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**Research Report**

## An overview of China's regional trade agreements

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Julia Lintunen

## An overview of China's regional trade agreements



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## Contents

Abstract .....	3
List of abbreviations.....	4
1. Introduction and motivation.....	5
2. Overview of China's regional trade agreements.....	6
3. Reviews of China's free trade agreement structure .....	9
4. The economic impact of China's bilateral free trade agreements.....	11
5. The economic impact of two regional mega-agreements on China.....	15
6. Concluding remarks .....	18
References .....	19

Julia Lintunen

## An overview of China's regional trade agreements

### Abstract

Since becoming a WTO member in 2001, China has negotiated numerous regional trade agreements with astonishing speed. This paper provides an overview of China's current free trade agreements and examines the economic importance of two major Asian regional trade agreements for China. The academic literature often treats China's free trade agreements as driven more by political, rather than economic, interests. The agreements are seen as shallow and concluded with minor economic partners. In fact, China's approach to trade agreements has evolved over time and cumulative impact of these agreements has been positive for trade between China and its agreement partners. The recently concluded Asian regional free trade agreement, the Regional Comprehensive Economic Partnership (RCEP), should positively influence trade for both China and other participating Asian countries. China could also benefit economically from joining the other major regional trade agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

**Keywords:** trade policy, free trade agreements, RCEP, CPTPP

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## List of abbreviations

APEC	Asia-Pacific Economic Cooperation Forum
APTA	Asia Pacific Trade Agreement
ASEAN	Association for South-East Asian Nations
CEPA	Closer Economic Partnership (China's trade agreements with Hong Kong and Macao)
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
GCC	Gulf Cooperation Council
EU	European Union
RCEP	Regional Comprehensive Economic Partnership
TPP	Trans-Pacific Partnership
US	United States
WTO	World Trade Organization

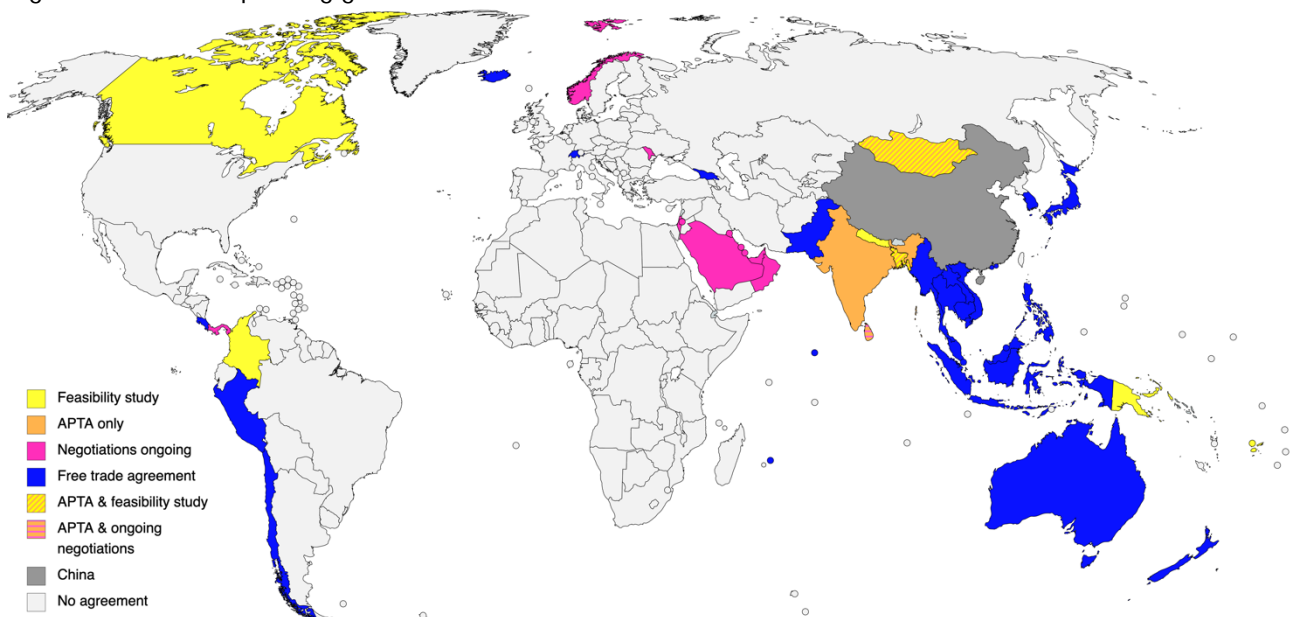
# 1. Introduction and motivation

China is a major economic power with regional and global significance. In only four decades, China has transformed itself from an isolationist command economy into the world's second largest economy (World Bank, 2019) and the second-largest trading country in the world (WITS, 2018). Liberalization of China's trade policy since 1978 has played a key role in this transformation. It offered markets for Chinese manufactured goods, enabled China to purchase raw materials and sophisticated technology from abroad, and sped up domestic economic reforms (Naughton, 2018). China's rise also boosted Asian regionalism as its manufacturing network spread to neighboring countries and stimulated intra-regional trade (Solís & Wilson, 2017, 925).

China entered a new phase in trade policy liberalization in December 2001, when it became a member of the World Trade Organization (WTO). As Naughton (2018, 398) describes, WTO accession "symbolized China's coming of age as a participant in the global economic community." It removed barriers from China's foreign trade, which accelerated economic transformation and made China the world economic powerhouse it is today.

