**China’s regional and bilateral trade agreements**

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*After joining the WTO in 2001, China has entered into a number of trade agreements. Those currently in consideration are substantially larger than the initial ones. China, more than any other large economy, needs to attempt to enhance its export growth, which has turned negative in 2013. This column discusses some of China’s trade agreements and summarizes the implemented negotiation strategy. The impact of these trade agreements on China’s economic growth also deserves attention.*

China’s efforts at international trade diplomacy did not stop with its 2001 WTO accession. China is increasingly active in her pursuit of regional trade agreements (RTAs).

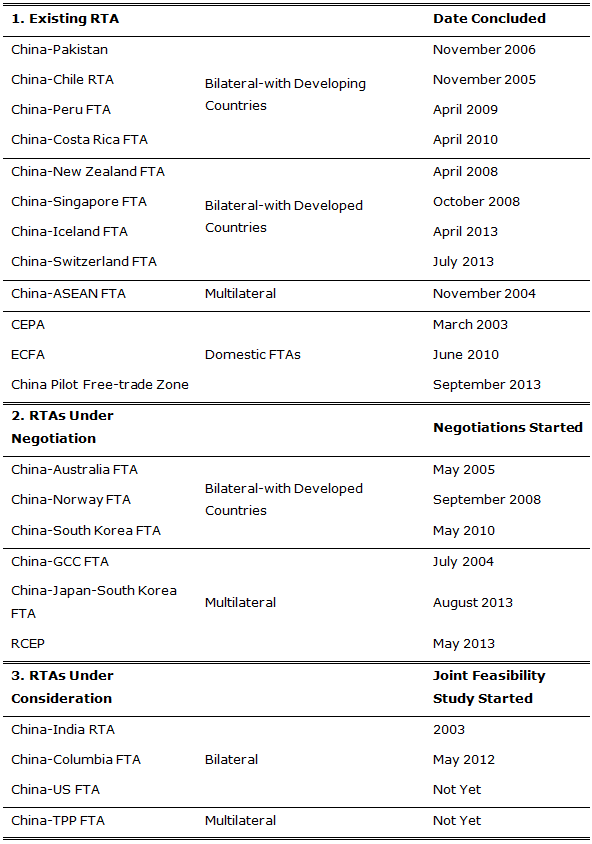
* China has concluded 12 RTAs;
* It has six RTAs under negotiation, and four under consideration.

In the early days, China focused on agreements with local (Hong Kong), or small nations (Iceland, for example) that were easier to negotiate.   
Agreements now under consideration are much larger. These include a possible participation in the Trans Pacific Partnership negotiation with 12 other Pacific countries, a bilateral agreement with India, a trilateral China-Japan-Korea agreement, a RCEP (Regional Comprehensive Economic Partnership) negotiation with 10 ASEAN members plus Australia, India, Japan, Korea, and New Zealand, and a possible China-US FTA.

China is not alone in pursuing a network of bilateral trade agreements. But China, more than any other large economy, reflects the need, given little movement in the WTO, to attempt to enhance export access in this way. Export growth, which has been falling since the financial crisis -- and in June 2013 turned negative -- is still a major policy goal, and access driven negotiation and bilateralism logically follow. But not only is this strategy now poised to potentially enter a new stage of negotiation with large partners (the US, TPP, India), but China may develop a clearer focus on access related problems in such negotiation. Included in the list are anti-dumping duties where China faces continuing problems (Bown 2010).

**Characteristics of China’s RTAs**

**Table 1**. China’s existing and prospective RTAs



*Source*: Compiled by authors based on the information from the China FTA Network (CFN 2013).

As Table 1 indicates, China has 12 RTA partners (and with 33 separate countries or regions) with which 11 agreements have already been signed. These 12 partners are the Association of Southeast Asian Countries (ASEAN), Pakistan, Chile, New Zealand, Singapore, Peru, Hong Kong, Macao, Taiwan, Costa Rica, Iceland, and Switzerland. China’s RTAs under negotiation or consideration mainly involve large potential partners: the US, TPP (12 Trans Pacific Partner countries), RCEP (13 Asian partners and Australia and New Zealand from Oceania), Japan, Korea and India.

Among the already negotiated agreements the key RTA agreements are with ASEAN and with Hong Kong/Macao. The Hong Kong/Macao agreements are notable in several areas.

* One is bilateral agreement to exempt each other from their own antidumping duty arrangements. This is similar to the bilateral exemption in the Australia-New Zealand Closer Economic Relationship RTA.
* Another is a special arrangement introduced for Hong Kong service companies in their operations in mainland Chinese market (Antkiewicz and Whalley 2005).

The ASEAN agreement is notable in yielding the largest internal market of 1.7 billion people in one RTA arrangement in the world. At the same time, however, China and ASEAN have more competition in joint country markets (EU) than joint bilateral trade, and hence the focus on economic cooperation mechanisms, in part, for potentially coordinating in third country markets.

