China’s Trade Negotiation Strategies: Matters of growth and regional economic integration

Xiaoming Pan
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Fan He, Xiaoming Pan*

Introduction

China’s opening and reform process that began in the late 1970s has induced a great era during which the Chinese economy has incrementally been integrating with the world economy. The average rate of economic growth from 1978 to 2012 was 8.7% - an economic miracle in human history. Outbound trade and inbound foreign direct investment served as the twin engines of that growth miracle. China’s contemporary economic story thus forms “a classical demonstration of the potential of export-oriented industrialization.” \(^1\) An acceleration of that process arrived with China’s accession to the World Trade Organization (WTO), in 2001. China enjoyed tremendous gains by facing lower tariffs and fewer trade restrictions in accessing the extensive markets of member countries. As economists commonly note, in boosting its exports by joining the WTO China also became the “factory of the world.”

China’s reliance on export-oriented growth now faces challenges. The global financial crisis of 2008 hit developed countries, the most important market for Chinese export goods. The consequential sluggish demand for Chinese products forced many small and medium enterprises to shut down, especially in southeastern China where most lightly manufactured goods for exports are made. Guangdong was especially hit, as was China’s aggregate export level. While the US’ economy has somewhat recovered from the turmoil that began in 2008, structural challenges, including ageing and high unemployment, in the European Union (EU) paint a gloomy economic picture. As a result, external demand for Chinese products has not rebounded to the pre-crisis levels. On the supply side too wage gains in China are making investment more expensive. Manufacturing industries seeking lower labour costs have already begun to move to other Asian countries, such as Vietnam, Indonesia, etc. The ‘world’s factory’ that is, faces over-capacity within many export-oriented industries.

In terms of its ongoing economic development, China also faces the curse of the “middle-income trap”, a legacy associated with the fact that few countries have smoothly

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transited from middle to high-income country status. Acknowledging the need for a change of growth model, the Third Plenary Session of 18th Communist Party Committee Central Committee in November 2013 clearly highlighted that China will need to shift from a fast-growing economy that is essentially dependent on “investment in heavy industry and low-cost, manufactured exports to a more mature economy driven by domestic consumption and the production of higher-value goods and services.”

In addition to the endogenous challenge of a growth model transition, China is also facing an exogenous international dynamic where the current international trade rules are also under negotiation. New rules are being called for so as to adjust for the expansion of global value chains. Thanks to the more than decade-long stalemate of the WTO’s multilateral Doha Round negotiations, countries are instead now seeking to improve and reform current trade rules through mega-regional negotiations. This is the first time regionalism has prospered over multilateralism since the establishment of the WTO in 1995. The negotiations for mega-regional trade agreements, especially the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP) and the Regional Comprehensive Economic Partnership (RCEP) have attracted a lot of attention. These delineate the general outlook of international trade rules in 21st century. While these persist with seeking to liberalize trade in goods, compared to the past agreements there is greater emphasis on regulating rules of origins, liberalization of services, and investment protection. They also expand the current trade agenda by incorporating new issues, such as the environment and labor, into negotiations.

Given these potential shifts in trade governance, as part of the transition to a new growth model, China must also reconsider its trade agreements approach. Under the old growth model trade agreements played a critical role in facilitating the export of goods made in China and also in allowing Chinese manufacturers to successfully plug into East Asian production networks. China may re-consider its entire negotiation approach in face of a weakening WTO-based multilateral trading system and the emergence of exclusive mega-regional negotiations. Fully utilizing multilateral and regional trade negotiations platforms, and participating in the process of international trade rule making are significant to how China defines its role in international economic governance. A comprehensive and sophisticated negotiation strategy will help China to confront domestic economic challenges and to accelerate its steps to further integrate with the world economy.

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This chapter explores Chinese trade negotiation strategy in response to its domestic reform as well as its changing role in the world economy. Section 2 briefly introduces China’s export-oriented economic model and points to the need for new navigation in the world economy. Section 3 discusses the changing dynamics of international trading system and its implication for China in a geopolitical context and with regard to its trade negotiation agenda. Based on the analyses of China in the world economy and international trade rule-making process, Section 4 focuses on the discussion of Chinese trade negotiation strategies. Given the three perspectives discussed – the failure of Doha; the proliferation of regional trade agreements; and calls for new trade rules in the Pacific Rim - this paper offers a comprehensive overview of Chinese trade negotiation strategies. The chapter finally advocates that China will work with other countries toward converging the different trade agendas of mega-regionals and in doing so also play a bigger role in shaping international trading system.

I. Changing Relations Between China and the World Economy

1. Challenges for Traditional Export-Oriented Growth Model

The opening-up policy adopted in late 1970s transformed China away from a planned economy and toward a market-oriented economy. In the early stages of that process, a fundamental element of that policy was the pioneering opening up of selective coastal areas of China, which in turn helped to fire up the economic growth of other regions of China.