While the main purpose of the WTO is to offer equal rules for trade in goods and services among all of its members, the WTO also enables regional trade agreements among two or more customs territories. Upon joining the WTO, China commenced negotiating such regional trade agreements with astonishing speed. In less than two decades, China has concluded *seventeen* bilateral free trade agreements with 25 countries and it is currently in talks on *nine* other trade agreements. Figure 1 shows the countries with which China has existing or prospective trade agreements.

Figure 1. China's expanding global trade network.



Sources: Ministry of Commerce, PRC; WTO 2020.

This growing number of bilateral trade agreements can be seen as a part of a wider regional phenomenon. At the beginning of 2000, there were only five regional trade agreements in force in the East or Southeast Asia. Just two decades later, there are over 90 trade agreements in force. As Solís and Wilson (2017) note, the main driver of this trade deal explosion has been China's desire to liberalize trade further and faster than what could be achieved through regional or multilateral

negotiations. In this light, regional trade agreements can be seen as the second-best option for capturing the economic benefits of trade liberalization. Objectives include removal of tariffs and other barriers to lower trade costs and thereby increase international trade, as well as garner production efficiency gains in accordance with the Ricardian theory of comparative advantage. China's official position on free trade agreements emphasizes these economic interests. According to the Ministry of Commerce (2020), trade agreements are seen as “*a new platform to further opening up to the outside and speeding up domestic reforms, an effective approach to integrate into global economy and strengthen economic cooperation with other economies, as well as particularly an important supplement to the multilateral trading system.*”

Instead of being a mere substitute for multilateral trade system, however, bilateral agreements have several advantages over plurilateral and multilateral trade agreements,<sup>1</sup> particularly when it comes to promoting political interests. First, they offer a way to boost export sectors and provide preferential market access, while still protecting other economic sectors. Second, agreements can serve as tools in building diplomatic relations and strengthening regional influence. Third, they can be used to improve resource security through preferential access to commodity- and energy-rich economies such as Australia (Solís & Wilson, 2017, 929).

The academic literature also suggests that Asian and Chinese trade agreements have been driven by both political and economic motives. Many scholars argue that China's high dependency on commodities and energy is a primary driver behind its bilateral free trade agreements (Harris, 2014, 121; Hufbauer & Wong, 2005; Sampson, 2019; Zeng, 2010, 639). Another explanation is China's competition for regional economic influence, i.e. China competes especially with Japan and the US for political influence (Tsai & Liu, 2013; Solís & Wilson, 2017, 929; Zeng 2010, 639) and market access (Zeng 2010, 640–641) in its neighboring countries.

This paper aims to provide an overview of the existing literature on China's regional trade agreements, with focus on China's free trade agreements and the two major Asian trade agreements, the RCEP and CPTPP. Insights on these trade agreements contributes to the larger debate on China's economic role and economic foreign policy.

## 2. Overview of China's regional trade agreements

There are many ways to classify regional trade agreements. Here, *regional trade agreements* refer to China's trade agreements notified to the WTO. China's agreements can be further divided into *partial scope agreements* and *free trade agreements*. Partial scope agreements are shallow arrangements that cover select products. Free trade agreements, despite depth and breadth of coverage, stop short of full trade liberalization between the parties. In order to avoid overlapping in the multilateral and bilateral levels, free trade agreements must stretch beyond rules and commitments agreed to multilaterally.

As of November 2020, China had fifteen regional trade agreements in force. It had also concluded three more bilateral free trade agreements and one plurilateral free trade agreement that have yet to be enforced or notified to the WTO. In-force agreements include the Asia-Pacific Trade Agreement (APTA). This partial scope agreement between developing countries in Asia was formed in 1975 as the Bangkok Agreement. China acceded to APTA when it became a WTO member. As APTA's nature differs from China's other trade agreements, we omit it from the following discussion. China's other regional trade agreements are free trade agreements. Other in-force agreements involve another free trade area (ASEAN) and two with China's special administrative regions, Hong Kong

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<sup>1</sup> *Plurilateral* refers to a regional trade agreement concluded by three or more counterparts.

*Multilateral* refers to a trade agreement concluded by all WTO members.



and Macao, which are distinct customs territories in their own right. The remaining eleven agreements in force are bilateral agreements with individual countries. The four latest free trade agreements have yet to enter into force. Three of these are bilateral agreements signed between 2017 and 2020. The latest agreement, RCEP, is a plurilateral trade agreement between fifteen countries. It was signed in November 2020. These agreements are presented in Table 1.

Table 1. China's concluded trade agreements that have been notified to the WTO.

Name of the agreement	Signed	Entry into force	Supplements	Additional information
Asia Pacific Trade Agreement (APTA)	2001	1.1.2002		Known as Bangkok Agreement until 2005. Incl. Bangladesh, China, India, Korea, Laos, Sri Lanka, and Mongolia (accession in September 2020).
China – Hong Kong CEPA (Closer Economic Partnership)	2003	29.6.2003	Upgraded in 2004, 2005, 2006, 2007, 2008, and 2009; service supplements in 2015 and 2019	Hong Kong and Macao are China's special administrative regions and have their own customs territories.
China – Macao CEPA	2003	17.10.2003		
ASEAN – China	2004	1.1.2005 goods; 1.7.2007 services	Agreement on trade in services in 2007; Agreement on investment in 2009	ASEAN includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.
Chile – China	2005	1.10.2006	Upgraded in 2017; Agreement on trade in services in 2008	
Pakistan – China	2006	1.7.2007	Upgraded in 2019; Agreement in trade in services in 2009	
China – New Zealand	2008	1.10.2008	Upgrade negotiations concluded in 2019	
China – Singapore	2008	1.1.2009	Upgrade negotiations concluded in 2018	
Peru – China	2009	1.11.2010	Upgrade negotiations ongoing since 2019	
China – Costa Rica	2010	1.8.2011		
Switzerland – China	2013	1.7.2014	Joint feasibility study on upgrading the agreement started in 2017	
Iceland – China	2013	1.7.2014		
China – Korea	2015	20.12.2015	Second phase negotiations started in 2018	
Australia – China	2015	20.12.2015		
China – Georgia	2017	1.1.2018		
China – Maldives	2017	Not announced		
China – Mauritius	2019	Not announced		
Cambodia – China	2020	Not announced		
Regional Comprehensive Economic Partnership (RCEP)	2020	When at least six ASEAN countries and three non-ASEAN countries have ratified		Includes ASEAN countries, China, Japan, Korea, Australia, and New Zealand. India withdrew from negotiations in 2019.

