75.0
Promotion of employment	62.7	64.6
Stabilization of consumer price	34.2	39.6
Improvement of international balance of payment	22.3	22.9
Cannot expect the FTA to improve macro-economy.	5.7	6.3
I do not have any idea.	4.2	2.1
Other	3.1	2.1

3) Impact on Trade and Investment among the Three Countries

Most Chinese enterprises and FIEs in China have confidence in the positive influence of the arrangements of trade liberalization that will promote intra-regional trade and investment (Table 11). Nearly 90% of surveyed enterprises agree that the FTA will reduce China's trade conflicts with Japan and Korea, and promote Japanese and Korean investment to China.

As for other impacts, enterprises hold different opinions. 50% believe trade diversion effect is likely to take place, and China will be "less dependent on the markets outside the region" while 28% enterprises do not agree with it. 52% of

enterprises believe that countries outside the region might increase their investment in China, while 15% enterprises do not agree. Small part of enterprises chose “do not know” for they are uncertain about the future effect.

In addition, since most surveyed enterprises are large and medium-sized ones, and some of them have begun or are preparing to make overseas investment, 55% of enterprises think the formation of a regional market in Northeastern Asia might increase direct investment in Japan and Korea.

Table 11: Possible Impact of the CJKFTA on Trade and Investment

	China (%)	FIEs in China (%)
Reduce China’s dependence on markets outside the three countries	50	48.6
Reduce trade conflicts with Japan and Korea	86.7	84.4
Increase direct investment from Japan and Korea to China	88.4	85.0
Increase investment from regions other than Japan and Korea to China	51.6	55.6
Increase China’s investment to Japan and Korea	55.1	54.3

4. Strategies of Enterprises Toward the Economic Integration in Northeast Asia

Strategic changes concerning the operation and investment of enterprises after the FTA establishment are one of the important issues in the questionnaire survey. The major issues include strategies on import and export, production and sales as well as overseas investment.

1) Export Strategy.

Enterprises’ feedback concerning export strategy is quite active. 61% and 51% surveyed enterprises choose “begin or increase exports to Japan and Korea”, in which increase exports to Japan account for a relatively higher percentage. This is related to the higher dependence of surveyed enterprises on Japanese markets. It is worth noting that about 6% enterprises will change their export to Japan and Korea rather than to other countries. About 30% of surveyed enterprises choose “no change” showing a weak trade diversion effect. Comparatively, FIEs give less active feedback. Only 28% of surveyed FIEs will increase export to Korea.

Table 12-1: Changes of Export Strategies of Enterprises

	China (%)	FIEs in China (%)
Begin or increase exports to Japan	60.1	54.3
Begin or increase exports to Korea	51.4	28.3
Export to Japan and Korea instead to other countries	6.1	0.0
No change	28.7	39.1
Other	3.9	4.3

Table 12-2: Changes of Export Strategies by industry

	Industry									
	1	2	3	4	5	6	7	8	9	10
Begin or increase exports to Japan	66.7	77.8	85.7	73.7	55.0	66.7	33.3	47.4	53.3	45.5
Begin or increase exports to Korea	55.6	77.8	57.1	68.4	50.0	57.8	38.9	57.9	40.0	43.2
Export to Japan and Korea instead of other countries	0.0	0.0	7.1	0.0	10.0	0.0	11.1	0.0	6.7	0.0
No change	33.3	11.1	14.3	21.1	30.0	24.4	50.0	26.3	6.7	20.5
Other	0.0	0.0	0.0	5.3	5.0	0.0	0.0	5.3	6.7	4.5

Note: Industries are 1-agriculture, 2-mining, 3-textile, 4-petrochemical, 5-metal, 6-machinery, 7-transportation equipment, 8-other manufacturing industries, 9-construction and utility, 10-services.

2) Import Strategy.

48% and 39% surveyed enterprises choose “begin or increase imports from Japan and Korea”; 34% choose to remain unchanged. Compared with the change of export strategy, the lower percentage of enterprises that will increase imports may result from: processing trade which enjoy tax exemption policy account for over 50% of China’s bilateral trade with Japan and Korea, and the import strategy for those enterprises engaged in processing trade may not be greatly affected by the trade liberalization among the three countries. The proportion of those enterprises choosing to import from Japan and Korea instead of other countries is 14%, it indicates that the tariff levels in China is higher than that in Japan and Korea, so the elimination of tariffs has a greater impact on the import strategies of enterprise.