The arrangements possibly to come for RTAs with the US, with Japan/Korea, with India, and with the TPP and RCEP countries, suggest major potential impact on China’s trade and international arrangements generally (Li and Whalley 2013). The US has, in recent years, repeatedly labelled China as a ‘currency manipulator’, and claimed China keeps an artificially low exchange rate leading to large Chinese trade surpluses. The effective 25% appreciation of the RMB since 2005 has done much to eliminate the large trade surplus, but US concerns remain. US objectives in a bilateral RTA would also involve new rules in trade for state owned enterprises, and heightened enforcement of intellectual property agreements. The Japan/Korea negotiation may be the most straightforward in economic terms because of the joint focus on economic growth, especially given China’s trade deficit with Japan, but political frictions between China and Japan, and especially the island dispute, threaten to slow the negotiation (Liu et al. 2012). India has seen rapid growth in its trade with China (by a factor of 30 or more since the mid-90s), and so the prospects are for a significant RTA, but made difficult to negotiate by protectionist pressures on the Indian side. The transpacific partnership situation is one where Chinese participation is neither assumed, nor yet sought, from the Chinese side.

**China’s negotiating strategy**

China’s RTA negotiating strategy has been developed from an initial situation of no regional agreements at the time of WTO accession in 2001. China’s strategy was to begin local and small, in part reflecting the ease of negotiation and also the learning experiences involved in sequential negotiation. The first RTA was with Hong Kong and Macao in 2003, and the first developed country RTA was with New Zealand in 2008. With the notable exception of the ASEAN agreement, all of the first 12 China’s RTAs have been with relatively small trading entities. In this way, it has been easier to achieve precedents in coverage and for later negotiation, as well as pursuing new initiatives. China’s RTAs in this initial group also show more variation than is true of US or EU regional agreements. US regional agreements typically offer accelerated tariff elimination bilaterally in return for what is effectively unilateral service liberalization by the partner. EU agreements emphasize legal structure and competition law and have partners progress through a graduation of agreements before achieving a full FTA. Chinese agreements are in contrast more varied by partners.

By beginning small and local, China’s FTA strategy has implicitly set a goal of aiming to eventually be inclusive of most key WTO members. The list includes the US, the EU, and India -- all major trading partners of China. A bilateral agreement with India is the subject of a joint feasibility study. This strategy has enabled Chinese negotiators to learn about the negotiating process and also gives China strategic benefits in delaying bilateral China-US/EU negotiation until other arrangements are in place. The effective trilateral China/US/EU negotiation, which seems likely to happen in the next few years, will also help shape the system of trade rules which will guide the world economy in the decades to come, and China through its large country RTAs will have played a major role in this.

A further feature of China’s FTAs has been their linkage to bilateral investment treaties (BITs). There are nearly 3000 BITs in place today as negotiated bilateral agreements covering dispute settlement over investment related matters, guarantees on repatriation of funds for investors, expropriation limits, and other matters. These negotiations typically either predate or follow a full RTA as a separate negotiation, and it has been notable in the Chinese case how this separateness has been the norm. Currently for the initial China-Japan-Korea RTA negotiation there is a prior tri-initial investment treaty negotiation. BITs negotiations do not typically, however, deal with the rules governing investment flows, including MFN, and so given China’s interest now in outward foreign investment a broadening in approach would seem to be in the Chinese interest.

The Chinese approach to RTAs has also not been to adopt a template – one size fits all – approach to all RTAs. Instead, diversity seems more the norm. This reflects a Chinese negotiating strategy that by fitting into the preferred broad structure of the partner more can be obtained in the detail of the negotiation. Thus the China-ASEAN agreement devotes considerable coverage to broad commitments of cooperation in development in general. These broad political commitments are in addition to precise and concrete commitments on tariff issues. In the New Zealand agreement, in contrast, there is less focus on developmental cooperation, and more on targeted precise commitments, given New Zealand’s developed country status.

**Impacts on China’s economic performance**

How much will China’s RTAs, and especially prospective RTAs, impact on China’s growth, trade and overall economic performance? By including all of China’s major trading partners in RTAs and with an average current tariff of 10% to be reduced to zero, the medium term impact of the RTA strategy could be substantial as a one off increment to trade growth.

China’s problem remains how to keep elevated growth of trade for perhaps two decades while China continues to grow. Under this strategy, the one off contribution of RTAs seems welcome and not inconsequential, but in the long run is likely not the single solution to growth. Much debate currently surrounds growth strategies in China with the prevailing view being the need to promote domestic consumption growth to partly replace trade growth as the engine of development. In this sense of helping with the transition to a new growth strategy, RTAs perhaps take on more significance.

In terms of overall growth impacts China also faces a situation following the 2008 financial crisis of not being able to continue to rely on infrastructure spending as the major growth source to replace trade when growth has slowed. The most rapid component of China’s trade growth is with other Southern countries (India, Brazil), and China’s RTAs can have a further positive impact in promoting the most dynamic components of China’s trade.

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[**15**](https://voxeu.org/article/china-s-regional-and-bilateral-trade-agreements)