Sources: WTO (2020), Ministry of Commerce, PRC (2020).

In addition to concluded trade agreements, China's Ministry of Commerce reports that China is currently in negotiations on eight other trade agreements. These prospective agreements are shown in Table 2. Based on the information given by Ministry of Commerce (2020), five of the negotiations have been active in 2019, while talks with the Gulf Cooperation Council, Moldova, and Sri Lanka have been suspended in recent years. China has also launched eight feasibility studies to explore possibilities for new free trade agreements with Colombia, Fiji, Nepal, Papua New Guinea, Canada, Bangladesh, and Mongolia. Since diplomatic disputes and political changes often affect the negotiations and explorations for an agreement,<sup>2</sup> we examine this group more closely.

Table 2. China's ongoing trade negotiations.

Name of agreement	Negotiations started	Most recent negotiation round
China – Gulf Cooperation Council (GCC; incl. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates)	2005	2016
China – Norway	2008	2019
China – Japan – Korea	2013	2019
China – Sri Lanka	2014	2017
China - Israel	2016	2019
China – Moldova	2017	2018
China – Panama	2018	2019
China – Palestine	2018	2019

Source: Ministry of Commerce, PRC (2020).

Almost all China's free trade agreement companions share common features. They are usually in China's neighborhood, involve the supply of raw materials to China, or both (Hufbauer & Wong, 2005; Sampson, 2019). As shown in Figure 1, most of China's trade agreement counterparts are located in the Asia-Pacific region, i.e. East Asia, Southeast Asia, Oceania, or Latin America. The first agreements were signed with relatively small, developing or emerging economies, but China has since started to negotiate with economic heavyweights such as Korea, Australia, and Switzerland. The geographic focus has also broadened to cover countries in Europe and Middle East. However, from 2014 onwards China seems to have returned to a pattern of negotiating trade deals with relatively small economies in geographically disparate areas; a pattern likely reflective of the Belt and Road Initiative, launched in 2013.

The trade agreement network of East Asia is characterized by crisscrossing and overlapping trade agreements. China is exception here, despite its moderate number of RTA partners. In addition to its trade agreement in force with ASEAN, China has also negotiated bilateral trade agreements with Singapore and Cambodia – both ASEAN member countries. Once the RCEP enters into force, it would overlap these aforementioned agreements and China's free trade agreements with Korea, Australia, and New Zealand. On top of that, China, Japan, and Korea are negotiating a trilateral trade agreement that would also overlap with the RCEP.

Another distinctive feature in China's trade approach is its gradation. Half of the existing agreements have been or are set to be updated (see Table 1). For example, the ASEAN-China FTA, first concluded in 2004, covers trade in goods. Trade in services was added to the deal in 2007, and a separate investment agreement concluded in 2009. The most extreme examples of this gradual

<sup>2</sup> After Chinese human rights activist Liu Xiaobo was nominated for the Nobel Peace Prize, trade negotiations between Norway and China were put on hold from 2010 to 2017 (Kolstad, 2016; Ministry of Commerce, PRC, 2017).

approach are the Hong Kong and Macao CEPAs, which were extended on a yearly basis in 2004–2009.

### 3. Reviews of China's free trade agreement structure

Early studies of China's free trade agreements consider China's agreements to be of low quality. For example, Antkiewicz and Whalley (2004) argue that China's agreements are brief (the CEPAs with Hong Kong and Macao were originally only 13 pages long), vary considerably in form and coverage, and plagued by China's gradual approach to trade negotiations. Hufbauer and Wong (2005) take a similar view, pointing out that China's agreements are not as comprehensive as the ones that the EU or the US negotiate. In fact, China's free trade agreements have evolved over time in their breadth and coverage. More recent agreements with countries such as New Zealand, Australia, and Korea, are more comprehensive, even though they are still shallower than agreements by the US, the EU, and Japan.

In terms of trade in goods, China's tariff liberation rates are hardly ambitious. According to WTO factual presentations on the agreements, many of the agreements aim to liberalize around 90 % of China's imports from the partner country, and the implementation periods are often long on China's side. Sampson (2019) notes that sensitive sectors are often omitted from the agreements. Ravenhill (2010) finds that the ASEAN-China free trade agreement has suffered from extremely low utilization rates.

Even if all of China's existing trade agreements include trade in services, the scope of service liberalization is generally limited. Moreover, China's commitments to service liberalization follow the *positive list* approach, i.e. the agreements cover only those sectors specifically agreed in the agreement. This contrasts with the *negative list* approach, in which the agreement covers all trade in services, then exempts specific sectors listed in the agreement. (Sampson, 2019, 22.) According to WTO's factual presentations of China's free trade agreements, China's commitments to service liberalization are often only little broader and deeper than China's previous commitments in the multilateral GATS agreement, with the other party often having to make broader commitments than China. However, variation among agreements has emerged. For example, in the cases of New Zealand, Australia, and Korea, China's commitments to service liberalization are broader than those with e.g. ASEAN, Pakistan, and Georgia.