Table 13-1: Changes of Import Strategies of Enterprises

	China (%)	FIEs in China (%)
Begin or increase imports to Japan	48.3	45.7
Begin or increase imports to Korea	38.9	23.9
Import to Japan and Korea instead of other countries	13.9	4.3
No change	34.4	43.5
Other	4.4	4.3

Table 13-2: Changes of Import Strategies by industry

	Industry									
	1	2	3	4	5	6	7	8	9	10
Begin or increase imports to Japan	55.6	33.3	64.3	42.1	40.0	60.0	38.9	52.6	60.0	25.0
Begin or increase imports to Korea	22.2	33.3	35.7	36.8	40.0	42.2	50.0	36.8	46.7	27.3
Import to Japan and Korea instead of other countries	11.1	11.1	21.4	10.5	10.0	17.8	16.7	5.3	6.7	20.5
No change	22.2	33.3	14.3	42.1	35.0	15.6	27.8	36.8	20.0	29.5
Other	0.0	0.0	0.0	5.3	5.0	0.0	0.0	5.3	0.0	6.8

Note: Industries are 1-agriculture, 2-mining, 3-textile, 4-petrochemical, 5-metal, 6-machinery, 7-transportation equipment, 8-other manufacturing industries, 9-construction and utility, 10-services.

3) Production and Sales Strategies.

Trade liberalization and investment facilitation in Northeastern Asia will motivate enterprises to alter their production and sales strategies in domestic markets. 61% of surveyed enterprises hold that productivity can be raised by introducing new technologies” and 54% think production cost could decrease. Besides, a number of enterprises agree that the business range will be more diversified, and the added value of products will be somewhat increased. FIEs in China hold the same opinions with more of them thinking that the production cost will be reduced. Obviously, trade liberalization will urge enterprises to take various measures to improve their competitiveness and maintain the profits from domestic markets.

Table 14-1: Changes of Production and Sales of Enterprises in Domestic Market

	China (%)	FIEs in China (%)
Raise productivity by introducing new production technologies	61.1	61.7
Reduce production cost	54.2	70.2
Increase added value	39.5	19.1
Diversified business	43.7	48.9
No change	6.3	2.1
Other	2.1	2.1

Table 14-2: Changes of Production and Sales in Domestic Market by Industry

	Industry									
	1	2	3	4	5	6	7	8	9	10
Raise productivity by introducing new production technologies	44.4	66.7	64.3	73.68	80	73.3	77.8	63.2	80.0	56.8
Reduce production cost	44.4	66.7	64.3	68.42	55	66.7	55.6	63.2	60.0	40.9
Increase added value	44.4	33.3	50.0	47.37	55	28.9	50	47.4	40.0	34.1
Diversified business	66.7	44.4	57.1	63.16	45	37.8	27.8	47.4	46.7	50.0
No change	0.0	0.0	0.0	10.53	0	0	0	0.0	0.0	4.5

Note: Industries are 1-agriculture, 2-mining, 3-textile, 4-petrochemical, 5-metal, 6-machinery, 7-transportation equipment, 8-other manufacturing industries, 9-construction and utility, 10-services.

4) Strategies for Overseas Investment.

At present, Japan is the leading source of FDI in Northeastern Asia. Korea not only receives a great amount of investment from Japan, but also continuously increases their investment in China. China is basically an FDI recipient country. The survey results show the foreign investment strategies of most Chinese enterprises will not change dramatically after the establishment of CJKFTA. Anyway, about 19% and 21% surveyed enterprises will increase their investment in Japan and Korea. Only about 2% enterprises will reduce their investment. Comparatively, FIEs attach more importance to cost advantages and market potential in China, 81% of them will not divert investment from China to Japan or Korea after the CJKFTA.

