

CIIS Report

China's FTA Strategy

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中国国际问题研究院
CHINA INSTITUTE OF INTERNATIONAL STUDIES

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Acronyms

ACTPN	Advisory Committee for Trade Policy and Negotiations
BFA	Boao Forum for Asia
BIT	Bilateral Investment Treaty
BRICS	Brazil, Russia, India, China and South Africa
CAFTA	China-ASEAN Free Trade Area
CEPA	Closer Economic and Partnership Arrangement
CEPEA	Comprehensive Economic Partnership in East Asia
CEPR	Centre for Economic Policy Research
CIS	Commonwealth of Independent States
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CJK	China-Japan-Korea
EAFTA	East Asia Free Trade Area
EPA	Economic Partnership Agreement
FTA	Free Trade Area <i>or</i> Free-Trade Agreement
FTAAP	Free Trade Area of the Asia-Pacific
FTZ	Free Trade Zone
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
IPR	Intellectual Property Right
ISDS	Investor-State Dispute Settlement
ITEC	Interagency Trade Enforcement Center
LDCs	Least Developed Countries
MERCOSUR	South American Common Market
MOFAT	Ministry of Foreign Affairs and Trade
MoU	Memorandum of Understanding
NAFTA	North American Free Trade Agreement
NEC	National Economic Council
NGO	Non-governmental Organization
OECD	Organization for Economic Cooperation and Development

PENT	Pre-Establishment National Treatment
RCEP	Regional Comprehensive Economic Partnership
ROK	Republic of Korea
RTA	Regional Trade Arrangement
SAR	Special Administrative Region
SMEs	Small and Medium-Sized Enterprises
SOEs	State-Owned Enterprises
S&ED	Strategic and Economic Dialogue
TPA	Trade Promotion Authority
TPP	Trans-Pacific Partnership
TPRG	Trade Policy Review Group
TPRM	Trade Policy Review Mechanism
TPSC	Trade Policy Staff Committee
TTIP	Trans-Atlantic Trade and Investment Partnership
USTR	United States Trade Representative
WTO	World Trade Organization



Summary

Since the outbreak of international financial crisis in 2008, the world has been plagued with a sluggish economic recovery. At a time when the Doha Round negotiations are not likely to make any progress, major economies in the world have been actively exploring bilateral or plurilateral free trade agreements (FTA) outside the WTO framework so as to boost external trade and economic growth. The US-led Trans-Pacific Partnership (TPP) and Trans-Atlantic Trade and Investment Partnership (TTIP), as well as the changes and development of regional cooperation in East Asia will all have a profound impact on the regional economic development and international trade patterns.

A. The launch and progress in the construction of major FTAs in the world

Among the FTA negotiations being held in recent years, TPP and TTIP talks are without doubt having the greatest impact on the international economic and trade pattern. Connecting countries across the Pacific and the Atlantic respectively, the TPP and the TTIP constitute the “dual ocean strategy” of the United States in global economic and trade areas. The two gigantic FTAs have involved major developed economies in the world and important ones in the Asia-Pacific, aiming at open, high-level and high-standard free trade arrangements. Their main topics include almost every aspect of the trade in goods and services, such as intellectual property rights (IPR) protection, labor standards, environmental standards, development of small and medium-sized enterprises (SMEs), financial supervision, competition policies and economic legislation, etc. The TPP and the TTIP have thus reflected a two-winged free trade strategy of the United States. Once established, they are not only in the interests of developed countries like the United States, the European Union (EU) and Japan in terms of economic recovery from the financial crisis, but very likely to have important implications for the emergence of new global economic and trade rules, and the adjustment of world economic pattern.

Regional Comprehensive Economic Partnership (RCEP), as an upgraded

version of the East Asia regional cooperation, involves ten ASEAN member countries, China, Japan, South Korea, India, Australia and New Zealand, covering 49% of the world's total population, and about 30% of the world's GDP and total trade volume.¹ Compared with the TPP, the RCEP is regarded as a more agreeable path for the emerging economies in Asia to achieve trade liberalization with its relatively low standards and differentiated treatment. Till now, the RCEP negotiations have undergone 13 rounds and 4 ministerial meetings. Some progress has been made in the three basic topics: trade in goods, trade in services, and investment.

A study on China-Japan-Korea (CJK) FTA negotiations was initiated on the non-governmental level in 2002 and the three countries' heads of government held their first meeting in 2008, showing that the CJK economic cooperation has got on a fast track. In May 2012, leaders of the three countries issued a Joint Declaration on Upgrading Comprehensive Partnership of Cooperation. The three countries agreed to launch the CJK FTA negotiations in the same year, and officially inked a trilateral investment agreement – the first legal agreement on CJK economic cooperation. The economic and trade ministers of the three countries declared the beginning of CJK FTA negotiations in November 2012 during the East Asia Summit held in Phnom Penh, Cambodia. Since then, ten rounds of negotiations have been held, and some progress achieved. In the meanwhile, China-Japan bilateral relations deteriorated rapidly with the dispute over the Diaoyu Islands (known as Senkaku Islands in Japan) while Japan-South Korea relations were also bogged down due to the denial of the war of aggression on the part of Japan. Despite these negative factors, the CJK FTA negotiations have not stopped, which shows that the three countries share the firm desire to build the trilateral FTA.

B. Challenges China faces in its FTA development

Since China and ASEAN signed the Framework Agreement on China-ASEAN Comprehensive Economic Cooperation in November 2002, steady progress has been made in China's FTA development. Currently, China has signed 14 FTAs with 22 countries and regions, including Australia, South Korea, Switzerland, Iceland, Costa Rica, Peru, Singapore, New Zealand, Chile, Pakistan, ASEAN, Hong Kong, and Macao.² Additional eight FTAs are under negotiation, namely China-Gulf

1 Han Liqun, "Quanzhou Jingmao Xin Geju Beijing Xia De RCEP: Yingxiang Yu Zoushi" (RCEP Against the Backdrop of New Global Economic and Trade Patterns: Implications and Trends), *Dangdai Shijie (Contemporary World)*, No.7, 2013, pp. 57-59.

