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CHINA'S REGIONAL AND BILATERAL TRADE AGREEMENTS

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**ABSTRACT**

China has been increasingly active on the regional trade agreement front over since WTO Accession occurred in 2001. These agreements, unlike the US and EU cases, follow no template form of agreement but vary substantially one among the others and are in part an attempt to customize agreements to partner prior agreements. There are presently 12 concluded agreements, 6 under negotiation, and four others under consideration. These concluded are in the main with smaller countries. Those in prospect are with major trading areas (US, Japan, Korea, and India). All are driven in part by China's needs for export access to fuel continuing export lead growth, but other elements enter including using regional agreements to offset unwelcome elements of multilateral arrangements (such as the non-market economy labelling), and attempting to put in place via RTA building blocks an Asian trading hub. Outstanding issues not centrally addressed by these agreements include anti-dumping duties, and investment and competition issues.

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## **1. Introduction**

In 2001 China acceded to the WTO driven in large part by the view that integration into the world economy was central to China's development ambitions in helping provide improved access to key export markets. There has since been considerable debate over whether the terms of WTO accession provided much by way of concrete improvement in access commitments by trading partners beyond the technical firming up of MFN by trading partners which some have argued that China already defacto enjoyed. Instead, the claim is often made that the more important impact of WTO accession was in terms of underpinning domestic market oriented reforms and establishing clearer rules of law internationally which proved key in fueling large increase in foreign direct investment which, in turn, fueled growth in both GDP and exports.

But China's efforts at international economic diplomacy have not stopped at WTO accession, and since accession China has been increasingly active in its pursuit of regional and bilateral trade agreements. Since 2001 China has concluded agreements with 12 different entities (both countries and groups of countries), has 6 other under negotiation, and 4 under consideration. While that is a similar picture to elsewhere in Asia (Japan, Korea, for example), the picture in the Chinese case is of initial agreements focusing on local (Hong Kong) or smaller entities (Iceland, for example) that were easier to negotiate, before moving to larger and more consequential agreements (with ASEAN, for instance). Agreements now under consideration emphasize large country arrangements and are more important for

China. These include a possible China-US FTA, possible participation in the Trans Pacific Partnership negotiation with 12 other Pacific countries, a bilateral agreement with India, and a trilateral China-Japan-Korea agreement.

China is not alone in pursuing a network of bilateral trade agreements. But China, more than any other larger economy reflects the need to attempt to enhance export access in this way. While export growth which has been falling since the financial crisis and in May 2013 turned negative, given export oriented growth is still the norm, access driven negotiation and bilateralism logically follow. In what following we argue not only that this strategy is now poised to enter a new stage of negotiation with large partners (using TPP, India), but also that China could benefit from a clearer focus on access related problems in such negotiation. Included in the list are anti-dumping duties, which we discuss in more detail, and where China faces continuing problems.

## **2. China's Regional and Bilateral Trade Strategy**

China clearly sees both Regional and Bilateral Trade Agreements (RTAs) as an increasingly key element of its integration into the global economy, a broader strategy which still underpins her overall growth strategy. The current focus of such agreements is mainly on Asia, and to a further degree the Pacific. The basic idea is to use RTAs to further open up the economy to the outside world and speed up domestic reforms. They are seen as strengthening economic cooperation with other economies, as well as providing a supplement to the WTO based multilateral trading system at a time when given the post Doha Rounds impasse, major progress in the WTO on

access seems unlikely.

As Table 1 indicates, China has 12 RTA partners (and with 33 separate economies) 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. Appendix I to the paper itemizes and gives more details on each of these along with negotiation in progress and in prospect.

**Table 1: China's RTAs**

<b>1. Existing RTA</b>		<b>Date Concluded</b>
China-Pakistan		November 2006
China-Chile RTA		November 2005
China-Peru FTA	Bilateral-with Developing Countries	April 2009
China-Costa Rica FTA		April 2010
China-New Zealand FTA		April 2008
China-Singapore FTA		October 2008
China-Iceland FTA	Bilateral-with Developed Countries	April 2013
China-Switzerland FTA		July 2013
China-ASEAN FTA	Multilateral	November 2004
CEPA		March 2003
ECFA	Domestic FTAs	June 2010
China Pilot Free-trade Zone		September 2013
<b>2. RTAs Under Negotiation</b>		<b>Negotiations Started from</b>
China-Australia FTA		May 2005
China-Norway FTA	Bilateral-with Developed Countries	September 2008
China-South Korea FTA		May 2010
China-GCC FTA		July 2004
China-Japan-South Korea FTA	Multilateral	August 2013
RCEP		May 2013
<b>3. RTAs Under Consideration</b>		<b>Joint Feasibility Study Started from</b>
China-India RTA		2003
China-Columbia FTA	Bilateral	May 2012
China-US FTA		Not Yet
China-TPP FTA	Multilateral	Not Yet

Source: Compiled by authors.