Firstly, China’s government boosted its investment into these coastal regions. The central government’s investment into these regions increased from 39.5% over 1953-1978 to 53.5% over the period 1979-1991. That surge in investment was mainly used to construct infrastructure. Favorable policies also sought to attract Foreign Direct Investment (“FDI”). Fully equipped infrastructure, favorable treatment for foreign investors together with cheap local labor helped China to become one of the hottest FDI destinations in the world. During these years, China received around 20% of total inbound FDI into developing countries. Through 2006 to 2010, FDI accounted for the nearly 2.5% of China’s GDP on average. A larger share of the foreign companies that flooded into China set up factories that produce goods for export. In turn, foreign-invested enterprises came to produce nearly half of China’s entire exports. China in turn rose to become a significant trade partner of the world.

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Figure 1: Chinese Trade Volume: 1978-2013

![Graph showing Chinese Trade Volume: 1978-2013](image)


Figure 1 displays the evolution of the trade volume of China, from 1978 to 2013. It illustrates that the level of imports and exports have risen since 1990. The year 2001, when China joined the WTO, marks an acceleration point, especially in China’s trade surplus. The financial crises of 1997 and of 2008, each reduced demand for China’s exports. China was however hit more severely by the latter. Having experiencing a temporary fall in demand in 2009, Chinese exports have however continued to increase helped by the economic stimulus package. The graph of both imports and exports each are less steep in the period after 2011, implying less rapid of trade growth over recent years.
Figure 2 illustrates the share of GDP comprised of exports since 1978. The mainly rising trend demonstrates how trade became an important endogenous component of China’s economic growth, especially since the mid-1990s. The importance of exports to China’s economy in particular was accentuated after China’s accession to the WTO. Over years 2002-2007, the average share of exports in GDP peaked at 30% in 2007. Exports literally became the “engine” of Chinese economy growth. Since the financial crisis of 2008, exports have not however returned to pre-crisis levels, and instead have contributed less and less annually to GDP. In 2013, the ratio of exports to GDP reached 23.32%, close to the ratio of 2003. While still making a great contribution to GDP, exports evidently no longer serve as China’s economic “engine.”

The sluggish world demand is one of the main explanations for China’s export slowdown. While the uncertain recovery of the US economy is somewhat positive news for Chinese exporters, the US government’s measures to minimize its trade deficit with China serves to curb the scale of rebound in demand for China’s exports. The pace of export increase is slow. In contrast, China’s demand for US exports is rising relatively rapidly. China became the US’s largest export destination in 2013. That year China imported goods to the value of $122.1bn, up 10.4% year-on-year.\(^5\) China’s exports to the US in 2013 increased $14.9bn, with a more moderate rate of 3.4% from 2012.

China’s exports to the EU also face challenging conditions. A stalled recovery, ageing population, monetary challenges and high unemployment help prevent the EU from

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rebounding as a big importer. According to EU statistics, from 2009-2013, the average growth rate of imports from China was 6.8%, against an average growth rate of its export to China of 15.6%. In fact, the growth rate of imports from China was negative in 2009, 2012 and 2013, at -13.6%, -1% and −4.1% respectively, producing a fall in China’s exports to the EU those years. The drawn out economic recovery of the EU hardly offers a promising future for bilateral trade.

Emerging economies have decelerated to their slowest pace since 2008, or pre-crisis. Weak domestic demand and currency depreciation since May 2013 leave even emerging economies unable to import at earlier levels. In sum, China’s export-oriented growth model faces an unprecedented challenge in face of shrinking global demand.

Domestically, China’s also faces the challenge of adjusting to a new balance between investment and consumption. As noted in the introduction, over the last three decades, investment has served as the other “engine” of Chinese economic growth. Investment currently accounts for nearly half of GDP, well above the peak of about 40% at a similar stage in South Korea and Taiwan. While investment remains high, “the marginal contribution of an extra unit of investment to growth has been falling, necessitating ever larger increases in investment to generate an equal amount of growth.” Over-reliance on investment offers diminishing returns, and is unsustainable especially following the excessive investment induced by the RMB400tm stimulus program implemented in the aftermath of the financial crisis in 2008.

While greater domestic consumption is being encouraged, this can hardly ignite economic growth. Household final consumption in China in 2012 was 38.2% of the GDP, only marginally up from 36.7% in 2006, despite rapid economic growth. This level is much lower than the average of OECD countries. Striking a sustainable balance between investment and consumption is a focus of China’s ongoing domestic economic reforms.