Table 15-1: Changes in Foreign Direct Investment

	China (%)	FIEs in China (%)
Begin or increase investment in Japan	18.7	8.1
Decrease or abolish investment in Japan	1.75	0.0
Begin or increase investment in Korea	21.1	8.1
Decrease or abolish investment in Korea	1.2	0.0
Invest to Japan and Korea instead to other countries	3.5	0.0
No change	67.8	81.1
Other	5.3	8.1

Table 15-2: Changes in FDI by Industry

	Industry									
	1	2	3	4	5	6	7	8	9	10
Begin or increase investment in Japan	33.3	11.1	35.7	36.8	10	13.3	0	31.6	20.0	29.5
Decrease or abolish investment in Japan	11.1	11.1	7.1	5.3	0	4.44	0	0.0	0.0	4.5
Begin or increase investment in Korea	22.2	44.4	28.6	42.1	15	15.6	5.56	31.6	33.3	34.1
Decrease or abolish investment in Korea	0.0	0.0	0.0	0	0	4.44	0	0.0	0.0	2.3
Invest to Japan and Korea instead of other countries	0.0	0.0	7.1	5.3	5	0	0	0.0	6.7	11.4
No change	55.6	22.2	50.0	47.4	70	62.2	77.8	47.4	40.0	34.1
Other	0.0	11.1	0	0	10	2.22	5.56	0.0	6.7	4.5

Note: Industries are 1-agriculture, 2-mining, 3-textile, 4-petrochemical, 5-metal, 6-machinery, 7-transportation equipment, 8-other manufacturing industries, 9-construction and utility, 10-services.

5) Production base and R&D center.

Many surveyed enterprises think Japanese and Korean enterprises will probably move production and R&D bases from Japan and Korea to China, for China taking competitively advantageous in production cost and potential market scale. About 40% of surveyed enterprises, however, express they will not change their business strategies due to the CJKFTA.

Table 16-1: Changes in Production and R&D Bases

	China (%)	FIEs in China (%)
Move production bases from China to Japan or Korea	2.7	0.0
Move production bases from Japan or Korea to China	39.7	47.8
Move production bases from other countries to Japan or Korea	1.6	0.0
Move R&D bases from China to Japan and Korea	9.5	0.0
Move R&D bases from Japan or Korea to China	25.9	34.8
No change	41.8	39.1
Other	3.7	2.2

Table 16-2: Changes of Production and R&D Base by industries

	Industry									
	1	2	3	4	5	6	7	8	9	10
Move production bases from China to Japan or Korea	0.0	11.1	7.1	10.5	5.0	4.4	0.0	5.3	0.0	6.8
Move production bases from Japan or Korea to China	66.7	22.2	42.9	31.6	40.0	37.8	27.8	42.1	33.3	38.6
Move production bases from other countries to Japan or Korea	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.3
Move R&D bases from China to Japan and Korea	0.0	11.1	21.4	0.0	5.0	28.9	16.7	0.0	6.7	11.4
Move R&D bases from Japan or Korea to China	55.6	22.2	21.4	36.8	40.0	24.4	27.8	21.1	6.7	40.9
No change	11.1	44.4	21.4	36.8	45.0	28.9	38.9	31.6	53.3	22.7
Other	0.0	0.0	7.1	5.263	0	2.22	0	5.3	0.0	6.8

Note: Industries are 1-agriculture, 2-mining, 3-textile, 4-petrochemical, 5-metal, 6-machinery, 7-transportation equipment, 8-other manufacturing industries, 9-construction and utility, 10-services.

Most surveyed enterprises predict that the fast growth of Japan's investment in China will be mainly in the following industries: transportation equipment, electrical machinery, banking and insurance, chemical industry, telecommunication, textile and clothing. Korea's investment in China will increase most in transportation equipment, textile and clothing, home electrical appliances, communication equipment, electrical machinery, chemical industry, banking and insurance industries. This is in conformity with the industrial comparative advantages of Japan and Korea, indicating that the trade liberalization arrangements will promote investment and resource allocation to concentrate further on the industries with their respective comparative advantages.

Based on the above strategy changes, we can conclude the regional trade liberalization arrangement among China, Japan and Korea will exert a positive effect to the operation and investment strategies of enterprises, which will help to bring their comparative advantages into full play. The improvement of efficiency through competition will expand the regional markets, thus the economic and trade relations among China, Japan and Korea will become even closer.

5. Policy Measures Suggested by Enterprises to Promote Regional Economic Integration

At present, in order to promote regional integration, both Chinese enterprises and FIEs expect the three governments could take further measures to set up mechanisms to promote trade and economic cooperation.