2 Ministry of Commerce, People's Republic of China, "China FTA Network", <http://fta.mofcom.gov.cn/>.

Cooperation Council (GCC) FTA, China-Norway FTA, CJK FTA, RCEP, China-Sri Lanka FTA, China-Pakistan FTA (second stage), China-Maldives FTA and China-Georgia FTA.³ Besides, five bilateral FTAs are now under consideration, which involve India, Columbia, Moldova, Fuji and Nepal.⁴

Although China has made considerable progress in building its FTA network, it still lags behind the developed countries in this respect. In terms of FTA coverage, China falls behind European countries, the United States and most East Asian economies. For instance, while ASEAN, South Korea, Japan, Australia and New Zealand have almost finished building their own FTA networks, China has yet to achieve that. Especially in terms of the FTAs under negotiation or consideration, there exists a big gap between China and its East Asian partners. But the gap is narrower between China and the EU or between China and the United States as the latter two economies are reluctant to launch FTA talks with China whereas most East Asian economies have signed or are prepared to sign FTAs with the aforementioned three major economies in the world.

China faces various challenges in its FTA development. First of all, the increasingly deteriorating trade and investment protectionism around the world is but an inevitable obstacle. China's economic rise in recent years has incurred criticism and even blame from some developed countries in the West. Some major trading partners of China have even gone so far as to pursue protectionist policies against China's export and shown little enthusiasm to engage in FTA talks with China. Secondly, China faces enormous challenges and even "blockade" in acquiring a say in the formulation of new trade rules. A point in question today in bilateral or multilateral free trade negotiations is that the US-led developed countries are trying to keep China and other developing countries out of the door for the time being by setting up "high thresholds" so that they can occupy the commanding heights in the formulation of new international trade rules. Yet, it is determined by China's national conditions that the construction of China's FTA network must be a gradual, progressive and steady process. Once the developed countries succeed in monopolizing rule-making for future international trade, China will encounter the same dilemma when applying to accede to the WTO. Thirdly, the geopolitical factors have constrained China's implementation of its FTA strategy. The biggest disturbing factor for East Asian economic integration is the United States. It has tried to increase its political and strategic presence in the Asia-Pacific region by implementing the so-called "Rebalancing toward the Asia-Pacific"

3 Ibid.

4 Ibid.

strategy and to seek comprehensive dominance in Asia-Pacific regional economic integration through the TPP. Therefore, countries in East Asia need to demonstrate considerable strategic willpower to overcome the adverse factors arising from geopolitical tensions. Lastly, China is facing institutional bottlenecks at home in implementing its FTA strategy. The development of FTAs involves profound readjustment of different interests both at home and abroad. The situation of different government departments creating difficulties for each other, inappropriate institutional setup, inadequate human resources, intellectual support lagging behind, poor information communication and top-level design being divorced from actual negotiations and implementation have all seriously hampered the implementation of China's FTA strategy.

C. Specific ideas and policy choices of China's FTA strategy

1. Make efforts to advance the Doha Round negotiations so as to safeguard the WTO multilateral framework

Firstly, the significance of the multilateral trade system must be affirmed against the backdrop of globalization. The global financial crisis has not changed the general trend of economic globalization, and the multilateral trade system is still making great contribution to the world economy. The WTO remains the main front in the fight against trade protectionism, and it plays an important role in resolving such global issues as environmental degradation. The WTO is also conducive to the establishment of a new world economic order that is fair and reasonable. Secondly, China should realize that the WTO continues to bring benefits to its member economies. The influx of new members has helped ensure the vitality of the multilateral trade system. In return, the WTO has continued to benefit new members such as Russia and Laos in trade liberalization, facilitation and other fields. It is also conducive to the deepening of regional economic cooperation. Thirdly, efforts should be made to break the deadlock in the Doha Round negotiations as early as possible. The deadlock of the Doha Round talks has continued for years and the reasons for that lie at multiple levels. To break the deadlock at an early date, China should play an active role by uniting the vast number of developing countries to urge the developed ones such as the US and the EU to advance internal reforms of the WTO.

2. Continue to base itself on the neighborhood and focus on the promotion of Free Trade Area of the Asia-Pacific (FTAAP) on the basis of regional cooperation in East Asia

Currently, FTAs within the East Asia framework have come to a crucial stage of development. As an important advocate and supporter of this process, China should increase its resource input and support in this phase so as to fully ensure that the RCEP negotiations be concluded on time. In addition, China should handle the relations between the TPP and the RCEP properly. Running parallel to each other, the TPP and the RCEP are in competition in East Asia and the Asia-Pacific at large. The course of their development will directly affect the future of Asia-Pacific economic cooperation. But the two mechanisms are not antagonistic to each other. Their relationship is both competitive and cooperative. The two mechanisms will co-exist and compete with each other for a long time. Therefore, while pushing forward the RCEP negotiations, China should adopt an open approach to the TPP, drawing useful lessons and inspirations from it for building its own FTAs with foreign countries and deepening domestic reforms. In the long run, China should promote the FTA process in East Asia with the FTAAP as the goal. Chinese Premier Li Keqiang proposed in the Boao Forum for Asia (BFA) 2014 that a feasibility study on the FTAAP may be considered. And the APEC trade ministers' meeting in Qingdao in May 2014 agreed to draft the APEC Roadmap of Promoting FTAAP, which was adopted by APEC Economic Leaders' Meeting in Beijing in November 2014. When promoting the East Asia FTA centering on the RCEP, China should make efforts to turn it to be a solid foundation for the FTAAP.

3. Endeavour to promote FTAs with developing countries and build a model of “South-South FTA”

Firstly, efforts should be made to build a FTA network involving the regions along the “Belt and Road”. China should develop the 21st-Century Maritime Silk Road on the basis of CAFTA. Efforts should be made to accelerate FTA negotiations with countries along the Belt and Road that have not signed FTAs with China. China's domestic free trade zones should be further integrated with the international FTAs while promoting the joint development of China's eastern and western regions as well as their international trade partners. Secondly, China should take advantage of the progress made in financial cooperation between BRICS countries to promote the construction of a BRICS FTA. Despite some difficulties and challenges, there exist many favorable conditions for the construction of a BRICS FTA. From a long-

term perspective, BRICS countries share common interests in FTA development. Thus, they can take the New Development Bank as a good opportunity to build a BRICS FTA in a progressive manner. Thirdly, China also needs to further deepen its economic and trade cooperation with developing countries and regions in Latin America and Africa. In spite of rapid progress in trade relations and economic cooperation between China and Latin America and Africa, they are still far from building FTAs. China should therefore work to further develop trade relations and economic cooperation with these developing countries and regions through various channels and in line with the prevailing circumstances to promote trade liberalization and facilitation.