In light of this challenging set of conditions, official figures suggest China’s economic growth rate in 2014 was 7.4%, the lowest rate since the 1990s. The current economic slowdown, however, could benefit China in the long if it if is used as a springboard for reforms that successfully and sustainably shift the country’s growth model. In this way, the “new normal” era requires adjustments in domestic economic policies, and also in

external-oriented trade policies and strategies. Moreover, trade strategies that are compatible with these domestic conditions will help China to achieve a stable and successful growth model shift. Areas of relevance to these adjustments are explored in the next section.

2. Changing Facets of Chinese Economy

The financial crisis in 2008 has deeply changed the shape of the world economy. For China it forced a reconsideration of its growth model and pushed forward related domestic reforms. Indeed, it is also offers a turning point through which China is re-navigating its roles in the world economy.

(1) Moving up the Global Value Chains

The proliferation of multinational companies investing in China not only drove China’s economic growth, but also created opportunities for Chinese businesses to plug into global value chains (“GVCs”). Components were exported to China and final products were cased in China, and vice versa. As a result, China has become an integral part of Asia’s regional production networks.

For a certain early period of time in China’s broader economic transition, Chinese exports were famously characterised as cheap clothes, shoes and low-value added products. Chinese industries that is, were positioned at the low end of the GVCs, the interest margin for Chinese companies being minimal accordingly. “[b]ut benefiting from GVCs depends on how much value a country creates in the GVCs.”9 In face of sluggish demand for those products, Chinese economy and Chinese companies now need to figure out how to add more values to the GVCs.

Innovation is part of the story of moving upward in GVCs. This also helps Chinese companies to maintain competitive advantage in face of increasing pressure of labor cost. Chinese companies are already successfully taking actions in pushing for higher status within GVCs. The 2014 World Intellectual Report, the flagship publication of the Geneva-based World Intellectual Property Organization, reports that China filed 32.1% of the 2.6mn world patent applications in 2013, making it greatest total patent filer in the world, and followed by the US (22.3%) and Japan (12.6%).10 In addition, Chinese foreign-oriented patents have surged since 2000, by an average annual growth rate of 40% between 2000 and 2005, and by

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an average annual rare of 23% since 2005.11

The significance of innovation has been in fact written into national strategy plan of China. Innovation is intended to be a new driving force for growth and for increasing Chinese competitiveness in the world economy. Accordingly, subsidies and policy support by both central and local governments are intended to encourage companies to increasingly engage in R&D activities.

(2) Becoming an Outbound Investor as well as a Recipient Investor

Inbound FDI has served as an important driver of China’s economic growth over the past three decades. China became one of the hottest investment destinations in the world. In 2014, China attracted $128 billion foreign investment, reflecting a moderate increase of 3% on the previous year. That year, China also surpassed the US to become the greatest recipient of investment in the world.12

In parallel, the recent rapid increase in Chinese outward foreign direct investment (“OFDI”) is also striking. In 2014, Chinese OFDI reached $102.9bn, up 14.1% on the previous year. At this rate, Chinese OFDI will soon exceed its FDI. Having been a large capital recipient country, China will newly appear as an important investor in the world economy.

Within that broader trend are further trends. It reflects Chinese companies seeking to develop advanced technologies through an M&A process. For example, it is reported that PetroChina and CNOOC have signed a few agreements in western transnational corporations (TNCs), including Shell. Some of these agreements include articles on technological assistance and support.13 Concurrent to expanding market sizes and maximizing business opportunities, Chinese companies, that is, are investing in globally in a way that emphasizes narrowing the technology and management gap with companies in developed countries. This is a critical step for Chinese companies undergoing a process of globalization.

At the national level, Chinese OFDI is also expected to boost with the implementation of “One Road, One Belt” initiative. A $40bn “Silk Road Fund” has been founded to support investment in infrastructure of developing countries. In general, Chinese companies are being encouraged to invest abroad and compete in global market. It is hoped that massive investment of Chinese companies abroad will unlock opportunities for China to

evolve from a country that is “merchandise exporting” to one that is “capital exporting.”

(3) Free Trade Zones and other Opening-Up Measures

Transition from “export-orientation” poses many challenges for China’s economy. There is no one single prescription that can describe a detailed picture of what China’s economy can become thereafter. And so China’s government continues its usual practice of learning by doing.

One such area of experimentation is through the practice of free trade zones, which set aside a certain area for trial of innovative policies on trade, investment and finance. The idea is to provide “replicable experience” for other regions and the economy as a whole for further liberalization. Shanghai Pilot Free Trade Zone, which was approved by State Council in August 2013, is the pioneer for exploring approaches to achieving deepening reform and further opening-up in the current economic context. Its practices include granting investors “national treatment” except for investment items listed in the “negative list,” and also simplifying custom procedures. These are novel policy instruments for both national and local governments.

