

China's FTA Policy and its Implications for Regional Cooperation

SHEN, Minghui

Deputy Director and Secretary General, Center for East Asian Cooperation and APEC, Chinese Academy of Social Sciences

1. Potential Impact of the TPP

After a complex process, the negotiations concerning a basic agreement on the TPP have at last been completed. In some respects, the TPP has ended up being the product of compromise. For example, as a result of pressure by the U.S.A. and Australia, Japan agreed to reduce import duties on beef to 9% within 15 years, undertake a phased reduction of pork tariffs within 10 years, and to slash by 90% the maximum punitive tariff rate imposed for exceeding quotas. The U.S.A. agreed to lift the import quota on Canadian refined sugar by 19,200 tons. In the final stages of negotiations, New Zealand lodged an objection with states including the U.S.A. and Canada over issues concerning dairy products. Concerning the question of whether data protection for biologic drugs should last five years or 12, discussions repeatedly took two steps forward and one step back, with participants eventually compromising on "five plus three." Australia's support was gained in exchange for agreeing that Investor-State Dispute Settlement (ISDS) would not apply to the tobacco industry. Instead of including provisions on currency manipulation, the participating nations agreed to form a non-binding currency forum. Other concessions include an agreement by the U.S.A. to abolish the 2.5% tariff on passenger cars and the 25% tariff on light trucks over the course of 20 to 25 years. However, one has to admit that the TPP certainly is a comprehensive high-level trade agreement. In terms of content, the TPP has 30 chapters, covering not only such traditional fields as trade in goods, rules of origin, tariffs, inspection and quarantine, investment, and trade in services, but also a range of new fields, including the movement of business persons, electronic commerce, government procurement, competition policy, state-owned enterprises, intellectual property rights, labor, the environment, capacity-building, business facilitation, small and medium-sized enterprises, regulatory coherence, and transparency and anti-corruption. In the Asia-Pacific region, many examples of cooperation in new fields can also be seen, at a much higher level than most of the existing free trade agreements (FTAs) in the region.

Although the TPP has not yet entered into force, its effects are already making themselves felt within this region. Specifically, first of all, most of the region's economies, such as the ROK, the Philippines, Thailand, and Indonesia, have expressed a wish to join the TPP, with a view to gaining access to the huge American market. Secondly, emerging economies such as China and India are already feeling huge pressure as a result of being excluded from the agreement and, just like Europe during the Uruguay Round, are already demonstrating their flexibility in negotiations over various regional economic agreements, in such crucial areas of negotiations as rules and provisions concerning opening up their financial sectors, national treatment prior to access, and the negative list system, among others. Thirdly, given that emerging economic powers such as China and India will find it difficult to establish bilateral FTAs with the U.S.A., but have little prospect of joining the TPP in the near future, their enthusiasm for concluding other FTAs or participating in multilateral trade negotiations has grown further, due to their fears about being left out in the cold, and consequently they are agreeing to more liberal provisions in these processes.

At a global level, the TPP has triggered a new round in the World Trade Organization (WTO), but it

cannot necessarily serve as an alternative to the WTO. Even though the Doha Round of WTO negotiations has reached a stalemate, it has the largest number of participating states of any global multilateral trade negotiation mechanism and is the only multilateral negotiation mechanism that encompasses states and regions around the world that are at different stages of development. The most-favorite nation (MFN) tariffs under the WTO are the most commonly used preferential tariffs in the world, while its dispute resolution mechanism is legally binding worldwide; these unique features are not offered by any other trade mechanism at present. Consequently, no nation can afford to abandon the WTO lightly. On the other hand, past experience would suggest that the U.S.A. is no advocate of regionalism and what benefits the world as a whole benefits the U.S.A. even more. Consequently, while the U.S.A. might use the TPP to move the levers of multilateral negotiations and steer the “incubators” of new trade rules, we should probably not pin our hopes on the TPP as a means of converting the U.S.A. to multilateralism. As is clear from the fact that the WTO has unique functions in the realm of trade and also from the motivation of the U.S.A. in promoting the TPP strategy, there is little potential for the TPP to replace the WTO.

