

The Evolution of China's Policy Stance on East Asian New Regionalism:
A Trade Perspective

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Abstract

This study examines the motivations behind China's shift towards preferential trade agreements (PTAs) in the past decade and its impact on East Asian new regionalism. Since the early 1990s, East Asia has experienced a new wave of regionalism characterized by the proliferation of PTAs. Although China is a latecomer to this movement, it is catching up fast by pursuing an active regional policy. China's pursuit of PTAs with regional economies is driven by a combination of economic, political and strategic factors. This paper explores how the themes of China's domestic reform, the WTO accession and geopolitical competition contribute to the change in China's trade policy, which further impact on its level of involvement in East Asian economic regionalism. The paper concludes that China will continue its PTA strategy in the future through expanding its partners and areas of cooperation. Its pragmatic and flexible PTA policy will serve as a constructive mechanism to promote regional integration beyond the existing multilateral track.

Introduction

East Asia has witnessed unprecedented economic growth since the 1980s. Its contribution to global gross domestic product (GDP) has grown from 16.3% in 1980 to 26.9% in 2011 and its share of global exports has nearly tripled during the same period.¹ Led by export booms, the East Asian integration was a process driven by the market instead of by the institution. Before the 1990s, China played a passive role in regional organizations. This situation began to change in the 1990s as a new form of regionalism characterized by the growth of preferential trade

¹ Data Computed from the World Development Indicator Database. The World Bank. Accessed on March 20, 2012. <http://data.worldbank.org/data-catalog/world-development-indicators>.

agreements (PTAs) emerged.² There was a growing interest among East Asian economies to adjust their trade policies towards preferential trading, with China as no exception. After the 1997-1998 Asian Financial Crisis, China adopted a more active stance towards East Asian regionalism through joining regional bodies and creating new groupings.³ The year 2000 highlighted this shift of China's position in East Asian regionalism as it started to negotiate bilateral PTAs, a departure from its previous wholehearted backing of multilateral trade negotiations.⁴ Although it is a late-comer, China has caught up quickly; it has 12 out of the 25 PTAs initiatives signed as of early 2012.⁵ As China embarks on an active path of PTA negotiations, its role in East Asian integration is highly contested as opinions are spilt into two camps. Some argue that this change enables China to play a constructive role in advancing East Asian integration, while others contend that these bilateral initiatives will not strengthen economic ties as they are, by and large, politically motivated.⁶ Nevertheless, as the dominant

² This paper will mainly refer to the agreements as PTAs, but Regional Trade Agreements (RTAs) and Free Trade Agreements (FTAs) will also be used interchangeably as they are cited differently in various sources. The term PTA is preferred as many of the trade agreements neither limits their membership in a geographically sense nor "free" in essence as none of them eliminates restrictions on trade between the signatories completely.

³ Ye, Min. "Evolution of China's Regionalism: From Balancer to Catalyst." American Political Science Association 2005 Annual Meeting. Washington, DC. p1-39. *EBSCOhost*. American University Bender Library. <http://web.ebscohost.com/ehost/resultsadvanced?sid=75d4f45e-56ab-4b2b-9420-385c200cfa74%40sessionmgr115&vid=2&hid=108&bquery=Evolution+of+China%E2%80%99s+Regionalism%3a+From+Balancer+to+Catalyst&bdata=JmRiPWFWaCZ0eXBIPTEmc2l0ZT11aG9zdC1saXZl>. 13.

⁴ Pomfret, Richard. "Asian Regional Resurgent: FTAs after 2000." *Regionalism in East Asia: Why Has It Flourished Since 2000 and How Far Will It Go?* Hackensack, NJ: World Scientific, 2011. 74-87. 74.

⁵ Asian Development Bank Regional Integration Center Free Trade Agreement Database for Asia, at <http://aric.adb.org/ftatrends.php> (accessed March 20, 2012). The 25 agreements include those that have been under study (7), under negotiation (6), signed or implemented (12).

⁶ Ye, 2.

trading nation in the region, China's economic rise and its shift of policy stance on East Asian new regionalism have profound implications on East Asia economic integration.

The objective of this paper is to examine major explanations of China's recent active policy to form PTAs and how this activism plays out in the process of East Asian new regionalism. The paper is divided into the following sections. The first section reviews three schools of regionalism literature in explaining China's regionalist policy. The second section presents China's FTA strategy and a brief overview of new regionalism in Asia and China's changing level of involvement in the process. The third section analyzes the reasons behind China's regionalist policy and its impact on the future trend of regional integration and multilateral trade negotiations.