Noteworthy is the approach to the “negative list”, which has been explicitly written into the draft Foreign Investment Law. This approach fundamentally changes the traditional Chinese system of governing foreign investment. Under the new stipulations, foreign investors can enjoy pre-national treatment unless they fall into the “negative list.” That is, a clear and transparent framework is now provided for foreign investment. In parallel, foreign investors can also benefit from a simplified registration system that removes the traditional lengthy approval process. Despite some criticism, the Foreign Investment Law draft indicates the arrival of a more transparent, stable and sophisticated system of governance of foreign investment.14

In the footsteps of Shanghai, Fujian, Guangdong and Tianjin form the recently announced second group of experimental free trade zones. In addition to replicating the successful experience of Shanghai, these zones are expected to further construct an open Chinese economy, and to explore a new model of regional cooperation and rule-based business environment. These three new free trade zones are also hoped to serve as hubs of each regional economic growth and offer useful practice on free trade zones to facilitate regional development. In doing so, they should also be able to best respond to the changing

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dynamics of international trade.

III. Changing Dynamics of International Trade Rules

1. Failure of Doha Round Negotiations in the WTO

At the end of 20th century, the establishment of the WTO was one of the greatest achievements of the international economic system. The agreements made under this multilateral trading system have an extensive influence on its 160 member countries. Under three pillars - trade in goods, services and intellectual property rights – the WTO has brought high-level liberalization to international trade rules. In addition, the WTO’s rule-based dispute settlement system has earned a reputation for efficiency and effectiveness in settling trade-related disputes between member countries.

On the other hand, and as highlighted by Petersmann, multilateral trading is like a bicycle that has one wheel subject to regular negotiation.15 Through WTO negotiations trade rules are updated and member countries can be motivated to seek changes in the multilateral trading system. The stalemate of Doha Round negotiations, however, has stalled that system. Confident of success more than a decade ago, negotiators proposed a package of negotiation agenda based on development issues for the Doha Round negotiations. Yet, it is doomed to be a difficult round of negotiations due to the divergent interests between developed countries and developing countries.16 Moreover, the single-taking principle, which requires universal agreement of member countries on an issue, makes the negotiations extremely difficult. At the Ministerial Conference in Bali in 2013, however, some modest progress was achieved on trade facilitation, reduction of barriers for imports from Least Developed Countries (“LDCs”) and on food security program in developing countries. The reality is, however, that member countries are struggling to wrap up the Doha Round of negotiations, and hope for reaching agreement among members on substantial rules is slim. The multilateral trading system is struggling to provide new trade rules.

2. The Proliferation of Regional Trade Negotiations

In the last decades of the 20th century, another remarkable new phenomenon of the world economy was the emergence of GVCs. As they change the shape of the world economy, world trade and investment in GVCs, are now also among the leading causes of the proliferation of regional trade negotiations.

With advances in technology reducing transportation and communication costs, multinational companies have in recent decades been able to operate with branches across countries, including developing countries. Specifically, production lines are split across countries based on comparative advantage, such as in cheap labor. In turn, a single product is no longer made within one country. Rather, it is an incremental process across many countries that differently provide components of the whole production process.

Removing barriers to customs and investment, and facilitating activities of value chains is thus now also essential to creating trade and bolstering prosperity of the economy in 21st century. It is specifically estimated that reducing barriers in GVCs could increase global GDP by nearly 5% and global trade by 15%. Existing trade rules however are built upon the perception of trade “at the border.” Concepts, such as tariff, rules of origins etc., reflect a way of thinking in which products are labeled as of a single country, instead of the combined effort of many countries. In 21st century, trade rules that advocate tariff reduction and quota elimination, are important, but insufficient to bolster trade. The expansion of GVCs has thus led to calls for changes to create new rules that better suit the structure and needs of the world trade.

Amid this world trade dynamic, the deadlock of the Doha Round of negotiations has helped the trend among member countries to turn to regional trade negotiations. The world’s greatest traders - China, Japan, EU and the US - have all sought for solutions in regional talks. As noted earlier, there are specifically three leading regional negotiations initiatives underway, the RCEP, TPP and TTIP. Of them, two (RCEP and TPP) are concentrated on the Asia-Pacific region, reflecting the well-developed and lucrative supply chains, in turn creating common interest for countries to push forward the negotiation of more sophisticated trade rules that are compatible with those production networks.

In contrast, the TTIP focuses on divergence within and duplication of regulatory policies. It seeks to create more specific and subtle set of trade rules that are based on business sectors, and which reduce divergence and duplication across domestic laws. The EU and US are already working on divergence within related issues, such as food safety and automobile parts. They hope to use the TTIP as the “standard markers, rather than standard takers.” Through a more united regulatory approach, these two countries hope to ensure

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other countries gravitate toward their joint standards, despite the shift of economic power to emerging economies.