When it comes to non-tariff measures, China's trade agreements have become more comprehensive over time. Kohl et al. (2016) classified all free trade agreements in force in 2011. Their dataset covers eight of China's free trade agreements. As seen from Table 3, the coverage of non-tariff measures varies within the agreements, and the later agreements seem to have more commitments than the earlier ones. When compared to all of the 142 agreements concluded during 2000–2011, China's agreements are slightly less comprehensive on average in terms of non-tariff measures. The dataset of Kohl et al. (2016) does not cover all of the current agreements concluded by China, but according to Sampson (2019), even China's newer and most ambitious agreements with Australia and Korea are still shallower than agreements by the EU, the US, or Japan.

Table 3. Scope of non-tariff measures in China's trade agreements.

Trade agreement	AD & CVM	Agriculture	Customs Administration	Export Restrictions	Services	Import Restrictions	Public Procurement	SPS	State Aid	State trading enterprises	Technical barriers to trade	Investment	Intellectual property rights	Capital Mobility	Competition	Environment	Labor	Consultations	Definitions	Dispute Settlement	Duration & Termination	Evolutionary Clause	Institutional Framework	Objectives	Plan & Schedule	Transparency
ASEAN-China (2003)	2	2	2	2	2	2	2	2	2	2	1	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
China-Hong Kong (2003)	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
China-Macao (2003)	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Chile-China (2005)	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
China-Pakistan (2007)	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
China-New Zealand (2008)	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
China – Singapore (2009)	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Peru-China (2010)	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2

Source: Kohl et al. (2016).

Notes: (1) White cell/0 = provision not covered; gray cell/1 = provision covered, but ignores legal enforceability; black cell/2 = provision covered and legally enforceable.

(2) AD & CVM = anti-dumping and countervailing measures; SPS = sanitary and phytosanitary measures. For further information on coding, see Kohl et al. (2016).

(3) The ASEAN-China agreement is a framework agreement that entered into force in 2003.

Hicks and Kim (2012) classify China's agreement structure based on agreements' commitments. Their coding scheme acknowledges various factors in agreements such as the agreement type, breadth of coverage, strength of agreement provisions, and pace of liberalization. Hicks and Kim's classification, shown in Table 4, supports the hypothesis that China's agreements vary in their breadth and coverage, e.g. the Hong Kong and Macao agreements were seen as significantly weaker than average agreements in Asia, while China's agreements with ASEAN, Chile, and Pakistan were stronger and somewhat average compared to other Asian free trade agreements. The most credible of China's agreements by 2008 was with New Zealand, which was considered even more comprehensive than New Zealand's agreements with the US or Japan.

Table 4. Credibility of China's free trade agreements.

Agreement	Score
China – Hong Kong (2003)	0.39
China – Macao (2003)	0.39
ASEAN – China (2005)	0.65
China – Chile (2006)	0.70
China – Pakistan (2007)	0.67
China – New Zealand (2008)	0.80
<i>Average score of China's agreements (n=6)</i>	<i>0.60</i>
<i>Average score of the US's agreements in Asia (n=3)</i>	<i>0.76</i>
<i>Average score of Japan's agreements (n=8)</i>	<i>0.74</i>
<i>Average score for all Asian free trade agreements in force by 2008 (n=40)</i>	<i>0.68</i>

Source: Hicks and Kim (2012).

Notes: A higher score indicates a more credible agreement. For full details on credibility scoring scheme, see Hicks and Kim (2012).

## 4. The economic impact of China's bilateral free trade agreements

Mutual economic gains are usually regarded as the main motivation behind trade liberalization and free trade agreements. Once tariffs and other trade barriers between two countries are reduced, bilateral trade costs decline, making imports from the agreement partner country relatively cheaper compared to other countries. This creates trade between the agreement parties and diverts trade from third countries. Trade liberalization also increases competition between markets, thereby increasing production efficiency in both countries (Krugman et al., 2015, 270, 299).

The *ex post* economic impact of trade agreements is usually studied with the gravity model of international trade. It is an empirical model in which other key factors affecting bilateral trade flows such as GDP, distance, and cultural linkages can be controlled in order to assess the economic gains of a particular trade agreement. China's trade agreements have received fairly little attention in the gravity literature, especially compared to the trade agreements by the EU and the US. This is probably due to their novelty and relatively minor economic importance.

The consensus in the gravity literature is that trade agreements generally have a positive impact on bilateral trade (see Head & Mayer, 2014). Many studies have also shown that the increase in trade is positively correlated with the depth of integration (Magee, 2008; Roy, 2010; Baier et al., 2014; Kohl & Trojanowska, 2015; Kohl et al., 2016). Notably, Hicks and Kim (2012) did not get similar results when they studied the trade impact of Asian trade agreements. They studied both the general trade effect of a trade agreement and the effect of the agreements' credibility. To measure the credibility, they used their own scoring scheme, presented above in Section 3. Their findings suggest that some aspects of credibility – especially commitments to liberalize a wide range of products and a formal dispute settlement process – were associated with increase in bilateral trade. However, neither the general effect of a trade agreement nor their credibility measure as a whole were associated with increased trade. While Hicks and Kim (2012) do not report the results on each agreement individually, China's agreements include dispute settlement processes (Kohl et al., 2016; see Table 3), and tariff liberalization extends to a relatively wide range of products.