Literature Review

The liberal-institutional approach argues that growing economic interdependence with other economies drives a country to pursue deeper economic cooperation.⁷ Since the early 1990s, East Asia has joined the FTA frenzy, producing a wave of new regionalism.⁸ This new regionalism involves integration in areas encompassing trade, finance and investments.⁹ The study of Fukao et al. (2003) has shown that intra-industry trade in East Asia manifests itself largely through vertical intra-industry trade. This vertical specialization of production and regional value chain has made China an important export destination within Asia, serving as a

⁷ Kwan, Chi Hung. *Economic Interdependence in the Asia-Pacific Region: Towards a Yen Bloc*. New York: Routledge, 1994.

⁸ The "New Regionalism." United Nations Conference on Trade and Development. <http://www.unctad.org/templates/Page.asp?intItemID=4329&lang=1>

⁹ Gilpin, Robert. *Global Political Economy: Understanding The International Economic Order*. Princeton, NJ: Princeton University Press, 2001. 341.

world factory.¹⁰ Within these circumstances, China's policy change towards regionalism should be attributed to the booming intra-regional trade and its closer economic ties with other countries in the region. Meanwhile, the failure of the Doha Round and the ineffectiveness of international institutions further pushed China away from the multilateral track, which increased the attractiveness of regional initiatives.¹¹ However, it is worth-noting that the Doha Development Agenda was formally launched in 2001, one year after China started to embrace PTAs. Therefore although this argument helps to explain the accelerated speed of China's PTA negotiations with partners, it is not sufficient to address what motivated China to pursue PTAs in the first place. Moreover, liberal-institutionalism tends to overlook China's political and security stakes in the region. China has made substantial concessions in some of its regional economic initiatives, which run into contradiction with pure rational economic analysis. For example, China provided "special preferential tariff treatments for some goods from Cambodia, Laos, and Myanmar in China-ASEAN agreement", and gained disproportionately from its free trade agreement with Hong Kong and Taiwan.¹² These regional efforts are mainly politically driven, aiming to engage neighboring countries in the region while downplaying the fears of China as a threat despite the fact that they also produce closer economic integration in the process.¹³

In looking at this gap indicated by liberal-institutionalism, realist scholars Mansfield and Milner (1999) attribute the reason for pursuing regionalism to the struggle of power politics. Also representing the realist camp, Mochizuki (2010) specifically points out that geopolitical and security consideration are factored into states' formation of PTAs in order to win over others in

¹⁰ Cai, Kevin G. "The ASEAN-China Free Trade Agreement and East Asian Regional Grouping." *Contemporary Southeast Asia* 25.3 (2003): 287-404.

¹¹ Lu, Feng. "Free Trade Area: Awakening Regionalism in East Asia." Working Paper. *China Center for Economic Research*. 2003. <http://en.ccer.edu.cn/download/2694-1.pdf>. 1-34.20.

¹² Ye, 24.

¹³ Ye, 26.

competition. Following this logic, China's shift of attitude may be a result of its rivalry with Japan in terms of securing regional leadership.¹⁴ Yue (2004) contends that as China's interaction with the U.S becomes a subject of keen interest in the context of China's rise, its move towards regionalism, instead of multilateralism, can also be perceived as a tactic to counterbalance U.S. influence in Asia while engaging neighboring countries. Following this approach, it is the consideration of balance of power that plays a predominant role in setting the agenda for China's regionalist policy.¹⁵

However, the realist approach fails to account for the importance of internal domestic factors in the formation of Chinese trade policies. As the central authority of China started to partially decentralize trade and investment decision-making, the nation states could no longer be perceived as one entity when explaining policy making processes not only because there were dissenting voices within the top administration, but also because domestic politics started to play an increasing important role in this process. Gourevitch (1978) contends that domestic coalition politics, formulated by different societal actors, generates an indispensable impact on nation states' decision making process. Based on his idea of the second image reversed, China's shift in its regional policy is rooted in more vibrant intellectual thoughts and consistent economic and bureaucratic reforms.¹⁶ Katzenstein (1978) also observes that domestic policy networks influence a state's economic policy as they have been invested the domestic political and economic structure.

¹⁴ Kerr, David. "Greater China and East Asian Integration: Regionalism and Rivalry." *East Asia* 21.1 (2004): 75-92. 85.

¹⁵ Zhao, Suisheng. "The Making of China's Periphery Policy." *Chinese Foreign Policy: Pragmatism and Strategic Behavior*. Ed. Suisheng Zhao. New York, NY: M.E.Sharpe Press, 2004. 256-275.

¹⁶ Ye, 19.

Meanwhile, the impact of regionalism on multilateralism is still subject to debate. Opponents of regional trade blocs, represented by Bhagwati and Panagariya (1996), assert that free trade agreements are not “free” in essence as they potentially discriminate against non-participants. PTAs also create rules of origin problems described by Bhagwati as “the spaghetti bowl effect.”¹⁷ On the contrary, Michalak and Gibb (1997) contend that although regionalism is often perceived as the second best option, it offers nation states a mechanism to deal with multinational corporations and therefore these two approaches are not necessarily contradictory. In the case of China, cooperation at the bilateral or regional level can safeguard the country from global trade and financial instability to some extent.¹⁸ Frankel (1997) further claims that having a regional focus is a politically viable option as it “locks in countries for trade reforms, induces competitive liberalization and creates an efficient negotiation process” given the slow development and limited achievements of the multilateral trade negotiations at the WTO. From this perspective, China’s move towards a regional track is not in conflict with its multilateral commitments as all the agreements it has negotiated are WTO consistent and even cover WTO-plus issues.