As of April 2015, none of these three negotiation platforms has born substantial fruits. Although the TPP is coming toward a conclusion among countries, the picture is still no yet clear due to the Trade Promotion Authority issue and disagreement within the Democratic Party. The RCEP agenda also seeks to conclude the negotiations by the end of 2015. However, there are many issues needing resolution before a final deal can be reached. With regard to TTIP, this appears second priority of the US’s trade agenda this year, after the TPP deal.

3. A Call for New Trade Rules in Asia Pacific Rim

In Pacific Rim, while RCEP and TPP are complementary to each other in terms of their member scope and issue coverage, they compete for being first to offer an update to the international trade rules of the WTO rules. In turn, the outlook for international trade rules varies greatly, depending whether the RCEP or TPP is signed first.

RCEP negotiations include ten ASEAN countries and Australia, China, India, Japan, New Zealand and South Korea. These are big trade partners within the region. The negotiation agenda covers an extensive scope of issues, such as tariff reduction, services, investment and intellectual property right protection etc. RCEP’s aim is to further reduce tariff among member countries, to grant more market access within the service sectors and to create a “liberal, facilitative and competitive” regional investment environment. Negotiations are taking place based on the current structure of the ASEAN+1, but with improvements in many aspects. The RCEP negotiations, that is, demonstrate engagement of 16 countries so as to make RCEP rules comprehensive and of high quality, in reflection of the collective determination to more deeply integrate with the related national economies. The negotiation agenda incorporates sensitive issues, including competition. The competition issue was once raised in multilateral trade discussions in the Singapore Round negotiations of the WTO. It was removed from negotiation agenda, however, due to opposition of developing countries. It is a remarkable progress that it can now appear on the agenda of RCEP, although most of the participating countries are developing countries. Despite the pursuit of comprehensive liberalization, the guidelines of the RCEP also address the issue of flexibility by “[T]aking into consideration of the different levels of development of participating countries.”


negotiations will consider difference of countries and allow special and differentiated treatment for LDCs.

Unlike the RCEP, the TPP seeks to make 21st century “high-level” international trade rules. Led by the United States, the TPP is being negotiated by 12 Asia Pacific countries, including Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand Peru, Singapore and Vietnam. The TPP includes comprehensive coverage of issues, including services, investment, intellectual property rights, Stated Owned Enterprises (SOEs), environment and labor and so on. While improving the level of protection based on the WTO rules, such as investor protection and intellectual property rights, it also tends to reduce tariffs to zero and expand market access in service sectors.

More ambitiously, the TPP aims to write new disciplines into international trade rules. It addresses competitive neutrality and regulates State Owned Enterprises (SOEs). It also newly imports environmental and labor-related elements into trade law frameworks. Specifically, it attempts to add environment and labor costs into the cost of products so as to factor these impacts into the competitiveness level of products. Developing countries have expressed concern that TPP negotiation areas will make them relatively less competitive. Concerns have also arisen on selective rule proposals, such as the extension for intellectual property right protection for pharmaceutical products, which may favor developed countries. The TPP is being pushed by the US, and this makes it a struggle for developing countries to protect their interest. Despite a strong push by the US, negotiators are still negotiating toward a final deal.

If agreed by negotiating countries, the TPP could become the “template” for international trade rules in future. By utilizing the TPP as a vehicle, the US could maintain its lead in international trade rule making. In this way, the TPP serves as a critical instrument of the US to achieve the goal “to be involved in the discussions that could shape the future of this region and to participate fully in appropriate organizations as they are established and evolve.”21 These rules are used to secure the competitiveness of American companies in global competition and to regain leverage for the US economy. In a geopolitical sense, the TPP also serves to unite the US and its allies through economic ties and adds momentum to political bilateral and regional relationships. It is understood as the economic pillar of the US’s “rebalancing” policy in the Pacific Rim.

Despite its increasing trade power and enthusiasm to join international trade rule making, China is currently excluded from TPP negotiations. Chinese high-level officials have

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21 Remarks of President Obama at Suntory Hall, Tokyo, Japan, 14 November 2009.
expressed interest in joining the negotiations of these frontier trade rules and to deepen China’s integration with other economies.\textsuperscript{22} Despite this, it is appears to be obvious that China is not allowed to join in drafting the new international trade rules under the framework of the TPP.

The RCEP serves as an alternative for China, though China and other negotiating countries have a long way to march until reaching an agreement. The rules of RCEP will be not as high-level as the TPP’s, but this nonetheless could serve as a middle ground for countries to achieve consensus on a more ambitious trade package like the TPP. In his address to the 215 Boao Forum for Asia, President Xi reemphasized the significance of concluding the RCEP deal by the end of 2015. Hopefully, Chinese facilitation can help to induce accelerated negotiation of the RCEP toward agreement. We will see which will be the first agreement to update the trade rules of in Pacific Rim.