4. Explore bilateral free trade cooperation with some regions or countries

First of all, China should actively implement its bilateral FTAs with South Korea and Australia. The two FTAs were signed in June 2015 and came into effect last December. Being China's close neighbors, South Korea and Australia are important economies in the Asia-Pacific region. The bilateral FTAs between China and the two countries are of great significance, which is beyond the bilateral scope, and will directly promote regional economic integration in East Asia. Secondly, China should steadily push forward the negotiations for a China-EU investment agreement and explore the possibility of establishing a China-EU FTA. Negotiating a bilateral investment agreement is a priority that fully accords with the needs of both China and the EU, which is in their common real and strategic interests. Therefore, the two sides should steadily push forward the negotiations with close coordination. Meanwhile, China should begin to explore both the possibility and the feasibility of establishing a China-EU FTA through various channels. Thirdly, efforts should be made to accelerate the negotiations for a China-US bilateral investment treaty (BIT), which has come to a crucial stage of exchanging the negative lists for foreign investment. Conclusion of the agreement is of profound significance to both sides. Although great divergences still exist between the two countries on quite a few issues, China should embrace the BIT by proceeding from clarification of the contents of the negative list, working out effective countermeasures, making good preparations in domestic policies and legislation, and strengthening capacity building of its enterprises.



I. The Emergence and Development of Current Major FTAs around the World

Since the beginning of the 21st century, economic globalization and regional economic integration have become the main characteristics of the world economy. Especially after the last financial crisis, the world is plagued by a weak economic recovery and little progress in the WTO Doha Round talks. Major economies around the world are exploring bilateral or multilateral FTAs outside the WTO framework to boost their foreign trade and economic growth. The emergence and development of mega-FTAs or wide area FTAs like the US-led TPP and TTIP, and the ASEAN-centered RCEP are bound to promote regional economic development and profoundly alter the pattern of international trade.

A. The emergence of TPP and TTIP negotiations as pillars of the US “Dual-Ocean Strategy”

Among the FTA negotiations in recent years, the US-led TPP and TTIP, covering economies around the Pacific Ocean and the Atlantic Ocean respectively and constituting the “dual-ocean strategy” of the United States in global economy and trade areas, have exerted the greatest impact on the world economic and trade pattern.

1. TPP may become the main channel for Asia-Pacific regional cooperation

TPP refers to the FTA negotiations among 12 countries including the United States, Japan, Australia, New Zealand, Canada, Mexico, Peru, Chile, Malaysia, Singapore, Brunei and Vietnam. It came into being from the early efforts of Singapore, New Zealand and Chile in 2003 to pursue trade liberalization in the Asia-Pacific region. In 2006, Brunei joined in and the four countries concluded the Trans-Pacific Strategic Economic Partnership (P4), which committed the four countries to offer each other preferential treatment and strengthen cooperation in areas like trade in goods and services, IPR protection and investment. The Agreement was open to

all and welcomed members of the Asia-Pacific Economic Cooperation (APEC) to join in. In March 2008, the United States joined the P4 in talks on investment and financial services, and later announced its full participation in the negotiations, thereby changing the P4 into today's TPP. Till now, 19 rounds of formal negotiations and nearly 20 rounds of ministerial-level and informal talks have been held, leading to the signing of the agreement in October 2015. On November 5, 2015, the Office of U.S. Trade Representative (USTR) released the full text and supplementary clauses of the TPP agreement on its website. Later on, Canada and Australia also released the agreement.

Totaling more than 6,000 pages, the TPP agreement includes 30 chapters, 442 clauses and 81 side letters. It covers numerous aspects, including trade in goods and services, rules of origin, trade remedies, sanitary and phytosanitary measures, technical barriers to trade, intellectual property, government procurement and competition policy, etc. Besides, the agreement includes tariff-elimination schedules of 12 member countries and four annexes specifying exceptional clauses on financial services, investment and state-owned enterprises (SOEs). The TPP has been regarded as a high-standard, next-generation FTA that covers a wide range of topics.

2. TTIP is likely to become the largest FTA in the world

TTIP can be traced back to the New Trans-Atlantic Marketplace (NTM), which was proposed at the EU/US summit in Madrid in 1995. The economic and debt crises that hit both the United States and European economies and the stagnation of WTO trade talks have contributed to the re-launch of the NTM initiative with the purpose of exploring new paths to restore economic growth. On February 13, 2013, US President Barack Obama, then President of the European Council Herman van Rompuy and then President of the European Commission José Manuel Barroso jointly declared to launch the FTA negotiations. On March 12, 2013, the European Commission adopted the draft mandate for negotiating the FTA with the United States. EU members gave green light to the resolution of the European Commission to enter into TTIP negotiations on June 14, 2013. The first round of TTIP talks was held from July 8 to 12, 2013 in Washington, during which a preliminary framework of negotiations was agreed upon, which covers 20 topics, including market access for agricultural and industrial products, government procurement, investment, services, energy and raw materials, regulatory topics, intellectual property, small and medium-sized enterprises (SMEs), SOEs, etc. Although the two sides planned

to conclude the negotiations by the end of 2014, they have not achieved that goal till now due to disagreements in such aspects as investor-state dispute settlement (ISDS) mechanisms, government procurement and geographical indications. Despite that, if the TTIP was concluded, it would, according to the estimate by Centre for Economic Policy Research (CEPR), London, bring significant economic gains to the EU and the United States, with GDP to increase by between 68.2 to 119.2 billion euros for the EU and between 49.5 to 94.9 billion euros for the US (under the less ambitious and more ambitious scenarios).¹ And the TTIP is expected to become the biggest FTA in the world.

3. Strategic considerations of the United States in adopting the “Dual-Ocean Strategy”

(1) Grasp the opportunity of fast economic growth in the Asia-Pacific region in order to save the US-led western economy. Since the beginning of the 21st century, one of the most remarkable changes in the world economy is the stagnation of Doha Round negotiations under the WTO framework and the steady rise of emerging economies. Asia as part of the world has outshone other regions in economic growth and maintained a sustainable and high economic growth. The global financial crisis that started from the subprime mortgage crisis in the United States in 2007 has not only inflicted heavy losses on the US economy, but also plunged Europe into long-term recession. Executive Order 13534 - National Export Initiative, setting the goal of doubling US exports in the next five years, was issued in March 2010 by the US government in line with President Obama's State of the Union address delivered in January 2010. The Initiative was designed to reignite the engine of industrialization, lead the US economy out of the financial crisis, spur economic growth at the new stage and create job opportunities. The United States hopes to exploit the concept of TPP to get a ride on the fast economic train of East Asia. And after suffering from the last economic and debt crises, the United States and the EU share the same desire to lift themselves out of the crises and restore their economic growth through establishing a new “economic and trade alliance”.