China’s FTA Strategy and Involvement in East Asian Regionalism

China has adopted a gradual and pragmatic approach in negotiating trade agreements with its partners. The different designs of its existing PTAs entail the fact that China’s PTA strategy is flexible and country-specific. First, it emphasizes the importance of regional markets. Although China does not limit the selection of PTA partners in Asia, it gives priority to regional

¹⁷ Bhagwati, Jagdish. *Termites in the Trading System: How Preferential Agreements Undermine Free Trade*. Oxford: Oxford University Press, 2008.

¹⁸ Ye, 22.

economies.¹⁹ Among its proposed PTAs to date, 15 out of the 25 initiatives are conducted with economies situated in the region as shown in Table 1.²⁰ Asian markets are crucial to China because of its huge economic and geopolitical interests in the region. Secondly, the coverage of China's PTAs varies case by case. Some of the agreements include only trade in goods, while others especially the ones with developed economies cover issues on an a la carte basis.²¹ In most cases, agreement on one issue such as goods will be concluded first to set foundations for negotiations in other areas. Thirdly, the agreements feature substantial concessions and binding effects, signaling an intention of gaining strategic leverage instead of expanding market access.²² China is more willing to offer concessions in its sensitive sectors when negotiating with selective partners for diplomatic gains, while the bilateralism of Japan, for instance, prioritizes gaining market access.²³

¹⁹ Ravenhill, John and Yang Jiang. "China's Move to Preferential Trading: An Extension of Chinese Network Power?" *Journal of Contemporary China* 18.58 (2009): 27-46. 33.

²⁰ Asian Development Bank Regional Integration Center Free Trade Agreement Database for Asia, at <http://aric.adb.org/ftatrends.php> (accessed March 20, 2012).

²¹ Zhang, Yunling. "China's FTA Strategy: An Overview". *China and Asian Regionalism*. Hackensack, NJ: World Scientific, 2010. 101-114. 102.

²² Yang, Jian. "China's Competitive FTA Strategy: Realism on a Liberal Slide." *Competitive Regionalism: FTA Diffusion in the Pacific Rim*. Ed. Mireya Solis, Barbara Stallings, and Saori N. Katada. New York, NY: Palgrave Macmillan, 2009. 216-235. 223.

²³ Ravenhill and Jiang, 33.

Table 1 China's Preferential Trade Agreement Initiatives, as of early 2012

Partners	Current Status	Initiated by China
ASEAN	Signed and in effect	Yes
Australia	Framework Agreement signed in 2005 Currently under negotiation	No
Chile	Signed and in effect	Yes
Costa Rica	Signed and in effect	No
Gulf Cooperation Council	Under negotiation	Yes
Hong Kong	Signed and in effect	No
Iceland	Framework Agreement signed in 2006 Currently under negotiation	No
India	Proposed/Under consultation and study	Yes
Macau	Signed and in effect	No
Mongolia	Proposed/Under consultation and study	Yes
New Zealand	Signed and in effect	No
Norway	Under negotiation	No
Pakistan	Signed and in effect	No
Peru	Signed and in effect	No
Shanghai Cooperation Organization	Proposed/Under consultation and study	Yes
Singapore	Signed and in effect	No
South African Customs Union	Under negotiation	Yes
South Korea	Proposed/ Under consultation and study	Yes
Switzerland	Under negotiation	No
Taipei	Signed and in effect	Yes
Thailand	Signed and in effect	No
Asia-Pacific Trade Agreement	Signed and in effect	No
Comprehensive Economic Partnership for East Asia (ASEAN+6)	Proposed/ Under consultation and study	No
East Asia Free Trade Area (ASEAN+3)	Proposed/ Under consultation and study	No
Japan & Korea	Proposed/ Under consultation and study	Yes

Source: Asian Development Bank Regional Integration Center Free Trade Agreement Database for Asia. (accessed on March 20, 2012). <http://aric.adb.org/ftatrends.php>.