IV. Chinese Trade Negotiations Options

1. Cards in China’s hands

(1) Multilateral Approaches

Joining the WTO in 2001 has significantly benefited Chinese economic growth in the past decade. It also assured that China deepened its integration with the world economy. As now the world’s largest exporter, China should be part of trade negotiations and write its wills into system of international trade rules. It wishes to seize the opportunity during this round of new mega-regional trade rule negotiations by joining the various negotiating arenas.

The WTO is the fundamental platform for negotiating new trade rules. As a proponent of the multilateralism, China attenuates significance to the WTO’s legislative function in evolving new rules. China has actively participated in the Doha Round negotiations. Also, it has worked closely with the US and India on the divergence between developed countries and developing countries issues. It signed the agreement on trade facilitation in Bali Ministerial Conference and pushed for its conclusion when the agreement was stuck in 2014.

China is also an active participant of plurilateral agreement negotiations inside the WTO. Given the stalemate of the Doha Round negotiations, the plurilateral approach has emerged in the form of groups of like-minded WTO member countries negotiating selected

specific issues. Thus far China has entered into negotiations for the Information Technology Agreement and Government Procurement Agreement. It has also expressed its interest in the Trade in Services Agreement (TISA) and hopes to become a negotiating member. Thus far however it has been excluded due to the concerns of some developed countries, including the US. Indeed, some of these issues covered in these negotiations are also sensitive for the Chinese economy and may pose challenges to current Chinese governance structure. However, Chinese government has realized that being among the rule-makers is essential to protecting its own interests in global context. Being a signatory to those negotiations within the WTO would allow China to be present when the important issues are under negotiation. The plurilateral agreements negotiated by a group of members will apply to other WTO members, if accepted by all the other WTO members. Multilateral negotiations, despite its slowness, can be an effective instrument for advancing trade-related issues.

(2) Regional Approach

Given its core interest in the Asia Pacific, China also actively participates in regional negotiations of new trade rules. It engages in discussions toward building free trade areas with neighboring countries to positively impact both regional economics and geopolitics.

In the East Asia, Free Trade Agreement negotiations between China, Japan and South Korea began in 2012. The collective GDP of these countries encompasses 20% of global GDP and 90% of East Asian GDP. An integrated free trade area inclusive of these three countries will not only bolster mutual economic growth, but also benefit regional growth. The 7th round of negotiations was completed in April 2015. China and South Korea were able to reap an early harvest by signing a bilateral free trade agreement. This agreement is recorded as China’s most substantive Free Trade Agreement (“FTA”) in covering the largest trade volume and the most comprehensive range of issues.

In addition, China is also negotiating a free trade agreement with Gulf Cooperation Council, which consists of Bahrain, Oman, Kuwait, Qatar, Saudi Arabia and United Arabia Emirates. The negotiations were once stopped after being launched in 2009, but resumed in 2013. Bilateral negotiations between China and each Gulf Cooperation Council country continue. FTAs serve as important instruments for strengthening economic ties between China and signatory countries. Under the “One Belt One Road” initiative, it could be expected that there will be a proliferation of FTAs and Bilateral Investment Treaties (“BITs”) between China and its neighboring countries in the near future.

The RCEP is another trade-related negotiating platform in the Asia Pacific, incorporating 16 negotiating countries. Production networks within this region are tightly
inter-connected. Toward facilitating further expansion of regional production networks and strengthening China’s ties with Southeast Asian countries especially, China has put great emphasis on RCEP negotiations. It may however not be easy to wrap up these negotiations in a quick manner due to the different development levels and different interests of countries involved. An alternative accelerated track lies in China having started negotiations with ASEAN countries on an upgraded version of the ASEAN—China agreement. These upgraded ASEAN-China FTA negotiations are at the top of Chinese trade negotiation agenda.

At the 2014 Asia Pacific Economic Cooperation (hereinafter as “APEC”) leaders gathering in Beijing, China addressed the importance of building up a free trade area among APEC member countries. The feasibility study on FTA for the Asia Pacific (“FTAAP”) is to be launched in response. Thus, besides the RCEP, through FTAAP and ASEAN-China especially, China could play a bigger role in shaping trade rules and the regional economic architecture in the ongoing process of Asia Pacific economic integration.