(2) Rewrite international trade and investment rules to balance the rising influence of the emerging markets. It is against the following background that the developed countries like the United States, the EU and Japan have tried to rewrite international trade and investment rules. Firstly, with the Doha Round talks reaching stalemate, the rise of emerging economies in recent years have brought

1 Joseph Francois et al., “Reducing Transatlantic Barriers to Trade and Investment – An Economic Assessment”, Final Project Report Prepared under implementing Framework Contract TRADE10/A2/A16, March 2013, p.2, http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf.

forth an increasingly great say of developing countries in the WTO framework. Consequently, developed economies in North America and Europe have found it less possible to gain trade benefits through the WTO system as they used to do. Secondly, after the international financial crisis, developed economies have not restored economic vigor to the pre-crisis level and seem a diminished force in the international trade. By reshaping standards and rewriting rules governing international trade and investment, they hope to force developing economies to further open their markets so as to gain extra economic benefits. Thirdly, the active participation of developing economies, especially emerging economies, in global governance through multilateral mechanisms such as the G20 to promote a new round of reforms in global governance rules, has added to the pressure on developed countries like the United States and the EU, which have to draw up in advance new trade and economic rules through regional FTAs, hoping that the rules could be established as international norms so as to maintain their leading position in future global economic and trade systems.

(3) *Consolidate the predominant role of US-led developed economies in the world economy.* The past decade and more have witnessed the rising power of emerging economies. BRICS countries and other emerging economies have enhanced their influence and acquired a greater say in global economic institutions. The international trade pattern has been undergoing a structural change, which is not only out of the expectation of developed economies, but undermines their predominant role in global trade system. Unreconciled to the situation, developed countries like the United States, the EU and Japan hope to re-establish their position politically and strategically by jointly implementing their FTA strategies. The United States has participated in TPP talks with a high profile in order to “rebalance toward the Asia-Pacific” economically, and its effort has been supported and well coordinated by Japan. At the same time, the US-proposed TTIP has received support from the EU. If progressing well, TTIP will undoubtedly strengthen policy coordination between the two largest economies in the world in terms of Asia policies. By way of multifold arrangements of regional integration including the North American Free Trade Agreement (NAFTA), the TPP and the TTIP, the United States will find it easy to ensure its predominance in the multilateral trade system, thereby safeguarding its dominant role in the international economic and trade areas.

B. The emergence of RCEP as an upgraded version of East Asia regional cooperation

1. RCEP has become a new pathway to East Asia regional cooperation

At the 18th ASEAN Economic Ministers Meeting in February 2011, participating ministers held discussion on how to reach a joint comprehensive FTA with ASEAN's economic partners, and finally brought forward a draft on building regional comprehensive economic partnership (RCEP). In their first meeting in August 2012 in Cambodia, economic ministers from ten ASEAN member countries and ASEAN's six FTA partners, namely China, Japan, South Korea, India, Australia and New Zealand, jointly endorsed the Guiding Principles and Objectives for Negotiating the RCEP. The RCEP negotiations were formally launched in November 2012, when leaders from the aforementioned 16 countries endorsed the Joint Declaration on the Launch of Negotiations for the RCEP. Compared with the TPP, the RCEP is regarded as a more feasible trade liberalization arrangement for Asian emerging economies due to its outstanding features such as relatively low standards and the principle of special and differentiated treatment. The emergence of the RCEP has greatly altered the US-led trade liberalization process in the Asia-Pacific region and restored ASEAN's leading role in trade liberalization in East Asia. Compared with the TPP, the RCEP has brought forth high expectations from participating countries due to its rational goals, close economic ties and high dependency among member countries, and strong political wills within the region to balance US influence.

2. RCEP negotiations have entered a critical stage

By August 2016, negotiating parties of the RCEP have held 14 rounds of talks and four ministerial meetings. Participating countries have had in-depth consultations in the fields of trade in goods and services, investment, IPRs, economic and technological cooperation, competition, e-commerce and legal clauses. As the negotiations deepen, topics discussed are expanding and consensus is accumulating. Since parties to the negotiations plan to conclude the talks by the end of 2016, the FTA process within the East Asia framework has reached its final and critical stage. As an important initiator and advocate of the RCEP, China need further increase its input of resources and enhance its effort so as to ensure the successful conclusion of the talks as scheduled.

3. The RCEP negotiations are viewed with optimism

The past 14 rounds of RCEP negotiations have shown that talks are going on smoothly and they are likely to be concluded as planned.

(1) *Negotiating parties share close economic ties and high complementarity with each other.* Asia-Pacific regional cooperation in the past years have brought about closer economic and trade relations among countries in the region and an interdependent regional production network has taken shape. Currently, the trade volume among RCEP negotiating parties accounts for 44.2% of the total foreign trade volume of RCEP countries.² The 16 negotiating countries, including both developed economies such as Japan and Australia and emerging economies such as China and India, vary in their levels of economic development. As two most populous countries in the world, China and India have common advantages in labor-intensive industries. On the contrary, Australia has much less labor resources but rich natural resources. The relatively high complementarity makes it possible for RCEP members to expand trade and enhance economic cooperation. Besides, the RCEP membership can help reduce these countries' dependence on US and European markets.

(2) *The RCEP has a solid base in terms of institutionalized regional cooperation.* ASEAN has signed 5 "10+1" FTAs with China, Japan, South Korea, India, and Australia plus New Zealand respectively, which constitute a solid foundation for RCEP negotiations. Despite their low levels in the development and liberalization of trade in services, the 16 RCEP negotiating parties are getting an increasingly large share in the world's total trade volume in services. The dependence rates between ASEAN and China, Japan, South Korea and India have reached 52.6%, 48.01%, 40.4% and 45.77% respectively.³ Besides, tariffs within ASEAN have been reduced to as low as 0-5%, providing a favorable condition for RCEP negotiations.

(3) *Relatively flexible mode of operation.* Although the level of openness among RCEP members should be higher than the five existing FTAs between ASEAN and its trade partners, the RCEP will continue to operate with a gradual and transitional process with moderate thresholds. Acknowledging the low development level of some negotiating parties such as Cambodia, Laos and Myanmar, the RCEP establishes flexible mechanisms and offers special treatment and additional

2 Jianmin Jin, "RCEP vs. TPP", Fujitsu Research Institute, February 22, 2013, <http://www.fujitsu.com/jp/group/fri/en/column/message/2013/2013-02-22.html>.

3 Li Huiru and Zhang Pengyang, "10+6 Quyu Fuwu Maoyi Hezuo Fazhan De Tezheng Ji Qianjing Tanxi" (Characteristics and Prospect of Services Trade Integration in '10+6'), *Journal of Hebei University (Philosophy and Social Science)*, Vol.38, No.2, March 2013, p.42.

exceptions for these countries. This will effectively promote the smooth progress of the overall negotiations.