China's adoption of such active PTA policies is a fruit of its increasing engagement in East Asian integration. Before the 1990s, China showed skepticism towards regional cooperation not only because these "soft" regional initiatives were not substantive at that time, but also because it was overshadowed by the economic dominance of Japan and the security dominance of the U.S.²⁴ The Asian model of regionalism stresses openness and voluntarism as regional economies share the consensus of non-interference due to their intricate historical relations and heterogeneous interests.²⁵ Soft regional dialogues such as the Asia-Pacific Economic Cooperation (APEC) showed no binding characteristics.²⁶ In terms of the economic dimension, network regional cooperation was largely market-driven and consultation based, where Japan played a leadership role in facilitating an Asian production network.²⁷ China played a limited role in this network as it was preoccupied with its domestic economic reform.²⁸ In terms of the political-security dimension, the United States was in the center of a "hub and spoke" system, maintaining a substantial bilateral alliance network and military access in the region.²⁹ China had been skeptical of the U.S. hegemonic influence as it perceived that the US would manipulate the East Asian regionalism to its advantage and threaten China's national sovereignty.³⁰ This fear was highlighted in 1989 when the Sino-American bilateral relationship deteriorated in the wake

²⁴ Frankel, Jeffrey A. and Miles Kahler. "Front matter, Regionalism and Rivalry." *Regionalism and Rivalry: Japan and the United States in Pacific Asia*. Ed. Jeffrey Frankel and Miles Kahler. Chicago, IL: The University of Chicago Press, 1993. -12-0. 16.

²⁵ Mansfield, Edward D. and Helen V. Milner. "The New Wave of Regionalism." *International Organization* 53.3 (1999): 589-627.
<http://www.stanford.edu/class/polisci243b/readings/v0002093.pdf>. 590.

²⁶ Ye, 16.

²⁷ Urata, Shujiro. "Exclusion Fears and Competitive Regionalism in East Asia." *Competitive Regionalism: FTA Diffusion in the Pacific Rim*. Ed. Mireya Solis, Barbara Stallings, and Saori N. Katada. New York, NY: Palgrave Macmillan, 2009. 27-53. 28.

²⁸ Ye, 9.

²⁹ Lu, 4.

³⁰ Lu, 5.

of the Tiananmen protest.³¹ Hence, the security and economic dominance of the United States and Japan in the region contributed to Beijing's low profile performance in the early stage of East Asian regionalism.

The early 1990s witnessed China's rising interest in fostering regional cooperation. As western countries imposed economic sanctions on China due to the Tiananmen protest, China had to invest a lot of effort in building closer and stronger relationships with regional economies.³² As a result, its level of foreign trade with Asian economies and the inflow of foreign capital from the region were unprecedented. Meanwhile, the dynamic of the East Asian economic structure changed as Japan's economy slid into stagnation while ASEAN emerged as a concrete economic entity.³³ As China's economic power grew, it shifted away from its skepticism of regionalism and joined APEC in 1991 as an incremental approach to test the viability of developing a regionalist policy, a process quoted by top Chinese policy makers as "crossing the river by touching the stone."³⁴ However, its level of involvement in East Asian regionalism remain low as unilateral market liberalization topped its agenda and the existing regional regimes yielded limited results.³⁵

The outburst of the Asian Financial crisis in 1997 changed the development trajectory of East Asian regionalism. It reflected the fact that East Asia had become a cohesive region with close economic linkages among one another and the lack of a regional mechanism to cope with economic cooperation and crisis management.³⁶ In the aftermath of the crisis, several regional

³¹ Ye, 9.

³² Ibid.

³³ Ye, 12.

³⁴ Ibid.

³⁵ Ibid.

³⁶ Mansfield and Milner, 530.

frameworks such as the Chiang Mai Initiative were established.³⁷ Meanwhile, China's economic influence in the region grew rapidly as it stood the test of the crisis and demonstrated a consistently high level of economic growth and openness. The boosted economic capacity enabled China to play a leadership role in East Asian regionalism. As Table two suggests, most of the country's major trading partners are concentrated in the Asian region, which resonates with the strategic importance of advancing engagement with regional economies. China worked with Japan, Korea and ASEAN countries and established an ASEAN + 3 framework.³⁸ In 2000, the former Chinese premier Zhu Rongji called for an ASEAN-China free trade agreement, which opened a new chapter in China's PTA development.³⁹ The growth of PTAs further accelerated after China completed its World Trade Organization (WTO) accession negotiations in 2000 and formally joined the organization in 2001.⁴⁰ In comparison, Japan's performance paled with that of China as its proposal of the Asian Monetary Fund was turned down and its PTA initiatives lagged behind.⁴¹

Table Two
China's Merchandise Trade with Major Partners in 2011
(100 million USD)

Country of Region	Exports	Increase over 2010 (%)	Imports	Increase over 2010 (%)
European Union	3560	14.1	2112	25.4
United States	3245	14.5	1222	19.6
Hong Kong, China	2680	22.8	155	26.4
ASEAN	1701	23.1	1928	24.6
Japan	1483	22.5	1946	10.1
Republic of Korea	829	20.6	1627	17.6

³⁷ Ibid.

³⁸ Ye, 14.