Most of the existing RTAs are bilateral and most partners are from Asia and belong to developing countries or country groups. Within the group of existing

agreements, the China-ASEAN FTA, CEPA (Hong Kong | Macro) and ECFA (Taiwan) are important RTAs since they involve partners with whom there is large trade. Other RTAs including both developed countries and developing countries are with small countries. China's RTAs under negotiation on consideration mainly involve large partners (US, TPP (12 Trans Pacific Partner countries), RCEP, Japan, Korea and India).

### **Access for Exports**

Since the opening of China to the outside world in 1992 following Deng Xiao Ping's Southern tour, exports have grown rapidly from China. Today around 70% of all goods manufactured in China are exported and manufacturing, while now smaller than services still accounts for nearly 40% of GDP and a similar proportion of employment. Since the early 1990's GDP growth has averaged 10% per year even with the lowered growth rates since the financial crisis of 2008. Continued export growth is thus seen as vital to China in order to continue with high GDP growth, and in recent years export growth which touched 30% a year before the financial crisis has been in the 3-4% range. With a WTO negotiation structure seemingly not yielding much by way of improved access, RTAs seem to offer the most fruitful alternative and hence are being actively embraced by China.

While China's regional trade agreements thus far concluded are mainly with small developing or developed countries, prospective agreements under discussion are with large countries and China's RTA strategy is to move from RTA coverage of perhaps 30% of trade to 70% of trade marking the growing importance of RTAs to

China. As such, they clearly reflect the dominant export interest of China in the form of search for access to foreign markets.

### **Domestic Reform**

Another reason China seeks to negotiate RTAs is to continue to use international disciplines to underpin and support domestic reforms, including enterprise reform, reform of state owned enterprises, financial sector reform and others reformist directions. The broad idea is that added competition from abroad in the domestic market acts as a spur to improved efficiency of domestic production. In addition, pressures for protectionist and growth slowing policy interventions can be more easily resisted emphasizing again the need to compete with foreign producers both at home and abroad. This domestic policy component of trade policy was a key element in Chinese decision making to join the WTO in 2001, and it continues as a key element in underpinning China's RTA strategy.

### **Dealing with Issues in the Multilateral System**

Another Chinese objective in RTA negotiation is to use RTAs as a way of improving on their current treatment multilaterally under the WTO. Two major issues stand out here. One is China's labelling under WTO Accession as a non-market economy. This label, to which China agreed on Accession, has made it both easier to impose antidumping actions against China, and if imposed to do so at (often much) higher duty rates. China has thus used a strategy in her RTA negotiation of bilaterally seeking reclassification as a market economy regionally. This strategy has been successfully followed in China's negotiations with New Zealand. Another is the broad

area of antidumping duties. Because China's growth of exports has been so rapid, domestic producers in importing countries seek protection and antidumping duties are often the most effective route for them to pursue. These are special trade restrictions design as to offset alleged unfairness in trade from selling below cost. China is now subject to around 50% of worldwide dumping actions (many from other developing countries)<sup>1</sup> while WTO disciplines under the General Agreement on Tariff and Trade (GATT) do little to help China. China seeks relief, and bilateral arrangements (joint exemptions from dumping and sunset procedures) could help.

### **Framing New Trade Rules**

Since the 2008 financial crisis trade there has been much discussion of the experience of developing countries with current multinational organizations and rule regimes (World Bank, WTO, IMF). These were framed in the 1940's and were designed to deal with wholly different problems from those today's trading system focuses on. Some argue they do not fit the modern world economy, and global rules, including in trade, should be reassessed in light of the difficulties in the WTO Doha round. These have reflected developing country frustration with what they often see as a "rich men's club". As such, a further objective China has in participation in RTAs (also including the large country RTAs now being discussed) is to use new RTA structures to help shape the evolution of future global trade rules and arrangements.