Yet, it cannot be denied that the influence of political factors and the contention for dominance among some RCEP parties will have negative impacts on the negotiation process.

C. China-Japan-Korea FTA negotiations continue to move forward amidst deterioration of bilateral relations

1. The emergence and development of China-Japan-Korea FTA negotiations

The idea of a China-Japan-Korea (CJK) FTA dates back to many years ago. In November 1999, leaders of the three countries, when attending the ASEAN plus three (also called “10+3”) summit held in the Philippines, met to have an exchange of the views on the prospect of trilateral economic and trade cooperation, thus kicking off CJK trilateral cooperation. In 2002, the idea of a CJK FTA was formally proposed and a non-governmental study in this regard started. In the first trilateral summit held independent of the “10+3” framework meeting in 2008, leaders of the three countries adopted such important documents as Joint Statement on the International Finance and Economy, Trilateral Joint Announcement on Disaster Management Cooperation, and Action Plan for Promoting Trilateral Cooperation, showing that the CJK trilateral economic cooperation is on track.

In May 2012, leaders of the three countries adopted Joint Declaration on the Enhancement of Trilateral Comprehensive Cooperative Partnership, decided to launch the trilateral FTA negotiations before the end of the year and officially signed the Trilateral Agreement for the Promotion, Facilitation and Protection of Investment. In November 2012, economic or trade ministers of the three countries met in Phnom Penh, Cambodia on the occasion of East Asia Summit and announced the launch of the trilateral FTA negotiations. Since 2012, ten rounds of talks have been held and positive results achieved. During the latest round of talks, the three sides reached agreement on the range of the trilateral FTA and established five sub-working groups on the following five topics – government procurement, forest products, financial services, electric communication, and movement of natural persons.⁴ The three countries also decided to start discussions on market

4 Chinese Nikkei, “Zhongrihan Jiang Zai Wu Lingyu Tuijin Tanpan” (China, Japan and South Korea Will Push Forward Their Trilateral FTA Negotiations in Five Areas), June 29, 2016, <http://cn.nikkei.com/politics/economy/invest-trade/20277-20160629.html>.

access barriers in each other's important service sectors from the next round of negotiations.

2. Favorable conditions for building the CJK FTA

As three major economies in East Asia, China, Japan and South Korea have surpassed the EU with a combined GDP of 15 trillion USD, about 20% of global GDP and 90% of that of East Asia. However, the volume of trade among the three economies accounted for less than 20% of their total foreign trade.⁵ The establishment of a CJK FTA will gradually facilitate a free flow of goods, personnel and capital among the three countries and promote their industrial restructuring and economic growth. As three major economies in Asia, China, Japan and South Korea constitute about 70% of Asia's economic aggregate. The past decade has witnessed a gradual trade structural convergence between China-Japan and China-Korea bilateral trade. The proportion of China's export of machinery and electronic products to Japan has conspicuously increased, of which the majority is processed products exported by Japanese companies in China, and belongs to intra-industry or intra-company trade. As South Korea's imports from China gradually shift from primary products to semi-finished or finished industrial products, intra-industry trade is becoming increasingly widespread. The differences of the three countries in their industrial advantages have contributed to the basis of CJK FTA. As relatively developed economies, Japan and South Korea have clear competitive advantages in capital and technology-intensive industries while China's competitive edge still lies in resources and labor-intensive products. With changes of the international situation and economic restructuring of the three countries, deeper thoughts are required on such questions as whether these advantages can be sustained, or what are the negative effects of the CJK FTA on the three countries and how to achieve cost-effectiveness through institutional construction.

3. Important factors affecting the negotiation process

(1) *Sensitive fields.* Major differences exist on such issues as access to agricultural products market and opening of sensitive industries, over which a conservative approach has prevailed in the negotiations. Japan and South Korea have always persisted in protecting their agricultural industry and refused to fully open their agricultural products markets in FTA negotiations. Moreover, all the three countries have sensitive industries that demand protection. For Japan, they

5 Sun Yuanjiang, "Zhongrihan Zimaoqu Shi Dongyajingji Yitihua De Guanjian" (The CJK FTA is the Key to East Asia Economic Integration), *People's Daily (Overseas Edition)*, July 20, 2012, p.2.

are agriculture, energy sector, and iron and steel industry mainly. For South Korea, they include agriculture, energy sector, and apparel and textile industry. For China, they include automobiles, chemical industry and services. The three countries stick to their own positions, making the negotiations difficult to move forward.

(2) *Political factors*. Territorial disputes and disagreements on the historical issue between Japan on one side and China and South Korea on the other have severely hindered the progress of CJK FTA negotiations. For a long time, a critical uncertainty affecting the economic and trade cooperation among the three countries is Japan-China territorial dispute over Diaoyu Islands (known as Senkaku Islands in Japan) and Japan-South Korea territorial dispute over Dokdo Islands (known as Takeshima Islands in Japan). In 2012, the Japanese government implemented its “nationalization” plan by “purchasing” three of the Diaoyu Islands from their private Japanese “owner”, which triggered public and diplomatic protests in China. And as a result, the CJK FTA negotiations were stalled. Although afterwards the negotiations continued, the situation in which a political dilemma disrupting economic cooperation occurred, which was an unwelcomed result no country would like to see. After the Diaoyu Islands crisis, the relationship between China and Japan has plunged into the worst period since the normalization of their diplomatic relations 40 years ago. And the rising Sino-Japanese tensions have cast a shadow over the prospect of CJK FTA talks.

(3) *Other choices*. The signing of TPP agreement by 12 Asia-Pacific countries has provided another choice of trade liberalization for Japan and South Korea. Japan is already a member of the TPP. South Korea, though a non-member, has clearly stated its intention to join the TPP during its first round of expansion. As compared with the CJK FTA, the TPP includes the United States, with which Japan is in desperate need of concluding a FTA, and South Korea may be facilitated to join the TPP soon by its bilateral FTA with the United States. Therefore, the TPP has largely diverted Japan's and South Korea's attention from the CJK FTA negotiations. Provided that the TPP agreement can come into effect as planned and South Korea joins the TPP in time, the importance of the CJK FTA to Japan and South Korea will be greatly reduced.



II. China Lags Behind in FTA Development on the Whole

A. *The current situation of China's FTA development*

Since the signing of the Framework Agreement on Comprehensive Economic Cooperation between China and ASEAN in November 2002, China has made steady progress in FTA development. China's FTA partners spread over Asia, Latin America, Oceania and Europe. In 2015, China's trade volume with its FTA partners accounted for approximately 34% of its total trade volume.⁶ China is a late comer in pursuing FTA strategy. At the beginning of this century, China, Japan and South Korea are the only big economies that have not joined any free trade arrangements. In this sense, China's achievement in FTA development is remarkable.