³⁹ Pomfret, 42.

⁴⁰ Zhang, 179.

⁴¹ Yue, Chia Siow. "The Rise of China and Emergent East Asian Regionalism." *The Rise of China and a Changing East Asian Order*. Ed. Kokubun Ryosei and Wang Jisi. New York: Japan Center for International Exchange, 2004. 60-61. 60.

India	505	23.5	234	12.1
Russia	389	31.4	430	55.6
Taiwan, China	351	18.3	1249	7.9

Source: Statistical Communiqué on the 2011 National Economic and Social Development
National Bureau of Statistics of China. (accessed on March 25, 2012)
http://www.stats.gov.cn/english/newsandcomingevents/t20120222_402786587.htm.

China's Regionalist policy: Motivation and Prospect

Political-Security Competition

Existing literature has incorporated a political-security dimension to explain China's robust PTA development, seeing PTAs as an instrument to leverage economic clout to pursue political objectives.⁴² The objectives are two-fold: providing assurance mechanisms for neighboring countries and enhancing status in regional leadership competition.⁴³ In the former case, a close look at China's trading pattern reveals some truth to this argument. While China enjoys a substantial trade surplus with the USA and EU, its trade deficits with neighboring economies such as Taiwan and ASEAN countries persist.⁴⁴ Take the ASEAN-China agreement for example. Even though China had trade deficit with ASEAN countries before signing the agreement, it still established an Early Harvest Program so that ASEAN countries are in a better position to access China's domestic market when China unilaterally reduced its tariffs on ASEAN exports of agricultural products.⁴⁵ Instead of using its relative economic power to pressure small countries to liberalize their agricultural sectors, China made concessions on its own to enable ASEAN countries reap most of the economic benefits of the ASEAN-China

⁴² Urata, 30.

⁴³ Mochizuki, Mike M. "Political-Security Competition and the FTA Movement: Motivations and Consequences." *Competitive Regionalism: FTA Diffusion in the Pacific Rim*. Ed. Mireya Solis, Barbara Stallings, and Saori N. Katada. New York, NY: Palgrave Macmillan, 2009. 54-73.60.

⁴⁴ Ravenhill and Jiang, 31.

⁴⁵ Zhang, 192.

agreement.⁴⁶ This concession is perceived as a tactic to ease ASEAN countries' concerns over China's rise and the negative impact of the inflow of cheap products from China after its WTO accession.⁴⁷ In the latter case, the United States is left out of China's PTA discussion, which gives rise to the suspicion that China's PTA strategy aims to reduce US influence in the region. Some also interpret China's decision to form a PTA with ASEAN as a response to Japan's proposal to form a PTA with Singapore earlier in 2000.⁴⁸ It has been argued that the Chinese version of ASEAN+1 moved faster than those of Japan and Korea as a result of China's eagerness to use it as a stepping stone to secure a regional leadership role.⁴⁹

However, labeling China's PTAs as products of political decisions exaggerates the actual political influence in the decision making process. While some of the agreements start out based on geopolitical calculations under the guise of consultation and study, once the actual negotiations begin and progress, PTAs take on lives of their own as both sides engage in economic bargaining. China usually kicks off the negotiation with a broad framework and further fills in and fine-tunes the specific content of the agreement.⁵⁰ This "Agree First, Talk After" negotiation style sheds light on the two-fold nature of trade negotiations where the external political tone set by leaders upfront is by and large detached from the internal details of the agreement negotiated by technical bureaucrats serving in China's Ministry of Commerce.⁵¹ In addition, those agreements that initially only cover goods gradually develops into a more comprehensive package.⁵² If political considerations dominate, China would be hesitant to

⁴⁶ Ravenhill and Jiang, 32.

⁴⁷ Mochizuki, 61.

⁴⁸ Pomfret, 80.

⁴⁹ Mochizuki, 64.

⁵⁰ Ravenhill and Jiang, 32.

⁵¹ Ibid.

⁵² Zhang, 110.

extend the scope of the agreement to other areas beyond goods since the signing of the agreement itself would be sufficient to signal its cordiality. However, most negotiations did not halt after the agreement on goods went into effect but instead quickly proceeded to service and investment as in the case of China-Singapore FTA.⁵³ China has also incorporated some WTO-plus issues such as environmental protection and labor standard in its recent PTA packages. Moreover, Beijing's decision of negotiating a PTA with Japan suggests that economic interdependence between the two states could possibly trump security impediments.⁵⁴ Hence, political-security incentives are not powerful enough to explain the selection of China's PTA partners.