## **3. Characteristics of the RTA Strategy**

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<sup>1</sup> See the discussions in Bown (2009), "Self-enforcing Trade: Developing Countries and WTO Dispute Settlement", Brookings Institute; Bown (2010), "China's WTO Entry: Antidumping, Safeguards, and Dispute Settlement", and Bown (2011) "Taking Stock of Antidumping, Safeguards and Countervailing Duties, 1990-2009".



China's RTA negotiating strategy has been marked by a number of characteristics which can be seen in the documentation in the Appendix. These include the following.

### **Begin Local / Small**

China's strategy has been framed 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 is 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.

### **Aim to be Inclusive of Key WTO Members**

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, but for now remains blocked by Indian

manufacturing interests who fear loss of domestic markets. This strategy has enabled Chinese negotiations to learn about the negotiating process and also gives China the strategic benefits in delaying US/EU negotiation bilaterally 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.

### **BITs as Separate Treaties**

A further feature of China's FTAs has been their linkage to bilateral investment treaties (BITs). There are near 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.

### **Customize RTAs to Partner**

As already noted the Chinese approach to RTAs has 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.

#### **4. Some Features of Key Arrangements**

##### **Arrangements in Place**

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 a 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. 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 coordinating in third country markets.

##### **Arrangements to Come**

The arrangements potentially to come for RTAs with the US, with Japan/Korea,

with India and with the TPP countries suggest major potential impact on China's trade and international arrangements generally. The US has, in recent years, repeatedly labeled 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 straight forward in economic terms because the joint focus on economic growth, especially given China's trade deficit with Japan, but political frictions between China and Japan and specially the island dispute threaten to slow the negotiation. India has seen rapid growth in its trade with China (by a factor of 30 since the mid-90s) and so the prospects are for a significant RTA, made complex 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.

## **5. Possible Impacts of RTAs for China**

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 2

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 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 replace trade growth as the engine of developments. 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 post the 2008 financial crisis of not being able to continue to rely on infrastructure spending as the latest 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 RTAs can have a further positive impact in promoting the most dynamic components of China's trade.

Several researchers have explored various dimensions of China related potential RTAs. For the China-Japan-Korea FTA, Liu et al (2012) have investigated the environmental impacts of China-Japan-Korea FTA on China with CGE methodology, and find that a China-Japan-Korea FTA will lead to a notable environmental impact. Jin *et al* (2006) evaluate the economic effects of FTA among China, Japan, and South Korea on the world economy. Results show that there are strong trade diversion effects.

For the ASEAN+3 FTA, Loke (2013) examines the likely industry effects on China of ASEAN Plus Three (APT), and find that there might be opportunities for agriculture industries fishery to expand. Some manufacturing industries like textiles

and clothing are likely to expand even further. However, motor vehicles may face challenges given that Japan and Korea are much more developed in this area.

Siriwardana and Yang (2007) analyzed the impact of the proposed Australia-China FTA. Their results suggest that both Australia and China will gain by removing protection on trade bilaterally. The benefits are greater for Australia than for China. Patricio (2011) has also explored Australia-China FTA effects.

For the TPP, Li and Whalley (2013) have explored the TPP effects on China and related other countries, the results reveal that China will be slightly hurt by TPP initiatives in welfare when China is out, but total production and exports will increase. If China takes part in TPP, she will significantly gain and increase other TPP countries' gain as well. Petri *et al* (2011) has also investigated the potential effects of TPP and other Asia FTAs.

For the China-Pakistan FTA, Shabir and Kazmi (2007) have analyzed the economic effects of the Pakistan-China FTA, and reveal that this will enhance interregional trade and export diversification by further deepening cooperation with China.

Other literature include Choi (2013) has analyzed the effects of Korea-China FTA, Tan and Li (2009) explore the impact of China-New Zealand FTA.

# Appendix: China's RTA Agreements<sup>1</sup>

## 1. China's Existing RTA Agreements

### (1) CEPA (Mainland China with Hong Kong and Macao)

Mainland China and Hong Kong CEPA (Closer Economic Partnership Arrangement) was the first Chinese RTA. It was signed on 29 June 2003 and Macao signed the pact in October 2003.<sup>2</sup>

For Trade in goods, Hong Kong continues to apply zero tariffs to all imported goods of Mainland origin. In the beginning of CEPA enforcement, the Mainland applied zero tariffs to 273 kinds of the import of goods of Hong Kong origin. Since 1 January 2006, all goods of Hong Kong origin importing into the Mainland enjoy tariff free treatment, upon application by local manufacturers and upon the CEPA rules of origin (ROOs) being agreed and met.<sup>3</sup> The two sides undertake that either side will not apply anti-dumping measures to goods imported and originated from the other side.