Judging from the FTAs that China has signed with foreign countries, there are two models. The first model is a phased process of signing several agreements: first on trade in goods, then on trade in services, then on investment. China's FTAs with ASEAN, Pakistan and Chile fall into this group. Take China-ASEAN FTA as an example. On November 4, 2002, China and ASEAN concluded a framework agreement on comprehensive economic cooperation, confirming that China-ASEAN FTA should be established by 2010, thus formally initiated the free trade process. In November 2004, China and ASEAN inked a commodity trade agreement which started comprehensive tariff reduction in July 2005. In January 2007, the two sides signed an agreement on trade in services, which has been implemented from July that year. In August 2009, China and ASEAN signed an investment agreement which contributed to the completion of China-ASEAN FTA in 2010. The second model is to conclude a package of agreements at the same time covering areas of commodity trade, service trade, investment, non-tariff trade barriers and IPRs, etc. China's bilateral FTAs with Singapore, New Zealand, Peru, Costa Rica, Iceland and Switzerland follow this model. On October 23, 2008, China and Singapore signed the China-Singapore Free Trade Agreement and the

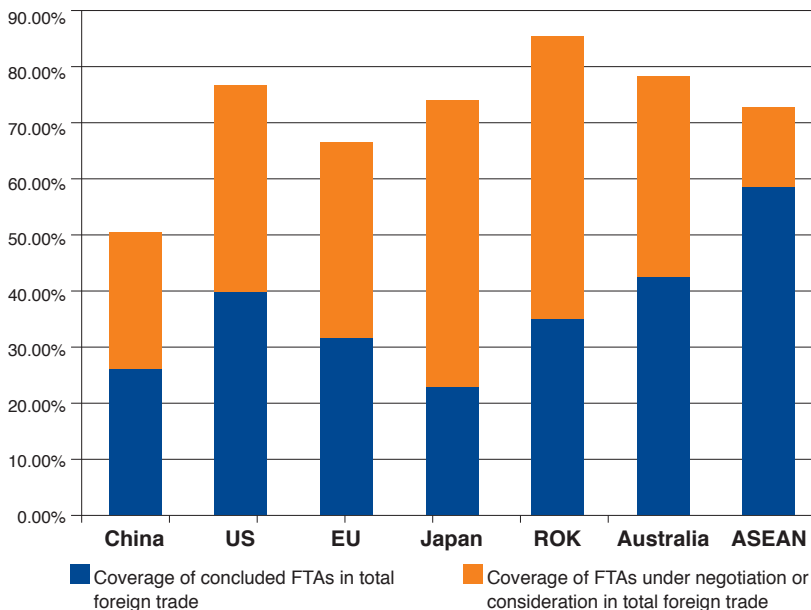
⁶ The figure was calculated by the authors using the data provided by the General Administration of Customs, People's Republic of China. See "Jinchukou Shangpin Zhuyao Guobie (Diqu) Tongji (2015 Nian 1-12 Yue)" (Statistics of China's Trade with Major Countries and Regions from January to December 2015), *Guoji Maoyi (International Trade)*, No. 2, 2016, p.70.

Memorandum of Understanding (MoU) on Bilateral Cooperation in the Field of Labor Services, which cover numerous areas including commodity trade, service trade, labor mobility and customs procedures, thus marking the establishment of China-Singapore FTA.

B. China lags behind the US, the EU and ASEAN countries in FTA development on the Whole

Compared with the United States, the EU and some East Asian countries, China lags behind in the number of FTAs signed with foreign countries, coverage of FTAs in its total foreign trade, and layout of FTA partners. As shown in Figure 1, in terms of the coverage of FTAs in its overall foreign trade, China lags behind the United States, the EU and the majority of East Asian countries. There exists a big gap between China and its East Asian trading partners in terms of the number of FTAs under negotiation or consideration. However, similar gaps between China and the United States or the EU are smaller. It is because the FTA negotiations between China and the EU and between China and the United States have not been officially placed on their diplomatic agenda, while Japan, South Korea and other East Asian economies have either concluded or been in the process of concluding FTAs with the three largest economies in the world, i.e. the EU, the United States and China.

Figure 1. Coverage of FTAs in Total Foreign Trade



Source: Official statistics released by the aforementioned economies.

By August 2016, the EU had 35 trade agreements in force, involving 58 trading partners of the EU. Besides, the EU is negotiating FTAs with 23 countries and 4 regional organizations. Once these negotiations are completed, the EU's trade with its FTA partners will cover two-thirds of its total foreign trade. In comparison, before 2006, the EU's trade with FTA partners accounted for less than a quarter of EU trade.⁷

The US export to its FTA partners increased by 57% between 2009 and 2013, 13 percentage points higher than the export to non-FTA economies during the same period. In 2013, 46% of the US export and 35% of its import were carried out with its FTA partners. Once the TPP and the TTIP negotiations are concluded, the figures will hit 68% and 61% respectively.⁸

By June 2016, Japan had signed 16 Economic Partnership Agreements (EPAs) or FTAs with 20 countries, which include 15 bilateral EPAs and a multilateral FTA, i.e. the TPP. Besides, there are six FTAs under negotiation between Japan and other economies, namely Japan-ASEAN FTA (service and investment chapters), Japan-Colombia FTA, CJK FTA, Japan-EU FTA, the RCEP and Japan-Turkey FTA.⁹ According to the Japanese official statistics, the trade volume between Japan and its EPA / FTA partners (excluding the TPP) accounted for 20.7% of Japan's total export volume and 23.7% of its total import volume in 2014. If the TPP and other six FTAs under negotiation can come into force, the aforementioned two figures would rise to 77.6% and 70.3% respectively.¹⁰

When the ASEAN FTA was established in 1992, ASEAN became the first country group that had a FTA within in East Asia. It announced in 2003 the establishment of ASEAN Economic Community by 2020. However, in 2007, ASEAN announced to move forward the year to establish the ASEAN Economic Community to 2015. Leaders of the ten ASEAN countries confirmed in November 2012 the establishment of ASEAN Economic Community by the end of 2015. Moreover, ASEAN has successively established five "10+1" FTAs with China,

7 See Directorate-General for Trade, European Commission, "Agreements", http://ec.europa.eu/trade/policy/countries-and-regions/agreements/index_en.htm#_europe. See also European Commission, Trade for all - Towards a more responsible trade and investment policy, 2015, p.9. http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153846.pdf.