Domestic Reform

China's perspective on regionalism centers on economic performance as it is critical to its internal stability and strategic objective. Deng Xiaoping's revolutionary "Open Door" policy has successfully integrated China into the global market, enjoying a double-digit economic growth for almost ten years.⁵⁵ As indicated by Graph one, trade has become a major driving force behind China's economic rise. Because strategic considerations were invested into domestic thinking of reforms, the analysis of Beijing's changing stance on trade policy as well as East Asian economic regionalism cannot be detached from its local context. From a top-down perspective, many of the economic reform initiatives were coordinated by the central government, focusing on reducing policy interventions in domestic markets, relaxing price controls and liberalizing trade and investment.⁵⁶ The complementary reform measures in other areas besides trade such as foreign direct investment catalyze trade liberalization. As a result,

⁵³ Ibid.

⁵⁴ Pomfret, 54.

⁵⁵ Pomfret, 41.

⁵⁶ Wan, 32.

more than 95 percent of the products in China are currently priced by market mechanism and by 2011, China has emerged as the second largest trading nation in the world.⁵⁷

In addition, a series of special economic zones (SEZs) have emerged within China, encompassing Hainan province and cities such as Shenzhen, Zhuhai, Shantou and Xiamen.⁵⁸ The objective of the SEZs is to combine capital-intensive economies such as Hong Kong's marketing experience with the mainland's cheap labor to reduce the costs of trade.⁵⁹ Granted with special status, these areas enabled both central and local governments to pilot special policies to experiment with market liberalization.⁶⁰ Meanwhile, multinational corporations' expansion in the region gave rise to a fragmented production network where China played an indispensable role in facilitating the division of labor.⁶¹ As time progress, abundant labor was freed from the agricultural sector, which prepared the cornerstone for the facilitation of a regional value chain as East Asia became denser.⁶² Most of the SEZs were concentrated in coastal areas where they shared close economic linkages with Hong Kong, Macau, Taiwan and other neighboring economies, and these linkages quickly turned a single growth center into a web of growth regions.⁶³ The successful experience of the SEZs were later introduced in the creation of fourteen Coastal Development Areas (CDAs), and other adjacent provinces that shared geographical proximity with these areas, although not initially designated as SEZs or CDAs, also benefited from this spillover effect.⁶⁴ Another successful model of reducing trade barriers was the emergence of the Greater Mekong Subregion (GMS) in which the Yunnan Province of China is

⁵⁷ Pomfret, 123.

⁵⁸ Pomfret, 41.

⁵⁹ Ibid.

⁶⁰ Pomfret, 42.

⁶¹ Pomfret, 52.

⁶² Pomfret, 51.

⁶³ Pomfret, 42.

⁶⁴ Ibid.

included.⁶⁵ The GMS was created to streamline transport procedures across the countries, which bolstered the economic incentives for China to negotiate a PTA with ASEAN countries.⁶⁶ A bilateral track instead of a multilateral one could reflect the dynamic pattern of economic interactions between different provinces and cities with Asian economies. Therefore, as China increased its exposure and cooperation with regional economies at the local level, domestic governments could leverage their economic influence to exert pressure on central governments' formation of trade policies, particularly the PTAs.

Moreover, leaders at the top actively pursue trade liberalization and greater participation in regional arrangements. For instance, former president of China Jiang Zemin was a major advocate behind China's accession to APEC in order to boost his fame and authority.⁶⁷ Since 1978, domestic constituencies who supported trade and investment liberalization have been empowered.⁶⁸ Those advocates of free trade within the government and among technical bureaucrats prevailed as their argument was consistent with the national interest, and they further transformed their intellectual inputs into the actual negotiations of the PTAs.⁶⁹ The losers of PTAs, mainly composed of farmers and small entrepreneurs were dwarfed by the political insiders in terms of their participation in the political system and their political voices.⁷⁰

The political reality of China still suggests that the level of domestic participation in trade policy making process is limited, which could be explained by the following three factors. First of all, China lacks a robust civil society, and the existing interest groups are rather weak and

⁶⁵ Ibid.

⁶⁶ Pomfret, 47.

⁶⁷ Ye, 12.

⁶⁸ Ye, 17.

⁶⁹ Wan, 32.

⁷⁰ Ibid.

informal.⁷¹ As civil initiatives remain sharply curtailed, the constrained political system has protected the central government from facing protests from farmers and import-competing constituencies directly. Therefore, domestic criticism against the PTAs is rarely heard or quickly suppressed so that it paves the way for the central government to pursue its policy.⁷² It is precisely because the central government is unresponsive to different domestic coalitions' interests that the agricultural sector could be opened in the ASEAN-China Agreement regardless of the possible consequences of unemployment in China's agricultural sector.⁷³ Moreover, despite being the second largest economy in the world, China is still a developing economy. The central government will continue to maintain its control over trade policy and retain economic development as its top policy agenda so that the space for local constituencies to lobby for other goals is relatively limited.⁷⁴ Therefore, the discussion of China's policy stance on Asian regionalism will remain state-centric.