The ASEAN-China free trade agreement has been subject to several gravity studies. Urata and Okabe (2009) find no statistically significant trade-creation effect for the agreement in their analysis,

while Yang and Martinez-Zarzoso (2014) do. The results differ probably due to the differences in methodology and time framing. Urata and Okabe (2009) apply the traditional gravity model with weighted ordinary least squares. Their study extends to 2005. Yang and Martinez-Zarzoso (2014) apply multinomial Poisson maximum likelihood. Their observation period extends through 2010. The approach of Yang and Martinez-Zarzoso is generally more in line with the modern trade literature (see Head & Mayer, 2014).

The findings of Yang and Martinez-Zarzoso (2014) suggest that by 2010 the ASEAN-China free trade agreement increased trade both between the signatories and with third countries. Overall, the agreement is associated with a 117 % increase in exports, although the results vary across sectors. Exports of manufactured goods and chemical products benefit significantly, while the trade effects for agricultural goods, machinery, and transport equipment are small. They suggest that many barriers to trade were still in place after the agreement with respect to the agricultural sector and transport equipment. Yang and Martinez-Zarzoso (2014) conclude that while the agreement increased trade, the positive impact would have been stronger if the trade agreement was implemented more efficiently, and if the agreement had focused more on service liberalization and elimination of non-tariff barriers.

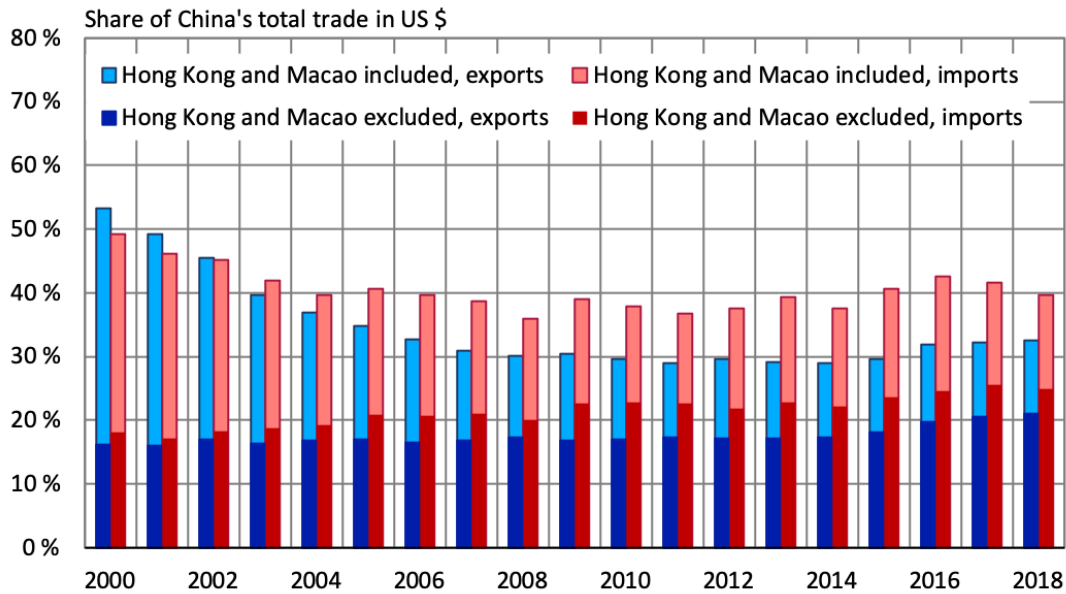
Using firm-level data, Song and Cieslik (2020) study the effects of China's free trade agreements on regional wages in China. According to their hypothesis, free trade agreements liberalize trade, which in turn reduces trade costs and increases production and wages in the trading firms. Their findings suggest that free trade agreements have increased wages in China, but with regional discrepancies. Wages have risen most in the regions that share a land border with a trade agreements partner (evidently the southern region near the ASEAN countries). Song and Cieslik's (2020) findings also suggest that free trade agreements have had some economic impact on China.

Examination of the trade statistics, however, does not imply that China's free trade agreements would have increased the trade between agreement parties very drastically.

Figure 2 illustrates how China's trade with its trade agreement partners (countries that had a free trade agreement in force before 2018) developed relative to China's total trade. The most notable change in trade shares happens with Hong Kong. In 2000, Hong Kong accounted for 27 % of China's total foreign trade. In 2018, 11 % of China's exports went to Hong Kong and 15 % of imports came from there. At the same time, China's proportion of Hong Kong's total trade, especially in Hong Kong's exports, increased sharply from a third in 2000 to over half of Hong Kong's total exports since 2010. This is presumably because Hong Kong used to serve as a transport hub between the mainland China and foreign countries. Since China became a WTO member, Hong Kong's importance for China's foreign trade has decreased.

When Hong Kong and Macao are left out of our inspection, the statistics suggest that China's trade with other trade agreement partners has grown moderately when compared to China's total trade. Between 2005 and 2018, China's exports to trade partners increased from 17 % to 21 % of China's total exports, while imports from trade partners increased from 21 % to 25 % of China's total imports. Without a proper gravity analysis, however, it is unclear whether the increase in trade proportions is associated with China's free trade agreements.

Figure 2. China's trade in goods with free trade agreement partners in 2000–2018.