2. China's Response

Looking at the situation objectively, the TPP was the only option for the U.S.A., because it did not have the power to drive the Doha Round negotiations forward to a conclusion. The only difference from the various rounds of GATT negotiations in the past is in the systems and methods used; fundamentally, it is a means of opening up trade and investment markets worldwide and maintaining the interests of the U.S.A. in the global economy. From this perspective, there is no reason why the U.S.A. should exclude such a crucial market as China. The reason why the U.S.A. avoided including China in the TPP negotiations is undoubtedly that it wished to reduce the obstacles in negotiations and did not want the negotiations to follow the same kind of path as the long, drawn-out Doha Round. This is the fundamental reason why the vast majority of the nations involved in TPP negotiations are trading partners that have already signed FTAs with the U.S.A. or are its allies. From this standpoint, it is unlikely that the U.S.A. would have permitted China to participate, even if China had applied to join the TPP. Once the implementation of the TPP is approved, it is foreseeable that China will likely be required to join the new process of regional economic integration.

China has consistently maintained an open-minded attitude toward the TPP; any policy decisions about such matters as whether it needs to join and, if so, when it should join must be made on the basis of an objective analysis of the costs and benefits. While the TPP encompasses comparatively neutral, traditional fields of market access, there are quite a lot of new trade rules which would affect China in different ways. For example, there would be relatively little impact on China from trade in goods, with several studies showing that the medium- to long-term effect on GDP would basically be around -1%; within this area, there would be comparatively little impact on China's production and export of digital goods. There would be some impact on products in the fields of transportation and machinery manufacturing, but this would be no more than around -3% to -5% in general. On the other hand, labor-intensive products such as textiles, fashion, and shoes would suffer quite a major impact, ranging from between -10% to -20%. Relatively speaking, China is a net importer of most agricultural products, so there would be comparatively little impact on agriculture.

In addition, looking at new fields of trade, the TPP contains provisions that would have a huge impact on China's political economy, including provisions concerning state-owned enterprises, workers, and intellectual property rights. It also encompasses key realms that accord with the direction of efforts to build a new, more open economic framework outlined at the Third Plenary Session of the 18th Central

Committee, including the service industry, electronic commerce, environmental protection, and government procurement. For example, its provisions include conditions covering the disclosure of information about the financial affairs of state-owned enterprises and the rights to shares in them, assent to the implementation of the core standards of the International Labour Organization, and the prohibition of requirements forcing the disclosure of software source code. These problems are related to the fact that the development phase of the Chinese economy is such that it cannot yet open up at such a high level; at the same time, China and the U.S.A. have different understandings of and approaches to Internet freedom and safety. In fact, these new themes and rules in the field of trade have ramifications that go beyond the realm of economics alone and extend into the political domain. Consequently, appropriate policy decisions are absolutely vital for the developing nation of China, where the overall size of the economy is large and encompasses the full range of sectors.

Currently, the WTO is in the process of restructuring the new round and a host of new FTAs - including the TPP, the RCEP (Regional Comprehensive Economic Partnership), the TiSA (Trade in Services Agreement), and others too numerous to mention - are appearing. Right now, China's negotiations with the 10 ASEAN nations, Japan, the ROK, Australia, New Zealand, and India concerning the RCEP are reaching a climax, with substantive negotiations due to be completed in 2016, so it is anticipated that the institutional arrangements for trade and economic relations with Japan will be put in place by that stage. Thus, if China can put in place the relevant institutional arrangements with the U.S.A., it should be able to minimize the negative impacts of the TPP on the Chinese economy through the docking of its trade and economic relations with TPP member states via what is basically a variable system.

In fact, the Chinese and U.S. economies have a high level of mutual dependence, so they stand or fall together. The key question is how to maintain good economic relations between China and the U.S.A. Aside from such economic and trade dialogue routes as the U.S.-China Strategic and Economic Dialogue and the US-China Business Council, one of the most pressing issues for China and the U.S.A. is a bilateral investment treaty (BIT). China and the U.S.A. have already submitted negative lists for market access to each other and are making steady progress with negotiations. In addition, studies concerning the Free Trade Area of the Asia-Pacific are already underway, so there is a huge amount of scope for China and the U.S.A. to cooperate in further developing trade and economic relations. Looking back, cooperation between China and the U.S.A. was the key to the successful conclusion of negotiations about expanding the Information Technology Agreement (ITA2) and negotiations concerning the APEC List of Environmental Goods. The negotiations for a WTO Environmental Goods Agreement, which began in 2014, are also premised on a common understanding reached by China and the U.S.A. In the future, restructuring the new round of WTO talks will require a common understanding and cooperation between China and the U.S.A.

[Translated by ERINA]