8 The figures were calculated by the authors using the statistics provided by the United States Census Bureau. See also U.S. Department of Commerce, "Trade Agreements Benefit U.S. Exports", http://export.gov/michigan/build/groups/public/@eg_us_mi/documents/webcontent/eg_us_mi_075018.pdf.

9 Ministry of Foreign Affairs of Japan, "Free Trade Agreement (FTA) and Economic Partnership Agreement (EPA)", August 10, 2016, <http://www.mofa.go.jp/policy/economy/fta/index.html>.

10 The four figures were calculated by the authors using Japan's trade statistics of 2014 provided by the Statistics Bureau, Ministry of Internal Affairs and Communications of Japan. See Statistics Japan, "Exports by Principal Country of Destination (1990-2014)", "Imports by Principal Country of Origin (1990-2014)", both available at: <http://www.stat.go.jp/data/nenkan/06.htm>.

Japan, South Korea, Australia-New Zealand and India respectively. According to ASEAN's trade statistics of 2011, these FTAs have covered 58.4% of ASEAN's total import and export.¹¹

In late 2011, ASEAN decided to establish the RCEP by integrating the five "10+1" arrangements. Negotiations which started among economies concerned in early 2013 were scheduled to be completed by the end of 2015. Besides, China's Hong Kong Special Administrative Region (SAR) started FTA negotiations with ASEAN in 2014 while the EU was also doing the same. These arrangements will cover 76% of ASEAN's export and 70% of its import.¹² In view of the fact that some ASEAN economies have joined a number of bilateral or multilateral FTAs such as the TPP, the trade-value proportion covered by FTAs in ASEAN's total foreign trade may be even higher.

By 2014, Australia had concluded nine FTAs with 16 countries, among which seven had come into force. These FTAs accounted for 41% of Australia's export and 45% of its import in the year of 2013. And additional eight FTAs were under negotiation. Once the eight FTAs are concluded, the proportion of trade covered by FTAs, not including multilateral or service trade agreements, will further increase to 85% and 71% respectively.¹³

In 2014, South Korea had 12 FTAs which had either come into force or been concluded, accounting for 36% of its export and 34% of its import in 2013. If another 13 agreements still under negotiation or to be negotiated are added, the two figures will reach 82% and 88% respectively.¹⁴

China also lags behind the aforementioned countries in terms of FTA deployment. ASEAN has completed five "10+1" FTAs, and is conducting FTA negotiations with China's Hong Kong SAR, and the EU. Some ASEAN countries have also joined the TPP, or other bilateral and multilateral FTA negotiations. ASEAN has thus built a FTA structure with itself in the center. Likewise, South Korea, Japan, Australia, New Zealand, the United States and the EU are all working on their respective FTA deployment in the similar direction.

When a country begins its efforts to develop FTAs, it should strive to establish

11 The figure was calculated by the authors using ASEAN's trade statistics of 2011. The author obtained the statistics from the ASEANstats website (<http://aseanstats.asean.org/>).

12 The two figures were calculated by the authors using ASEAN's trade statistics of 2011. The author obtained the statistics from the ASEANstats website (<http://aseanstats.asean.org/>).

13 The figures in this paragraph were calculated by the authors using the data released by the Australian Bureau of Statistics in 2014.

14 The figures in this paragraph were calculated by the authors using the statistics from the Korea International Trade Association (KITA).

a FTA network with neighboring countries and major trading partners through bilateral and plurilateral arrangements, thus maintaining itself at a hub position with its counterparts as spokes so as to achieve its goal one way or the other. It will also create a favorable environment of international cooperation for its own enterprises. Otherwise, it may suffer from the negative impact of trade diversion to the detriment of its economic development.

China should take into account establishing a hub-spoke type of FTA network with itself in the center by proceeding from a geographical perspective and from the economic and trade complementarity when formulating its FTA strategy. That is to say, China should have its own network of FTAs. Given the current situation, China still has a long way to go in building its own FTA network.



III. Challenges for China in Accelerating Its FTA Development

With the current global economic slowdown and the WTO Doha Round negotiations bogged down, bilateral, regional/sub-regional, and plurilateral FTAs have prevailed as a “second best option” among various economies. As sub-regional and bilateral FTAs surge, mega-FTAs, like the TPP, the Pacific Alliance (PA) and the RCEP, have surfaced in the Asia-Pacific region. In 2013, the United States and the EU launched negotiations for a Trans-Atlantic Trade and Investment Partnership (TTIP). Under such circumstances, it is an inevitable strategic choice for China to speed up the establishment of its own FTA network. However, given the current international and domestic situations, China faces many challenges in implementing this strategy.

A. Trade protectionism is the main obstacle to the implementation of China's FTA strategy

1. China's rapid economic development calls for greater share of the overseas market

With the sound and steady economic growth, the size of China's economy and the volume of its foreign trade have expanded rapidly. China has become the world's locomotive for economic growth. Even during the global financial crisis, China's foreign trade and investment maintained considerable momentum. In recent years, China's economic aggregate and trade volume have grown into the second largest and the largest in the world respectively. China has now become the largest trading partner of over 120 countries. Since the beginning of its reform and opening-up, China's foreign trade has been constrained by a variety of trade and non-trade barriers. After the outbreak of the global financial crisis in 2008, China has been afflicted by even more serious trade and investment protectionism, and Chinese enterprises have been faced with a worse international trade and investment environment.

2. Anti-dumping investigations against China are on the rise

Recent years have witnessed frequent occurrence of trade protectionist measures taken by foreign countries against China's export. According to WTO statistics, among the 4519 anti-dumping cases taken up by the WTO from 1995 to 2013, 998 cases were against China, accounting for 21% of the total and two times higher than the number of cases against South Korea, which ranked second among all countries. There were 335 anti-subsidy cases over the same period, of which 76 were against China, accounting for 22.6% of the total.¹⁵ According to a World Bank study, among the country-specific trade remedy initiations and measures imposed from 2007 to 2009, China alone constituted roughly 40% of the total of countries named in the investigations and slightly over 40% of the definitive measures that had been imposed.¹⁶ Statistics show that the proportion of China's exports in the world's total is higher than that of its trade volume, including both exports and imports, in the corresponding world's total, which partly explains why China has suffered so many countervailing measures adopted by foreign countries. However, the percentage of countervailing measures taken against China is conspicuously higher than that of China's trade volume in the world's total.

3. Discrimination is a feature shared by FTAs and trade barriers

FTA is a free trade arrangement for its members, but a discriminatory arrangement for non-members. And a trade barrier is a discriminatory arrangement against a particular trading partner.

