

TPP, RCEP... China's Free Trade Agreements Strategy

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Beijing takes a strategic approach on free trade agreements, particularly in the face of challenges such as the TPP.

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The past decade saw China become deeply integrated into the global economy, following its accession to the World Trade Organization in 2001. In addition to removing trade barriers as a member of the multilateral trading system, China had concluded 14 free trade agreements (FTAs) as of April 2014, with neighboring countries and key trading partners. Recent trends suggest that China views FTAs as vital to achieving its economic, political, and strategic interests in the global context.

This post explores the motivations of China's promotion of FTAs, and examines its FTAs to highlight underlying trends and the future strategies Beijing may pursue in the face of the challenges posed by mega-regional trade deals such as the Trans-Pacific Partnership (TPP) and Regional Economic Comprehensive Partnership (RCEP.)

FTA Strategies

China is keen to conclude more FTAs with its trade partners to lower tariffs and gain market access in order to boost the competitiveness of its exports. FTA provisions that clarify rules of origin and simplify customs procedures have facilitated trade between China and its trading partners. Over the past decade, tariff reductions coupled with the China's tax exemption on imported raw materials and other inputs used for export goods have played an important role in China's rise as a global production network hub. Consequently, multinational enterprises have set up business in China, helping integrate it into global production networks. The role of FTAs in bolstering China's status within production networks is another incentive for Beijing to pursue more trade deals with more countries.

The FTAs signed by China are also of significance to its foreign policy. While strengthening economic ties with its trade partners, China is able to maintain friendly and cooperative relations with many countries. Most FTAs include provisions calling for dialogue and cooperation among the trade pact parties. FTAs serve as a stabilizing factor in developing and maintaining peaceful relations with neighbors. And they are a useful card for China to play in strengthening bilateral ties.

Assessing China's Trade Deals

China has one of the busiest FTA programs in Asia. Agreements in place include FTAs with countries such as Chile, Costa Rica, New Zealand, and Switzerland. Meanwhile, FTAs now in the pipeline will boost China's economic integration with Australia, Japan, the Republic of Korea, Norway, and the Gulf Cooperation Council countries of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates.

Meanwhile, a number of initiatives are underway to liberalize trade and facilitate investment within the region. For instance, RCEP incorporates a range of Asia-Pacific countries, such as ASEAN, Australia, China, India, Japan, and New Zealand. The fourth round of negotiations was held in Nanning, China, from March 31 to April 4, 2014. It is expected to be concluded by 2015.

In the early 2000s China applied an individual approach to negotiations on goods, services, and investments. This included the ASEAN-China FTA's Early Harvest Program, which sought to accelerate implementation. During this period, China's FTA emphasis was on trade in goods, particularly tariff reductions. The so-called Singapore issues [\[1\]](#), such as government procurement, competition, and trade facilitation (present in some FTAs), received little attention.

China broadened its focus in FTAs with New Zealand and Singapore in 2008. The negotiations began to consider other areas, in addition to liberalization of trade in goods. China put more emphasis on the negotiation of services and the Singapore issues. The coverage of services and liberalization steps were more vigorous compared to earlier stages. Several Singapore issues, such as trade facilitation, were on the negotiation agenda, but issues such as competition and government procurement were deemed too sensitive to address.

China has recently taken a more comprehensive and vigorous approach to FTAs. For example, agreements with Iceland and Switzerland, signed in 2013, provide wider coverage in goods, services, and investments, particularly the Singapore issues. China is now demonstrating a greater determination to engage in a higher level of liberalization of trade and to integrate with its trade partners. This is a striking shift in strategy, from a single focus on trade in goods to a diversified focus on services, investment, as well as the Singapore issues, and is likely to be encouraging for current negotiating partners. However, despite resemblance to the best FTA practices in Asia, such as the U.S.-Korea and EU-Korea FTAs, the level of liberalization of China's FTAs is not as comprehensive in terms of coverage and depth. There is still considerable scope for China to develop its FTAs.

China's FTA Outlook

China's trade with its FTA partners only accounted for 22 percent of its total trade in 2012 (according to the UN ComTrade Database). That suggests great potential for China to liberalize trade with other partners via FTAs. The Third Plenum of the 18th Chinese Communist Party Congress in November 2013 called for China to boost cooperation with countries and regions through FTAs. RCEP could be an important platform to update existing FTAs with economies in the Asia-Pacific and provide a more sophisticated and comprehensive trade regime. At the same time, China aims to further integrate with other economies, such as in Latin America and Europe. China President Xi Jinping's visit to Europe in March signaled that Beijing seeks to promote economic cooperation and strategic partnerships via FTAs.

On the other hand, the U.S.-centered TPP negotiations have put China under considerable pressure.

Though it is open to joining the TPP negotiations, given its domestic industrial structure China would find it difficult to accept some of the issues under negotiation. Issues such as state-owned enterprises or labor and environmental standards would impose very high costs on China's domestic industries. Consequently, Beijing has been cautious on joining TPP talks. The reforms advocated by the third plenum will allow the market to play a "decisive" role in the economy and could possibly ease some of China's differences with the U.S. on some issues, although it is still too early to be certain.

In addition to FTAs, China supports the WTO's multilateral trading system. At the WTO Ministerial Conference held in Bali in December 2013 [2], the Chinese delegation said it would aim to strengthen WTO as a multinational trading system and work towards the conclusion of the Doha Round of multilateral negotiations. The outlook for the Doha Round is uncertain at best, however, so for the time being China looks set to continue its trade strategy of pursuing trade integration through FTAs while stressing the importance of the WTO.

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P.S.

* "China's FTA Strategy". The Diplomat. June 01, 2014:
<http://thediplomat.com/2014/06/chinas-fta-strategy/>

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Footnotes

[1] ESSF (article 40107), [FTAs, TPPA, TTIP, RCEP - The Second Front: Aggressive Push for New Generation Free Trade Agreements](#).

[2] <http://thediplomat.com/2014/01/the-bali-package-an-end-to-the-north-south-divide/>