The central government also retains significant amount of control over its banking system and input markets, which constrain the local governments' ability of addressing behind the border issues associated with service, investment and other WTO-plus agendas.⁷⁵ While provincial governments enjoy some degree of economic autonomy, they have limited power to implement policies in the political and jurisdictional arena. As local governments tend to defer such responsibilities to the central government, the lobbying power from the bottom shrinks so that it could not play a decisive role in the formation of PTAs. Moreover, China's current economic structure has resulted in an imbalanced growth structure between the coastal and the

⁷¹ Wan, 30.

⁷² Wan, 36.

⁷³ Ravenhill and Jiang, 30.

⁷⁴ Wan, 32.

⁷⁵ Pomfret, 55.

inland areas, aggravating insufficient allocation of resources within the nation.⁷⁶ As laid out by the White Paper on China's Rural Poverty-Relief, the emphasis of domestic players' economic activities in the short-term will be placed on mitigating internal economic inequality, diverting the attention from the negotiations of PTAs.⁷⁷



Source: World Development Indicator Database. World Bank. (accessed on March 25, 2012). <http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS>

The WTO Accession

China's WTO accession has a two-fold effect on the expansion of its PTA network. On one hand, China recognizes the limitations of the WTO and perceives that bilateral and sub-regional trade agreements complement the existing multilateral trading system. According to Section 15(a) of its WTO Accession Protocol, China is deemed as a non-market economy, which

⁷⁶ "New Progress in Development-oriented Poverty Reduction Program for Rural China". The Information Office of the State Council of People's Republic of China. *China Daily*. November 16, 2011. http://www.chinadaily.com.cn/usa/china/2011-11/16/content_14106364.htm.

⁷⁷ Ibid.

places it at a disadvantage place in antidumping and countervailing duty investigations;⁷⁸ member countries could deny its information on domestic prices and costs and make the final determination on a discriminatory basis before the expiry of this provision in 2016.⁷⁹ While it is difficult to amend this protocol under WTO rules, bilateral and sub-regional trade agreements provide a mechanism for China to alleviate this damaging effect by making the recognition of market economy status a prerequisite of PTAs.⁸⁰ Granting full market status to China would produce a more competitive and productive network of global trade. Hence, the expansion of China's PTA network will "assert peer pressure to those countries that still designate China as non-market economy" and compel them to abandon their protectionist measures.⁸¹ In this way, China's PTA policy echoes the Doha Development Agenda (DDA)'s objective of "improving the trading prospects of developing countries" through building a more balanced trading order.⁸²

On the other hand, China's WTO accession helps it to secure the locked-in assurance. Beijing does not start its PTA initiatives until 2000, the year when it completed all the accession negotiations with the WTO member countries. Any attempt of negotiating a PTA before its accession would let other countries to question China's sincerity to comply the rules of the multilateral trading system.⁸³ Once it joined the organization, it no longer needs to worry about the impact of negotiating PTAs on its membership status as long as the PTAs are WTO-

⁷⁸ O'Connor, Bernard. "Market-Economy Status for China is Not Automatic." VOX. November 27, 2011. <http://www.voxeu.org/index.php?q=node/7345>.

⁷⁹ Ibid.

⁸⁰ Ravenhill and Jiang, 32.

⁸¹ Gao, Shuchao Henry. "China's Strategy for Free Trade Agreements: Political Battle in the Name of Trade." Research Collection School of Law. Paper 966. 2011. http://ink.library.smu.edu.sg/sol_research/966. 12.

⁸² "The Doha Round." Doha Agenda. World Trade Organization. http://www.wto.org/english/tratop_e/dda_e/dda_e.htm.

⁸³ Gao, 12.

consistent. The WTO accession provides it with the opportunity to build more frequent interactions with other regional economies.

New Regionalism Vs Multilateralism

Whether regionalism is good or bad for multilateralism is a heated topic among scholars and policy makers. Critics argued that the intensified pursuit of PTAs will erode the relevance of the multilateral trading system.⁸⁴ Although economists share the consensus that PTAs is a second best option to multilateral trade liberalization, in the case of China, these two approaches may be complementary rather than exclusive in nature.

First of all, the current multilateral trading system is subject to criticism due to its slow pace and limited achievements as the WTO membership expands. As an export-oriented economy, further integration into the global market is one of China's top priorities to sustain its extraordinary economic growth.⁸⁵ In this process, the regional market becomes increasingly important to China due to its large share of intra-regional trade. Different groupings among developing countries in the Doha Round, however, did not reflect any regional characteristic with respect to East Asia. For example, China's interest in agricultural products differs with most other developing countries, but it had to adjust its negotiation stance in line with the other G-20 members.⁸⁶ As a result, China was not an active player in Doha since it was involved in such developing country grouping with diverse interests and negotiation strategies. The single-undertaking rule of Doha has further impeded the conclusion of Doha as countries were reluctant

⁸⁴ Schwab, Susan C. "After Doha: Why the Negotiations Are Doomed and What We Should Do About it." *Foreign Affairs* 90.3 (2011): 104-117.