China’s FTAAP initiative also highlights that China is willing to work with the US on drafting new trade rules toward broader Asia Pacific economic integration. Though the original FTAAP idea was first proposed by the US, the US is now preoccupied with the idea of first concluding the TPP. Even where the negotiations for FTAAP are launched, the US would have these built on the TPP negotiations in any case. That is, with its clear emphasis on the TPP, the US seeks ideally to influence the general structure of the FTAAP and apply the TPP rules to a larger group of APEC countries. Since the FTAAP’s negotiation agenda has not yet been clarified, it requires a lot of collaboration of China and other countries to make the FTAAP a reality.

(3) Bilateral Approaches

Among 15 FTAs signed by China as of April 2015, almost all of them are bilateral agreements, except the FTAs agreed with Hong Kong, China, Taipei, China and Macau, China. Specifically, China has signed FTAs with a broad range of Asian countries, including ASEAN, Australia, Korea, Pakistan and Singapore. China also has FTAs with Chile, Costa Rica, New Zealand, and Switzerland. FTAs now in the pipeline will boost Chinese economic integration with Japan and Norway.

Table 1: FTA signed by China as of April 2015

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<th>Agreement</th>
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<tr>
<td>Asia Pacific (1976)</td>
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<tr>
<td>China-Thailand (2003)*</td>
<td>Developing-Developing</td>
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<tr>
<td>China-Hong Kong, China (2003)</td>
<td>Developing-Developing</td>
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<td>ASEAN-China (2004)</td>
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Chinese enthusiasm for bilateral FTA negotiations has sprung from its experience as a WTO member, which helped to massively increase China’s exports over the past decade. China has tended to seek to replicate that success by gaining more market access and by further reducing tariff levels through bilateral FTAs with countries in the region. In the early days of these FTA negotiations, China applied an individual approach to negotiations on goods, services, and investments to accelerate the implementation, including in the ASEAN–China FTA’s Early Harvest Program. During this period, Chinese FTA emphasis was on trade in goods, particularly tariff reductions. The more complicated Singapore issues, referring to an earlier WTO multilateral negotiation round, including government procurement, competition, and trade facilitation, received little attention.

A more proactive stance by China emerged in FTAs signed with New Zealand and Singapore in 2008. These FTA negotiations had multiple focuses in addition to the liberalization of trade in goods. In particular, China put more emphasis on the negotiation of services and Singapore issues. The coverage of services and liberalization steps were more vigorous and comprehensive compared to earlier negotiations. Several Singapore issues, such as trade facilitation, were on the negotiation agenda, though issues such as competition and government procurement proved too sensitive to address. China has more recently again however taken a more comprehensive and vigorous approach to FTAs signed with developed countries. For example, China’s FTAs with Iceland and Switzerland, each signed in 2013, and with South Korea in 2015, have more comprehensive coverage in goods, services, investments, especially with respect to Singapore issues.

### 2. Chinese Issue-related FTA Strategies

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<th>Country Pair</th>
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<td>China-Pakistan (2006)</td>
<td>Developing-Developing</td>
</tr>
<tr>
<td>China-New Zealand (2008)</td>
<td>Developing-Developed</td>
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<tr>
<td>China-Singapore (2008)</td>
<td>Developing-Developed</td>
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<tr>
<td>China-Peru (2009)</td>
<td>Developing-Developing</td>
</tr>
<tr>
<td>China-Macau, China (2009)</td>
<td><em>x</em></td>
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<td>China-Taipei, China (2010)</td>
<td><em>x</em></td>
</tr>
<tr>
<td>China-Iceland (2013)</td>
<td>Developing-Developing</td>
</tr>
<tr>
<td>China-Switzerland (2013)</td>
<td>Developing-Developed</td>
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<tr>
<td>China-Australia</td>
<td>Developing-Developed</td>
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<tr>
<td>China-Korea (2015)</td>
<td>Developing-Developed</td>
</tr>
</tbody>
</table>

* It was included into the ASEAN+China later.
(1) Bilateral Investment Treaties

Following China’s shift toward becoming an important outbound investor, China is in urgent need to update its BITs with its trade and investment partners. As of April 2015, China has signed 145 BITs with a wide array of countries. Many of these BITs, particularly those signed in the early days of China’s opening-up, were drafted from the stance of protecting China’s inbound investment recipient interests. For instance, the BITs intentionally narrowed the scope of arbitration, and restricted the availability of use of ad hoc arbitration of International Center of Settlement of Investment Disputes (hereinafter as “ICSID”), unless disputes are related to compensation over expropriation and nationalization.

China’s BITs have evolved significantly in the past decade especially, offering more balance between investor and recipient protections, including a more fledged dispute settlement provision. “While it has not yet converged on U.S. ‘high-standard’ BIT practice, it has come closer….” Recent BITs signed with developed countries, such as Canada (signed in 2012), incorporate remarkable progress in the way China addresses national treatment, Most Favored Nation treatment and dispute settlement, though there have been some reservations. The enlarged scope of these BITs indicates a clear shift of China in its negotiating stance, based on its shifting role from just recipient to also being a major outbound investor. The ongoing BIT negotiation with the US when completed will reflect China’s most advanced such regulations.