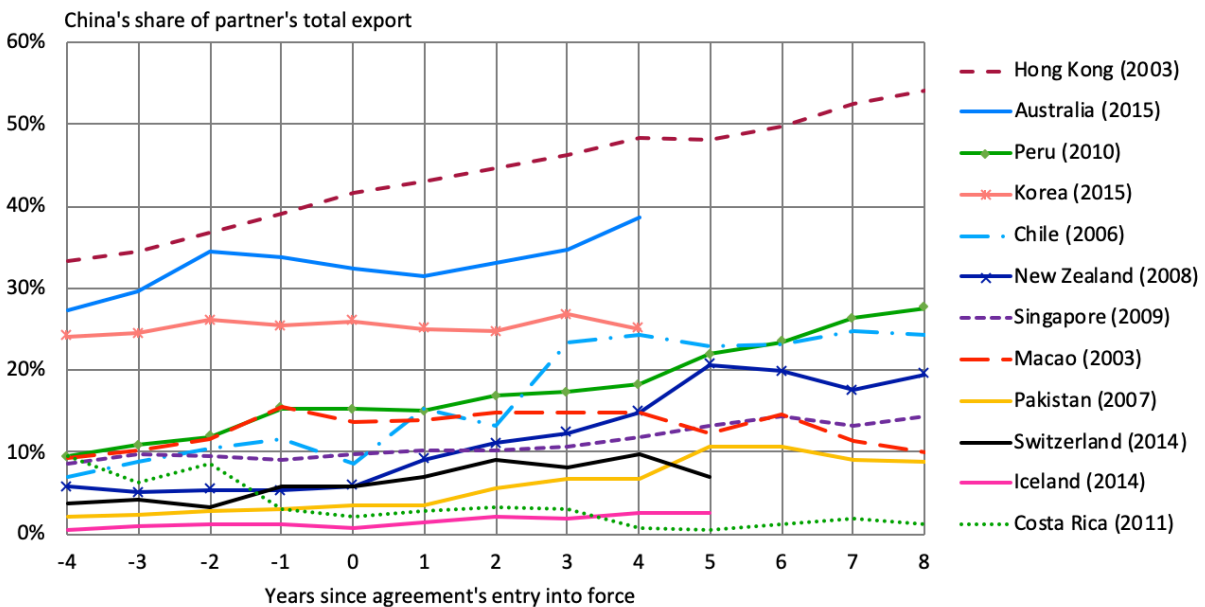
Source: Author's calculations with UN Comtrade data. The country-level data is reported by China's trade partners, and China's total trade value is reported by China.

Notes: (1) Partners include Hong Kong, Macao, ASEAN countries, Chile, Pakistan, New Zealand, Peru, Switzerland, Costa Rica, Australia, Iceland, and Korea.

(2) Trade data not available from Brunei in 2005 or from Laos and Myanmar in 2000–2010. In 2018, Brunei, Laos and Myanmar accounted for 0.4 % of China's total trade.

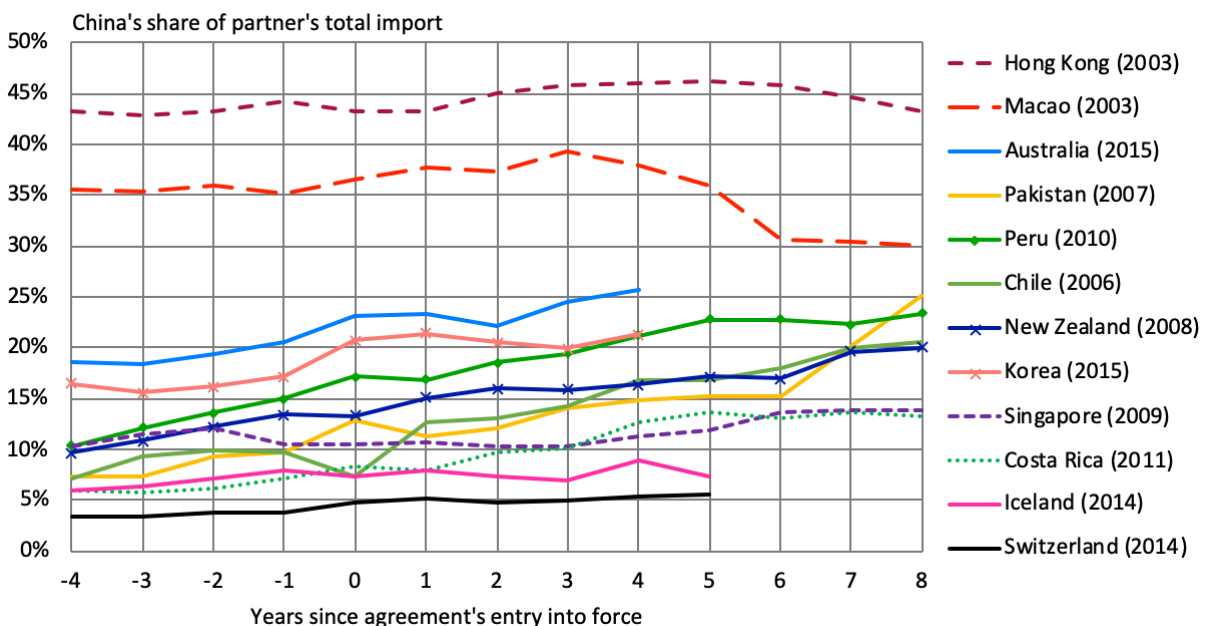
Perhaps defying gravity, the trade agreements seem to have had larger impact on the other partners' trade pattern. China's shares of the trade partners' total exports are shown in Figure 3 and the corresponding shares of the total imports are shown in Figure 4. China's share of partners' total exports and imports seem to have grown moderately after a bilateral trade agreement. In particular, the exports of partners to China seem to have increased, albeit that that growth is neither distinct or straightforward.

Figure 3. China's share of trade partners' total exports before and after a bilateral free trade agreement.



Source: Author's calculations using UN Comtrade data.

Figure 4. China's share of trade partners' total imports before and after a bilateral agreement.



Source: Author's calculations using UN Comtrade data.