<http://www.foreignaffairs.com/articles/67719/susan-c-schwab/after-doha>. 112.

⁸⁵ Ye, 21.

⁸⁶ Gao, 17.

to push for any progress when they all subject to the lowest-common-denominator syndrome.⁸⁷ Because the current multilateral trading system is not flexible enough to cope with China's demand for trade liberalization, PTAs as the policy alternative became more attractive as it enables China to push for trade liberalization in selected markets. Although the failure of Doha does not have a causal effect on China's shift towards preferential trading since Beijing started this initiative before joining the WTO, it is worth-noting that PTA negotiations coincidentally accelerated after the prolonged negotiations signaled a dim prospect of a successful exit.

In addition, bilateral and sub-regional trade agreements lend significant leeway for China to devise its plan of trade liberalization based on its development stage. Compared with the multilateral system, bilateral and sub-regional agreements provide China with the sensitivity to its interests. They enable China to engage regional economies on a much deeper and closer basis because it can tailor its policy to the specific country in the process of negotiation and selectively incorporate the features of PTAs in the agreements. For instance, China is willing to make agriculture concessions with ASEAN countries in the ASEAN-China Free Trade Agreement, but is unlikely to cut such deal with Japan and South Korea in the ASEAN+3 PTA proposal.⁸⁸ Its agreement with advanced economies such as New Zealand is so comprehensive that it covers multiple WTO-plus issues, yet its agreement with developing countries such as Mongolia follows a more gradual approach, starting with the negotiation on goods first.⁸⁹ Negotiating PTAs with regional economies are faster and easier and may generate more fruitful results than the multilateral track.

⁸⁷ Barton, John H et al. "The Evolution of the Trade Regime: Politics, Law and Economics of the GATT and the WTO." Cambridge: Cambridge University Press, 2006. 109.

⁸⁸ Ravenhill and Jiang, 39.

⁸⁹ Asian Development Bank Regional Integration Center Free Trade Agreement Database for Asia.

Thirdly, China's PTA strategy shares the spirit of Asia's open regionalism that distinguishes itself from the traditional model of regionalism, which does not directly conflict with the multilateral approach of trade liberalization. The spaghetti bowl effect of PTAs does not rigidly apply in the case of China because its PTA policy leaves a window of opportunity for other countries to join, signaling a possibility of expansion.⁹⁰ As State Councilor Dai Bingguo put it, there are no exclusive articles contained in the agreements that China signed with regional economies.⁹¹ It indicates that China's vision of East Asian economic regionalism is not an inward-looking regional trade bloc, but rather a common ground for countries to strengthen economic cooperation and dialogues. Despite the shared consensus that PTAs serve as a catalyst of East Asian economic regionalism, it is not easy to predict whether they will generate spill-over effect to other areas and quantify the overall impact of preferential trading on the multilateral trading system. One need to recognize that the share of trade involved in China's PTAs accounts for a relatively small proportion compared with its total trade, and the utilization rate of China's PTAs is relatively low.⁹² Moreover, as economic benefits are tangible and easy to calculate, other strategic gains and political capital are more difficult to determine.

Conclusion

Although China was reluctant to embark on preferential trading initially, it has become an active player in PTA negotiations in the past decade. China adopts PTAs as a policy instrument to pursue its dynamic economic and geopolitical objectives. The motivations of China's PTA

⁹⁰ Wan, 30.

⁹¹ Bingguo, Dai. "State Councilor Dai Bingguo: Adhere to the Path of Peaceful Development". The Central People's Government of the People's Republic of China. December 6, 2010. http://www.gov.cn/ldhd/2010-12/06/content_1760381.htm.

⁹² Zhang, Yunling. "The Impact of Free Trade Agreements on Business Activity: A survey of Firms in the People's Republic of China." ADBI Working Paper Series, No. 251. Asian Development Bank Institute. <http://hdl.handle.net/10419/53628>. 16.

movement are multidimensional, involving a mix of economic and strategic factors. The inquiry of what is the driving force behind China's surging PTAs should be understood in the context of the specific agreement. Meanwhile, Beijing's pragmatic PTA strategy does not follow a single template but instead exhibits great flexibility and diversity. This characteristic fits well into China's overall policy framework of pursuing deeper engagement with its regional economies. In the future, China will continue to engage bilaterally with others and participate in regional arrangements through its FTA strategy. It is true that the PTAs deliver faster and in some cases broader trade liberalization compared with the multilateral trade negotiations, but the actual economic gains from the PTAs are still subject to debate. Even though China's pursuit of PTAs is generally in line with WTO rules, its trade policy may generate different economic and diplomatic implications on East Asian economic regionalism and multilateral trade negotiations as its PTA network expands and deepens.

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