For trade in services, mainland China issued various liberalization measures under CEPA which provides Hong Kong service suppliers with preferential access to the Mainland market. Under CEPA Hong Kong service suppliers receive preferential access to the Mainland market. The preferential treatment takes various forms, including allowing wholly-owned operations, relaxing restrictions on equity shareholding, reducing registered capital requirements, relaxing restrictions over geographical location and business scope, etc.<sup>4</sup> Since 2004, mainland China has issued 41 liberalisation measures covering 18 service areas, and this increased to 338 measures by 2013.<sup>5</sup> Professional bodies of Hong Kong and the regulatory authorities

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<sup>1</sup> The majority of China's Regional and Bilateral Trade Agreements (RTAs) are labeled as Free Trade Agreements (FTAs). When discussing individual agreements we keep the label used in the legal texts.

<sup>2</sup> <http://www.ipim.gov.mo/en/cepa/topic.html>.

<sup>3</sup> <http://www.tid.gov.hk/english/cepa/index.html>.

<sup>4</sup> [http://www.tid.gov.hk/english/cepa/tradeservices/trade\\_services.html](http://www.tid.gov.hk/english/cepa/tradeservices/trade_services.html).

<sup>5</sup> <http://gaoyan.mofcom.gov.cn/article/speeches/201308/20130800271162.shtml>.

in the Mainland have also signed a number of agreements or arrangements on mutual recognition of professional qualification.<sup>1</sup>

Both sides also agreed to enhance co-operation in various trade and investment facilitation areas to improve the overall business environment. These includes Customs Clearance Facilitation; Commodity Inspection and Quarantine, Food Safety, Quality and Standardization; Cooperation of Small and Medium-Sized Enterprises (SMEs); Cooperation in Industries; Electronic Business; Trade and Investment Promotion; Transparency in Laws and Regulations; Protection of Intellectual Property; Cooperation on Branding; and Cooperation on Education.<sup>2</sup>

The outward direct investment from mainland to Hong Kong in 2012 was 35.6 billion USD, double than it was in 2007. Hong Kong and mainland China are the largest trading partners for each other, with total trade amounting 341.49 billion USD in 2012, which is 3 folds larger than as in 2003 (87.44 billion USD). Hong Kong also keeps the position of the largest source and recipient of investment for mainland.<sup>3</sup>

## **(2) ASEAN-China FTA**

The ASEAN – China Free Trade Area (ACFTA) is a free trade area among the ten Member States of the Association of Southeast Asian Nations (ASEAN) and China. The initial Framework Agreement (FA) was signed on 04 November 2002. The ASEAN–China Free Trade Area is the largest free trade area in terms of population and third largest in terms of nominal GDP.

Under the ASEAN – China Trade in Goods Agreement (ACTIGA), Parties reduced their tariffs for goods listed under the Normal Track 1 (NT1) from 2005-2010 and Normal Track 2 (NT2) from 2010-2012. China allowed ASEAN Member States to have a list of products that were granted flexibility until 2012 (NT2) for 150 tariff lines. For the Philippines and Indonesia however, 400 tariff lines were accorded flexibility. The Sensitive Track under the ACFTA consists of a “Sensitive List” (SL) and the “Highly Sensitive List” (HSL). The timeframe for SL requires tariffs to be reduced to 20% in 2012 and shall be subsequently reduced to 0-5% in 2018. For HSL,

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<sup>1</sup> [http://www.tid.gov.hk/english/cepa/tradeservices/trade\\_services.html](http://www.tid.gov.hk/english/cepa/tradeservices/trade_services.html).

<sup>2</sup> [http://www.tid.gov.hk/english/cepa/facilitation/summary\\_invest.html](http://www.tid.gov.hk/english/cepa/facilitation/summary_invest.html).