Without proper gravity analysis, it is difficult to say whether China's increased dominance in exports of its trade partners is due to bilateral free trade agreements. Nevertheless, it is clear that China is an important export market for many of its agreement partners. In 2019, China accounted for 38 % of Australia's total exports, as well as 29 % of Peru's, 28 % of New Zealand's and 25 % of Korea's. Sampson (2019) argues that these large market shares increase the partners' economic dependence on China, which gives China greater bargaining power in its economic relations. According to Sampson (2019, 23), China has used this leverage to renegotiate trade agreements and pursue political



interests. As an example of the latter, China has responded to political tensions by imposing tariffs on Australian imports and closing Korean-owned stores in China (Sampson, 2019, 19-21).

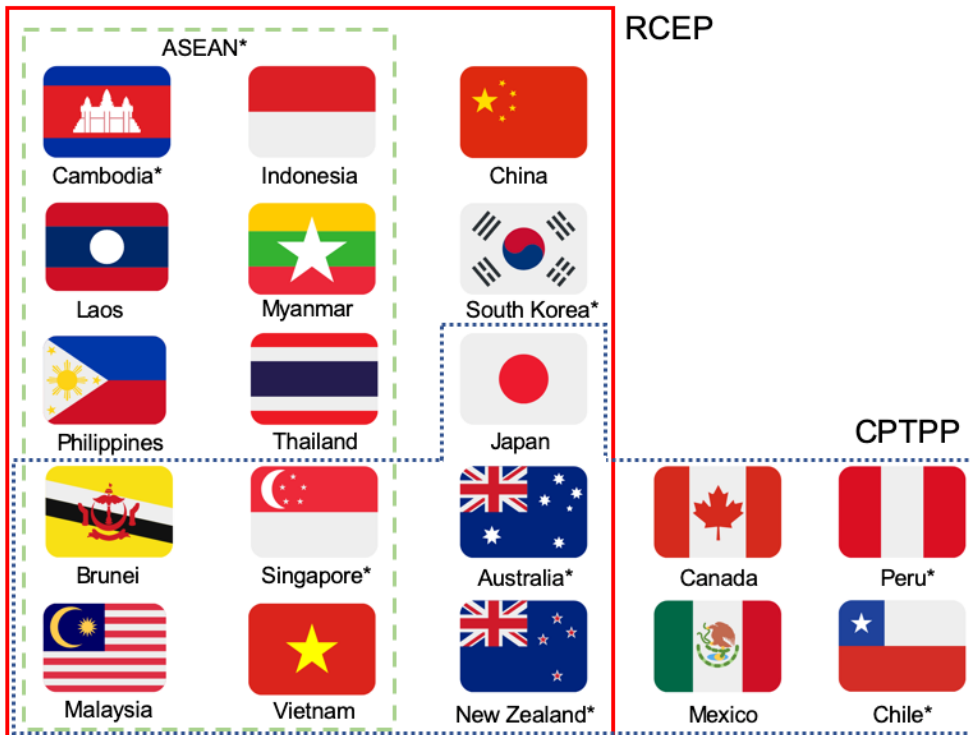
To summarize the economic impact of China's free trade agreements, the studies and statistics suggest that bilateral trade has increased after the agreements, at least to some extent. According to Yang and Martinez-Zarzoso (2014), China's free trade agreement with ASEAN has created more trade. However, more research on the trade effects is needed, especially with regard to the other trade agreements. As China's agreements vary in breadth and coverage, it is likely that the trade effects are also heterogeneous. Without gravity analysis, it is difficult to say whether the increase shown in trade statistics is due to free trade agreements, or whether the rising trade figures result from other factors. Other possible explanations include intensifying trade relations that drove the parties to formalize the relationship, or the fact that growth in trade reflect from China's increased overall presence in global trade.

## 5. The economic impact of two regional mega-agreements on China

The dream of a pan-Asian regional trade agreement traces back to early 1990s, when discussions of regional trade agreements and further trade liberalization were held simultaneously in the Asian-Pacific Economic Cooperation Forum (APEC) and ASEAN. After regional negotiations were seen as failing to deliver the promised expected rapid, deep results from trade liberalization, the past two decades have seen a plethora of Asian bilateral trade agreements (Solís & Wilson, 2017, 928). These bilateral agreements vary in their breadth and coverage, and they often overlap. This has created a complicated web of trade agreements.

One way to harmonize the tangled trade agreement network is to create a regional, plurilateral trade agreement. There are currently two large regional trade agreements in Asia, which both have their roots in the 1990s' regional integration projects. The first, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, CPTPP, is the APEC-based agreement that entered into force among its first participants at the end of 2018. The second agreement, the Regional Comprehensive Economic Partnership, RCEP, is the ASEAN-based project. After eight years of negotiations, it was signed in November 2020. China is a participant in the RCEP agreement, but not the CPTPP. There are several countries that belong to both of the agreements. Figure 5 shows the current composition of countries participating in these agreements.

Figure 5. RCEP and CPTPP participants in 2020.



\*) Bilateral free trade agreement with China

Sources: Ministry of Commerce, PRC (2020), WTO (2020).

From the start, the CPTPP has been a trans-regional agreement. Talks on its predecessor, the Trans-Pacific Partnership (TPP), started when the US and four small countries (Brunei, Chile, New Zealand, and Singapore) announced the launch of trade negotiations. This move attracted the interest of many other APEC nations. Official TPP negotiations launched in 2010. Eventually, it was incorporated into president Barack Obama’s “pivot to Asia” policy, which was designed to strengthen the US presence in Asia (Gao, 2014; Solís & Wilson, 2017). The TPP was concluded and signed by all twelve members in February 2016.