The negotiations for BITs or for investment chapters within FTAs will be one of the priorities of Chinese trade negotiations going forth, especially under the umbrella of the national “One Road, One Belt” strategy. Cautious agreement of reciprocal national treatment, MFN and dispute settlement mechanisms in host countries will benefit Chinese investors in the long run by offering an accessible, stable and predictable investment environments. This will also help to ensure a successful transition from the tradition of government-led overseas investment to private outward investment in adherence of the relevant international rules.

Last, China’s change in its stance of BITs negotiations leaves room for itself joining “high-level” FTAs. As a promising investor, to build up a predictable and stable investment-friendly environment is to China and China’s investors favor. Despite many contentious issues in the “high-level” trade rules, the shared concern over the protections for investors

may create common grounds for China and other developed countries to work together. The consensus on investment issues will pave a way for China to join the negotiations for “high-level” international trade rules.

(2) Services

According to WTO statistics, China’s services exports reached $204,718mn in 2013. With a steady annual rate of increase of nearly 8%, Chinese export in services covers 4.4% of total world services exports. China’s import of services the same year was $329,424mn, reflecting a higher share, some 7.52%, of total world imports. China’s services imports also increased more sharply, at an annual rate of 18%.26

Transportation and travel explain most behind the increase in services trade. More importantly, value-added services are contributing increasingly to GDP, up to 46% in 2013 from 32% in 1992.27 The expansion of GVCs integrates not only Chinese component manufacturers into the global economy, but also the service providers of these production lines. As a huge market that holds much promise for China’s middle-class, there is great potential for a boom in trade in services, both domestically and globally. This is particularly true in the global context given that China’s advantage in providing cheap labor is diminishing. Indeed, China faces a great opportunity to expand its services into the region and the world.

In that context, China will also embark upon negotiating services agreements with its trade partners. Its activeness in participating in the TISA, as mentioned above, is part of this story. Emphasis in negotiations for services is first upon opening market access in the transportation and travel sectors, and in which the Chinese government faces few difficulties to open domestically. The liberalization of the financial and telecommunications sectors are expected to gradually increase in pace and prioritization of domestic reforms. This liberalization of services trade also could provide China a new engine in its economic growth.

(3) New Sensitive Issues

Some new sensitive issues, such as SOEs, environment and labor issues, pose challenges for China in 21st century trade negotiations. As outlined above, these issues are important impediments for China in joining “high-level” trade negotiations such as those of the TPP. If the TPP is concluded, the pressure for China to tackle these issues will be

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enhanced. China’s commitment to these addressing issues however is also subject to progress of Chinese domestic reforms in each relevant aspect. If the TPP is unable to be concluded in near future, this will buy China time to proceed with its own pace of domestic reforms in related issues, while also retaining more leverage for in future negotiations.

It is noted however that Chinese negotiators will pay more attention to the regulation of these new issues arising in the mentioned “high-level” trade agreement negotiations. Due to the controversy of these issues, the TPP, even were it to be concluded, may not be able to set binding rules for members. China could address these rules as non-binding, or seek for a transitional period to adapt to relevant rules, in order to minimize its exposure to unexpected negative consequence. In a word, despite the sensitivity and complexity of these issues, China may consider adjusting itself by putting emphasis on domestic reform and negotiation strategies.

V. Conclusion: To Work toward Converging on a Trade Deal

The international trading system is at a crossroad, thanks to deadlock in the multilateral Doha Round of WTO negotiations and the parallel emergence of a few mega-regional trade negotiation platforms. The mega-regionals, which have attracted a lot of attention, could serve as building blocks that pave the way forward for reaching a multilateral deal within the WTO’s frameworks. Divisions among trading blocks, as reflected in the shape of these mega-regional negotiations, poses uncertainty for international trading system and suggests there may be delays in adapt to these trading dynamics. Though geopolitical concerns may justify such divisions, large traders need to work together to converge upon a trade deal toward the goal of evolving the new trade rules that are needed for 21st century prosperity and economic security. Through this process, China will play an active role and seek to expand its influence to match its economic power. Any attempt to exclude China is unwise and would be unsuccessful, as the story of the Asian Infrastructure Investment Bank proves.

China seeks to work with its large trade partners, such as the US and the EU, toward taking the responsibility to collectively upgrade international trade rules. The internal reform of Chinese economy and its changing role in the world economy provide common ground for China, a large developing country, and developed countries to work on their divergence and to agree a new set rules. As an important and indispensable player in the Pacific Rim as well as in world, it is expected that China will play a more active role in contributing to the evolution of a new 21st century trading system.