<sup>3</sup> <http://gaoyan.mofcom.gov.cn/article/speeches/201308/20130800271162.shtml>.



tariffs will be reduced to 50% in 2015. With these tariff cuts, the average tariff levels under the FTA have declined to 4.5%, compared with the MFN rate of 8.1%. In China's case, the overall simple ad valorem average for 2009 under the ACFTA is 2.5%, compared with the 9.7% MFN rate.<sup>1</sup> The average tariff rate on Chinese goods sold in ASEAN countries decreased from 12.8% to 0.6% on 1 January 2010 pending implementation of the free trade area by the remaining ASEAN members. Meanwhile, the average tariff rate on ASEAN goods sold in China decreased from 9.8% to 0.1%.<sup>2</sup>

Under the ASEAN – China Trade in Services Agreement, services and services suppliers/providers in the region enjoy improved market access and national treatment in sectors/subsectors where commitments have been made. The Agreement provides for liberalization of substantial coverage of sectors/subsectors especially in more than 60 additional subsectors committed by ASEAN Member Countries which are parties to the GATS/WTO.

The ASEAN – China Investment Agreement is the third of three main agreements concluded under the 2002 ASEAN – China Framework Agreement on Comprehensive Economic Co-operation. This provides an environment that aims to lead to enhanced investment flows between both sides at a time when ASEAN and China are both key emerging economies with strong economic prospects. China's investment in ASEAN was a cumulative US\$6.1 billion up to the end of 2008, while ASEAN's investments into China alone totaled US\$5.6 billion in 2008.<sup>3</sup>

### **(3) China-Chile FTA**

The China-Chile Free Trade Agreement was signed in November 2005 and entered into force in October 2006. It includes agreements on goods trade and trade in services. Under the agreement, China and Chile extended zero duty treatment phase by phase to cover 97 percent of products in a ten-year time frame. The two countries also showed willingness to further strengthen exchange and cooperation in areas such as economy, SMEs, culture, education, science and technology, and environmental protection.

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<sup>1</sup> <http://www.dti.gov.ph/dti/index.php?p=688>.

<sup>2</sup> <http://www.webcitation.org/5mSredK9W>.

<sup>3</sup> <http://www.dti.gov.ph/dti/index.php?p=688>.

The Supplementary Agreement on Trade in Services under China-Chile FTA was signed on April 13, 2008. An agreement on investment is under negotiation.

#### **(4) China-Pakistan FTA**

China and Pakistan started negotiations on a free trade area in April 2005 and reached a Free Trade Agreement in November 2006, which took effect in July 2007. China and Pakistan signed an Agreement on Trade in Service on February 21, 2009, which entered into force since October 10, 2009. The contents of the agreements include an early harvest program, free trade agreements, trade in services, and supplementary agreements.

#### **(5) China-New Zealand FTA**

China-New Zealand FTA is the first comprehensive RTA that China signed, as well as the first RTA that China signed with a developed country. It was signed April 7, 2008 and entered into force since October 1, 2008. The agreements cover areas of trade in goods, trade in services and investment.

Under the agreement, 37% of Chinese exports to New Zealand and 35% of New Zealand exports to China became tariff free by October 2008. All tariffs on Chinese exports to New Zealand will be eliminated by 2016, and 96% of New Zealand exports to China will be tariff free by 2019.<sup>1</sup>

For trade in service the NZ-China FTA aims to reduce barriers to trade in services. New Zealand and China have also agreed to ensure that their domestic measures affecting trade in services are administered in a reasonable, objective and impartial manner.<sup>2</sup>

On the investment side, both countries have agreed to treat investors and investments of the other country at least as well as they treat their own investors ('national treatment'), and both countries have also agreed to give Most Favoured Nation treatment to investors and investors of the other country, except in respect of fisheries and maritime matters. The FTA contains additional protections for investments, including: International law standards of fair and equitable treatment;

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<sup>1</sup> <http://chinafta.govt.nz/1-The-agreement/1-Key-outcomes/1-Goods/index.php>.

<sup>2</sup> <http://chinafta.govt.nz/1-The-agreement/1-Key-outcomes/2-Services/index.php>.

Compensation for losses arising from war, armed conflict or similar situations; and protection from the funds of an investor being arbitrarily expropriated or nationalised.<sup>1</sup>

#### **(6) China-Singapore FTA**

The China-Singapore Free Trade Agreement (CSFTA) is the first comprehensive bilateral RTA that China signed with another Asian country, covering trade in goods, trade in services, rules of origin, trade remedies, sanitary measures, technical barriers to trade, customs procedures, economic cooperation and dispute settlement, among others. It was signed on 23 October 2008 and entered into force on 1 January 2009.