While China is a member of APEC, it expressed no interest in joining the TPP. Instead, China responded in 2011 by activating negotiations on a trilateral agreement with Japan and Korea. It proposed a trade agreement among ASEAN and its six free trade agreement partners: Australia, China, India, Japan, Korea, and New Zealand (Solís & Wilson, 2017). The negotiations for the RCEP launched officially in 2012.

The TPP and the RCEP were widely considered to be competitive projects between the US and China and two alternative paths for a regional trade agreement architecture (Solís & Wilson, 2017, 933). The dynamics of the agreements changed dramatically after president Donald Trump withdrew from the TPP in January 2017 and India withdrew from the RCEP negotiations in December 2019. The TPP, renamed as the CPTPP, was concluded by remaining eleven member countries in 2018. The CPTPP is currently in force between seven countries (WTO, 2020). The RCEP was concluded and signed without India in November 2020.

The CPTPP is considered to be more ambitious in both coverage and depth than the RCEP. Petri and Plummer (2020, 6) estimate that the CPTPP’s coverage is 96 %, while the RCEP only remove tariffs on 80–90 % of trade. The CPTPP covers a wide range of terms and countries and has high standards (Li et al., 2020, 2). The RCEP, on the other hand, does not go far beyond WTO commitments in intellectual property. It has no chapters on labor, environment, or state-owned

enterprises (Petri & Plummer, 2020). The services component follows a positive list approach in the RCEP and a negative list approach in the CPTPP. CPTPP advantages include its wider geographic coverage and a design that enables new members to join the agreement. The RCEP is more inward-looking, Asia-centric project (Li et al., 2020, 2).

Even so, the RCEP is still a significant agreement with a wide coverage. Research on the economic impacts of the agreements suggest that the RCEP could have even greater overall impact than the TPP/CPTPP (Cheong & Tongzon, 2013; Gilbert et al., 2016; Kawasaki, 2015; Petri & Plummer, 2020). For example, Petri and Plummer (2020) estimate that the real income effect of the CPTPP could reach \$147 billion globally by 2030, while the RCEP would generate \$186 billion for real income at that time. The largest gains from the RCEP would come to China, Japan, and Korea, i.e. the largest RCEP economies (Petri & Plummer, 2020). According to Cheong and Tongzon (2013), the participation of Japan accounts for a great part of the RCEP gains for China as China and Japan do not yet have a free trade agreement with each other. Another reason for the RCEP's larger expected gains is that RCEP countries already have more intense mutual trade relations than the CPTPP countries.

Although some current members have yet to ratify the CPTPP, many outsiders have already expressed their interest to join the agreement. In May 2020, China's premier Li Keqiang said that China "has a positive and open attitude toward joining the CPTPP" (Lu, 2020). President Xi Jinping reiterated the interest in November 2020 (Xinhua 2020). The election of Joe Biden as the next US president has also sparked conversations on whether the US would be interested in joining the CPTPP. Biden, who served as vice president in the Obama administration, was a key supporter of the TPP. He has stated that he would join the agreement, though not in its current form (Politico, 2019).

According to Petri and Plummer (2020), if both the US and China remain out of the CPTPP, China would lose more because of the agreement. The agreement would divert the trade between the CPTPP members and third countries and create more trade between the CPTPP members. As China has closer trade relations with the CPTPP, the trade diversion effect would be greater than with the US. Correspondingly, due to China's closer economic ties to the members, China's engagement with the CPTPP would be more beneficial to the agreement members than the US participation (Gilbert et al., 2016; Li et al., 2020). According to Li et al. (2020), the CPTPP including the US would bring larger gains at the global level. Nevertheless, in the current situation, it seems unlikely that either the US or China will join the CPTPP anytime soon.

In a broader perspective, both the CPTPP and the RCEP have potential to simplify and harmonize the current trade agreement network, further integrate the Asian economies, and create economic well-being in the region. At the same time, the withdrawals of the US from the TPP and India from the RCEP will only accelerate China's influence in Asia. Petri and Plummer (2020) argue that protracted trade disputes between the US and China would only amplify this trend; it would both speed up the US decoupling from Asia and highlight the importance of the RCEP for the Chinese economy. Petri and Plummer conclude that both the RCEP and the CPTPP will deepen Asian integration and enhance China's role in the region.

## 6. Concluding remarks

China's approach to trade agreements should not be analyzed as a static entity, but rather a dynamic process that has evolved over time. Over the past two decades, trade partners have become more diverse in their economic size and geographic location, and agreements are more comprehensive both in their breadth and coverage. Even so, China's most comprehensive trade agreements fall short when compared to the US, the EU, or Japan. For example, many economic sectors are often exempted from the agreements, tariff liberalization does not aim to full liberalization, and commitments for service liberalization are often quite modest. To achieve more economic gains through increased trade, agreements should aim for deeper integration and further removal of trade barriers.

The recently concluded RCEP agreement shares similar weaknesses as China's own agreements. Nevertheless, the estimates by Petri and Plummer (2020) suggest that the agreement would still be economically significant both on a regional and global level, generating even more real income than the more comprehensive CPTPP agreement. China would also benefit from joining the CPTPP and has expressed recent interest in joining the agreement.

While China has been reluctant to further trade liberalization and open its own markets to the world, it is the world's second-largest economy (World Bank, 2019), and as such wields tremendous economic power. Free trade agreements are one means for China to use this power. As US-China trade frictions are unlikely to disappear in the near future and China's economic growth is slowing, free trade agreements with other Asian countries are likely to become even more important for China in the future. The withdrawals of the US from the TPP and India from the RCEP are examples of policies indirectly contribute to China's growing regional influence in Asia.

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