1) Functional Cooperation Mechanism. Before the establishment of CJKFTA, what enterprises hope the most is to set up a cooperation mechanism to promote regional trade and investment, the second is to set up a cooperative mechanism that will promote the development and transfer of regional information and industrial technologies. Some enterprises hope to establish a cooperative mechanism, which will promote personnel exchanges and the development of human resources. Surveyed results indicate that, the five priority fields of cooperation determined by leaders of the three countries (including trade and economy, information, environment protection, human resource and cultural exchanges) have received prevailing support from the industrial circles.

Table 17: Regional Economic Cooperation Mechanism Expected by Enterprises

	China	Japan	Korea
The economic cooperation mechanism that accelerates trade and investment in the region	81.7	71	79.8
The economic cooperation mechanism that promotes development of Information Technology and industrial technology in the region.	68.6	43.8	35.0
The economic cooperation mechanism that promotes interchanges of personnel and human resources development	52.9	35.2	28.1
The economic cooperation mechanism that aims to the improvement of environment protection	39.3	21.3	17.2

2). Dialogue Mechanism. 67% of surveyed enterprises hope to establish a dialogue mechanism between enterprises and government officials so that the three governments could better understand opinions and suggestions from the industrial circles. More than half of surveyed enterprises support the idea of setting up a dialogue mechanism that promotes interchanges of views in specific industries and setting up a forum participated by business people, government officials and scholars of the three countries to discuss ways to enhance the economic cooperation..

Table 18: Dialogue Mechanism Expected by Chinese Enterprises

	China (%)
The dialogue mechanism that promotes the government to accept the business peoples' opinions.	66.7
Tripartite forum in which business people, government officials and scholar can discuss ways to enhance the economic cooperation	58.2
The dialogue mechanism that promotes interchanges of views between three countries by respective areas	52.4
Other	2.1

3) Information Exchange Mechanism. To strengthen information exchanges and cooperation among the three countries is the basic and essential requirement for

regional integration in Northeastern Asia. Enterprises support this view and pay special attention to trade and economic information exchange as well as that of related laws, rules and regulations. It is suggested to set up an international organization, or information network with free access and each government could supports private associations to provide trade and investment related information to enterprises.

Table 19: Regional Information Exchange Mechanism Expected by Chinese Enterprises

	Proportion
International organizations that provide information related to trade and investment in the region	68.9
Setting up the Free Access to Information Law in the region	67.4
The government of each country supports private leagues that provide information related to trade and investment in the region with business enterprises	56.8
Other	1.1

IV. Conclusion

After the CJKFTA establishment, China, Japan and Korea will reduce the trade cost among the three members, stimulate new trade demand, promote competition, and thereby fuel regional and even global trade development. At the same time, the trade liberalization arrangement could enhance the facilitation of intra-regional trade and investment, expand the market size, and help highlight the region’s appeal to investors within and outside the region.

Regional integration of Northeast Asia will exert a positive effect on the macro-economies of the three countries. Economic growth will speed up, trade volume will expand, and the growth, balance and terms of trade will improve as well. The CJKFTA will exert a significant influence on industries, and the pressure of competition on the heavy chemical industry that focuses on import substitution will be obviously higher than that on labor-intensive and export oriented industries with a greater degree of openness.

Chinese local enterprises and FIEs in China universally recognize the favorable impact of CJKFTA on enterprises and most of them are in favor of initiating the FTA negotiation as soon as possible.

In terms of CJKFTA’s influence, most enterprises think that the trade liberalization arrangement of the three countries will help 1) boost the economic growth and employment of the three countries; 2) reduce the trade frictions with Japan and Korea, and increase Japan and Korea’s investment in China; 3) reduce China’s

dependence on markets outside the region, and attract more investment to China from foreign countries outside the region.

In terms of the enterprise strategy, most enterprises think exports to and imports from Japan and Korea will increased by virtue of the trade liberalization and investment facilitation in Northeast Asia. The enterprises will improve productivity by introducing technology, reducing production costs, and adopting business diversification. Nearly half of the respondents think that Japan and Korea enterprises will move their production and R&D bases to China.

Certainly, China, Japan and Korea have not nailed down the timetable for the FTA negotiation. Thus, the impact of CJKFTA on local enterprises and foreign-invested enterprises in China is pending. At present, most enterprises could not adjust the details of the investment and management strategy. So the cooperation of enterprises in Northeast Asia, the adjustment of the industrial structure, and the regional integration need joint effort of governments, business, and research circles as well as all other circles of the three countries.