The CSFTA provided preferential coverage for about 95% of Singapore's exports to China. More than 85% of Singapore exports to China were at zero-tariff upon the CSFTA's entry into force since 1 January 2009, and an additional 10% became duty-free on 1 January 2010. The agreement consists of general disciplines governing trade in services between Singapore and China, and the committed sectors are subject to market access, national treatment and domestic regulation disciplines.<sup>2</sup>

#### **(7) China-Peru FTA**

The China-Peru Free Trade Agreement was signed on April 28, 2009. This is the first comprehensive FTA China has signed with a Latin American country and aims to deepen economic and trade cooperation.

This agreement lead to gradual removal of tariffs on more than 90 percent of goods ranging from Chinese electronic products and machinery to Peruvian fishmeal and minerals over 16 years. The two nations also pledged to further open their service sectors and offer favorable treatment to investors.

#### **(8) China-Costa Rica FTA**

Costa Rica is China's second largest trading partner in Central America while China is the second largest trading partner of Costa Rica. After negotiations for around one year and half, China and the Costa Rica signed the free trade agreement in April 2010.

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<sup>1</sup> <http://chinafta.govt.nz/1-The-agreement/1-Key-outcomes/3-Investment/index.php>.

<sup>2</sup> [http://www.fta.gov.sg/fta\\_csfta.asp?hl=27](http://www.fta.gov.sg/fta_csfta.asp?hl=27).

Provisions in the FTA enabled over 60% of the two countries' products to enter each other's markets duty-free immediately, and allowed tariffs to be removed on another 30 percent of products gradually over the next 5 to 15 years. Under the agreement, Costa Rica allowed free service trades in 45 sectors including telecommunications, business services, construction, real estate, distribution, education, environment services, information technology (IT) services and tourism, while China opened seven sectors including IT services, real estate, market research, translation and interpretation, and sports.<sup>1</sup>

#### **(9) Mainland and Taiwan ECFA (Economic Cooperation Framework Agreement)**

The Economic Cooperation Framework Agreement (ECFA) is a preferential trade agreement between Mainland China and Taiwan (China) which aims to reduce tariffs and commercial barriers between the two sides. The agreement was signed on June 29, 2010.

Under the agreement, Mainland agreed to cut duties on 539 items from Taiwan valued at \$13.8 billion, or about 16 percent of imports from the island in 2009. Taiwan lowered tariffs on 267 items from Mainland, about 10.5 percent of the country's shipments to Taiwan in 2009. Tariffs would be cut over two years in three stages to zero. Mainland China will also open markets in 11 service sectors such as banking, securities, insurance, hospitals and accounting, while Taiwan agreed to offer wider access in seven areas, including banking and movies.<sup>2</sup>

#### **(10) China-Iceland FTA**

Iceland is the first developed European country to recognize China as a full market economy as well as the first European country to negotiate a free trade agreement with China. The China- Iceland Free Trade Agreement was signed on 15 April 2013. It covers trade in goods and services, rules of origin, trade facilitation, intellectual property rights, competition and investment. With the entry into force of

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<sup>1</sup> <http://www.china-briefing.com/news/2011/08/02/china-costa-rica-fta-comes-into-effect.html>.

<sup>2</sup> <http://www.bloomberg.com/news/2010-09-11/china-taiwan-economic-agreement-to-take-effect-sept-12-to-boost-trade.html>.

the FTA, tariffs on most goods are removed. On trade in service, Iceland commitments are based on its revised offer under the WTO General Agreement on Trade in Services (GATS) and in recent EFTA FTAs. Commitments are not made in the area of healthcare and education. China's undertaking is in line with their revised offer in the WTO. Certain areas of services will be fully exempted from liberalization, including public services. The provisions on investment do not go beyond and simply refer to an already existing bilateral agreement between Iceland and China on the promotion and reciprocal protection of investments from 1994.<sup>1</sup>

#### **(11) China-Switzerland FTA**

China and Switzerland signed a free trade agreement on 6 July 2013, paving the way for significant reductions in Customs duty rates between both parties that may commence as early as in the middle of 2014. This further solidifies economic relations between the two countries as it came only nine months after Hong Kong entered into a double tax treaty with Switzerland.

Once the FTA goes into effect, as much as 99.7% of Chinese exports to Switzerland will be immediately exempted from tariffs, while 84.2% of Swiss exports to China will eventually receive zero tariffs. The FTA is also expected to facilitate industrial cooperation between both countries and set new rules in areas of environment, labor, intellectual property and government procurement<sup>2</sup>.

#### **(12) China (Shanghai) Pilot Free-trade Zone**

The China (Shanghai) Pilot Free-Trade Zone is a free-trade zone launched in Shanghai on September 29, 2013. It is the first free-trade zone launched by the Chinese government. China (Shanghai) Pilot Free-trade Zone is not a FTA arrangement between countries, instead it is a Chinese domestic free trade zone, but we include it here given its potential significance.

According to the Overall Plan for China (Shanghai) Pilot Free Trade Zone “the China (Shanghai) Pilot Free Trade Zone shall expedite the functional transformation of government, expand the opening up of service sectors and promote the reform of

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<sup>1</sup> [http://www.mfa.is/media/fta-kina/China\\_fact\\_sheet\\_enska\\_15042013\\_Final.pdf](http://www.mfa.is/media/fta-kina/China_fact_sheet_enska_15042013_Final.pdf).

<sup>2</sup> See China Daily “China, Switzerland sign free trade agreement”, 2013-07-06.

the foreign investment administrative system, and develop headquarter economy and new trade forms; shall explore RMB convertibility under capital account items and opening up of financial services; shall explore to improve Customs' supervision efficiency; and shall create a framework to support investment and innovation activities to cultivate an internationalized business environment” (State Council, 2013). SFTA introduces a number of changes to the current regulatory framework for foreign investments within the Zone including relaxation of certain foreign investment restrictions within the Zone for 18 service industries spanning six service areas; introduction of a “Negative List” approach towards foreign investment in the Zone; simplification of approval requirements for investments by Zone enterprises outside of China; and facilitation of further financial reform and promotion of new forms of trading within the Zone.

After the successful introduction of China (Shanghai) Pilot Free-trade Zone, some other larger cities in China may also apply for this kind of free trade zone.

## **2. China’s FTAs under Negotiation**

### **(1) China-GCC (Gulf Cooperation Council) FTA**

China and the Gulf Cooperation Council (GCC) announced the launch of China-GCC Free Trade Agreement negotiations in July 2004. The two parties have reached agreement on the majority of issues concerning trade in goods. Negotiations on trade in services were also launched. A China-GCC FTA is likely to be concluded in 2014.

### **(2) China-Australia FTA**

China and Australia started negotiations on the establishment of China-Australia Free Trade Area in May 2005. China aims to use this FTA to not only facilitate trade and investment cooperation with Australia, but also for the stable development of the Asian-Pacific region and the liberalization of global trade. Given only a couple of details to be resolved, there seems a good chance this could be concluded in 2014.<sup>1</sup>

### **(3) China-Norway FTA**

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<sup>1</sup> See China Daily “Australia-China FTA achievable in 12 months”, 2013-10-11.

A joint FTA feasibility study on the establishment of China-Norway FTA was initiated in 2007. The first round of negotiations was held on September 18, 2008. Relations between China and Norway maintained a sound momentum from 2008 to 2010. But after October 2010, bilateral relations suffered a serious setback due to the awarding of Nobel Peace Prize. But now, China and Norway are close to the ‘final stage’ of negotiations for a free-trade agreement<sup>1</sup>.

#### **(4) China-South Korea FTA**

Korea and China launched negotiations on a Korea-China FTA in May 2012. They completed the first-stage negotiations in early September 2013 with a total of seven rounds of talks, agreeing on the modalities or basic guidelines for the Sino-Korea FTA. Second-stage negotiations have moved on to discuss which items that would be liberalized by lowering or removing tariff barriers.

#### **(5) Regional Comprehensive Economic Partnership (RCEP)**

The Regional Comprehensive Economic Partnership (RCEP) is a proposed Free Trade Agreement (FTA) between the 10 ASEAN Member countries and its FTA Partners (Australia, China, India, Japan, Korea and New Zealand). The participants in the RCEP FTA negotiations have a total population of over 3 billion people and a share of around 27 per cent of global trade (based on 2012 WTO figures), covering GDP of around \$US21 trillion (2012 IMF figures).<sup>2</sup>

RCEP is a significant step in the evolution of trade policy frameworks in East Asia. RCEP’s history starts as a study group for an FTA between ASEAN, China, Japan, and Korea (known as ASEAN+3), with a parallel study process for an ASEAN+6 FTA, which included the ASEAN+3 partners plus Australia, India, and New Zealand.

There were two rounds of RCEP negotiations in May 2013 and September 2013 respectively. Three working groups (on Goods, Services and Investment) were established in the first round. During the second round of negotiation, discussions continued on a services chapter. In goods, among other things sessions were held on

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<sup>1</sup> See Teddy Ng, “China-Norway free trade talks nearing agreement”, South China Morning Post, 2013-11-14.

<sup>2</sup> <http://www.mfat.govt.nz/Trade-and-Economic-Relations/2-Trade-Relationships-and-Agreements/RCEP/>.

Customs Procedures, Rules of Origin, and initial exchanges on tariff negotiations and on non-tariff barriers to market access. A third round negotiation will be held in January 2014 and RCEP is targeted to conclude the negotiations by the end of 2015.

#### **(6) China-Japan-South Korea FTA**

The China–Japan–South Korea Free Trade Agreement is a proposed free trade agreement between China, Japan and South Korea. Negotiations on the agreement were started in 2012. Three rounds of talks were held in 2013.

In the first two rounds, the three sides discussed key issues such as ways to lower tariffs and the scope of future negotiations based on terms of reference adopted at the first round of talks. The second round of negotiation also included working-group meetings on goods, service and competition along with expert dialogue on intellectual property rights and e-commerce. The three Asian countries talked about the trilateral FTA's modality such as how to draft liberalization for goods at the third round of negotiation. Working group meetings were held to discuss a wide range of topics such as indications of origin, customs, trade remedy, sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) along with services, investment, competition, general rules and intellectual property rights. Discussions among experts were on e-commerce, environment, government procurement and food sectors.

### **3. FTA Agreements under Consideration**

#### **(1) China-India Regional Trade Agreement**

China and India initiated a Joint Study Group which finalized a report on the feasibility of a China-India Regional Trading Arrangement (RTA) in October 2007. The report supports the position that a China-India RTA would benefit each other. Both sides agreed to explore the possibility of commencing discussions on a RTA.

In the meanwhile, economic relation between China and India have developed in the past decade. As two main emerging countries, China and India have same benefit, and they are near each other in geography (Antkiewicz and Whalley, 2005). These factors suggest that China and India may initiate a regional trade agreement negotiation in the near future.



## **(2) China-Columbia Free Trade Agreement**

China and Columbia signed the Memorandum of Understanding on a Joint Feasibility Study on a Bilateral Free Trade Agreement and officially initiated a joint feasibility study on bilateral free trade area in May 2012<sup>1</sup>.

## **(3) China-US Free Trade Agreement**

There are not yet official statements or discussions on China-US free trade agreement, but at a research level, a China-US free trade agreement has been discussed often. Although there will have a lot of difficulties, as the two biggest countries in the world, it may be possible to initiate a free trade agreement in the future. Trade and investment between the U.S. and China have continued to grow at a substantial rate. As with any relationship between major powers, there is friction and concern on both sides about how the trade relationship is conducted.

## **(4) China-TPP Free Trade Agreement**

TPP is one of important FTA arrangements in the Asia Pacific region; and it has received global attention in recent years. As the second largest country in the world, China is not involved in the TPP negotiation. Some researches propose that China should take part in the TPP negotiation (Song and Yuan, 2012).

Recently, there are many debates about whether China should join the TPP negotiations seem quite lively. Not only Chinese media but also some from the US and Europe have expressed interest in this topic and published numerous comments. A Financial Times commentary regarded the US moves around TTP as designed to have an Asia Pacific club that excludes China and doubted such an attempt would be successful. Some media in the US expressed the view that the US never had any idea to exclude China and that the US would welcome China's participation in the negotiation. The Spokesman of the Chinese Commerce Ministry responded positively, claiming that China would positively consider any proposal inviting China to TPP negotiation<sup>2</sup>.

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<sup>1</sup> See the website of Chinese Ministry of Commerce, "Joint Feasibility Study on Free Trade Area Initiated by China and Columbia", 2012-05-10, <http://english.mofcom.gov.cn>.

<sup>2</sup> See Ding, Y., "Should China Join the TPP Negotiation", China-US Focus, 2013-07-03.

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