The establishment of a FTA involving China and relevant economies is an institutional arrangement that is conducive to creating a more equitable and favorable policy environment for China's export. However, the question is whether relevant economies are willing to make free trade arrangements with China and grant Chinese exports more equitable market access. Except ASEAN, South Korea and Australia, most of China's FTA partners are relatively small economies which are not among China's major trading partners and their economic relations with China are more important to them than to China. Most of China's major trading partners, including the EU, the United States and Japan, which ranked the largest, the second largest and the fifth largest trading partner, have not signed FTAs with

15 WTO Disputes Database (DSUD): part of the Temporary Trade Barriers Database (TTBD), <http://siteresources.worldbank.org/INTTRADERESEARCH/Resources/544824-1272916036631/7031714-1273098072069/7045225-1402509661236/DSUD-WTO.xls>.

16 Chad P. Bown, "The Global Resort to Antidumping, Safeguards, and other Trade Remedies amidst the Economic Crisis", The World Bank, Policy Research Working Paper 5051, September 2009, p.10, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1476693.

China, and most of them have adopted trade protectionist policies against China's exports.

B. Difficulties China faces in establishing FTAs with major developed countries

So far, only seven developed economies, all of which are members of the Organization for Economic Co-operation and Development (OECD), have concluded FTAs with China, namely Chile, New Zealand, Singapore, Iceland, Switzerland, South Korea and Australia. However, in view of China's trade relations with those economies, except the FTAs with South Korea and Australia, other five FTAs have not taken up important positions in China's trade relations with foreign countries. According to China's trade statistics of 2012, Chile, Switzerland, New Zealand and Iceland ranked the 28th, the 30th, the 49th, and the 159th respectively among China's trading partners, and the aggregate volume of their trade with China accounted for only 1.8% of China's total volume of foreign trade.¹⁷

However, developed economies are China's important trading partners. In 2012, China's trade volume with the EU and other OECD members accounted for 50% of China's total foreign trade volume while China's exports to these countries amounted to 52% of China's total export volume. Therefore, China still has a long way to go in carrying out FTA negotiations with developed economies.¹⁸

1. Some FTAs have been established after hard and long-time negotiations, while others though initiated make little progress

In 2015, China finally concluded FTAs with South Korea and Australia respectively and by the end of the year, the two FTAs has come into effect. These two FTAs are both high-standard trade deals in which China has entered with advanced economies with tremendous hard endeavor made by relevant parties.

Being the fastest moving negotiations, China-South Korea FTA talks were formally initiated in May 2012 and concluded in June 2015 thanks to the joint efforts by leaders and working levels of the two countries. As South Korea is China's third largest trading partner and the largest source of imports (excluding the EU, ASEAN and Hong Kong) and China is South Korea's largest trading partner

¹⁷ The figures were calculated by the authors using the data from the National Bureau of Statistics of China. See National Bureau of Statistics, *China Statistics Yearbook 2013*, December 2013, <http://www.stats.gov.cn/tjsj/ndsj/2013/html/Z0607C.htm>.

¹⁸ Ibid.

and the biggest investment destination, China-South Korea FTA is undoubtedly important for both sides.¹⁹ However, it is worth noting that South Korea has completed FTA negotiations with practically all of its important trading partners, and China is in a relatively low position in its FTA negotiation agenda. South Korea did not start FTA negotiations with China until it had either completed or launched FTA negotiations with Chile, Singapore, ASEAN, India, the EU, Peru, the United States, Turkey, Colombia, the GCC, Mexico, Australia, New Zealand, and Indonesia. In other words, China is not a priority in South Korea's FTA strategy. Not until the country has basically completed its FTA strategy did it start FTA talks with China. It is indeed thought-provoking.

China and Australia started FTA negotiations in 2005 and concluded substantive negotiations at the end of 2014 after over 20 rounds of talks. Despite the repeated statements by both sides to reach an agreement as soon as possible, they were all the time making "further efforts to narrow differences". The fact that the negotiations lasted more than nine years is in itself an evidence of hard bargaining.

Currently, China is negotiating a bilateral FTA with Norway and a trilateral FTA with Japan and South Korea. Although the CJK FTA negotiations have not been disrupted by sour political relations between China and Japan and between Japan and South Korea, little progress has been made and it is difficult to move forward the negotiations. China-Norway FTA negotiations experienced a good start in 2007, and fast development in the following three years. However, in 2010 when the Norwegian Nobel Committee awarded the Nobel Peace Prize to Liu Xiaobo, a Chinese prisoner who had committed the crime of inciting subversion of state power, the diplomatic relations between China and Norway suffered a strong setback, and as a result, the bilateral FTA negotiations have been in abeyance.

2. China and the EU are still exploring the feasibility of building a bilateral FTA

Since 2004, the EU has been China's largest trading partner for 10 consecutive years and China is currently the EU's second largest trading partner. But it was not until March 2014 and at the proposal of China that the two sides agreed to envisage a deep and comprehensive bilateral FTA as a longer term perspective

19 See Xu Changwen, "FTA Zhuli Zhonghan Jingmao Hezuo Quanmian Fazhan" (FTA Promotes All-round Development of China-R.O.K. Economic and Trade Cooperation), *Guoji Shangbao (International Business Daily)*, September 10, 2015. See also Quan Xiaoxing, "Zhuangfang Hanguo Zhu Hu Zonglingshi Han Shuo Xi: Zhonghan Jingmao Xiang Geng Duideng Fangxiang Fazhan" (Interview with the South Korean Consul-General in Shanghai: China-R.O.K. Economic and Trade Relations Are Developing in a Balanced Direction), *Diyi Caijing Ribao (China Business News Daily)*, February 2, 2016.

after concluding the China-EU Investment Agreement. The EU's reluctance in this regard is quite clear.²⁰ While valuing China's market potential and bilateral economic cooperation, the EU has placed harsh conditions on China with regard to transparency, opening of the service sector, protection of IPRs, elimination of barriers to direct investment, fair competition, and government procurement, etc.²¹ On the one hand, the EU wants to lure China to open more of its market by offering FTA as a "carrot". On the other hand, there are still different opinions among EU member states – countries like France and Italy have expressed their concerns over the vision of a China-EU FTA.²²

Although the business circle and related think tanks in the EU have started to explore the possibility of negotiating an EU-China FTA, high-level officials of the Union are still reluctant to consider it in the near term.²³ The EU trade commissioner Cecilia Malmstrom said recently that China has to give European companies the same kind of market access that Chinese companies enjoy in Europe before discussions can start on a bilateral FTA.²⁴ It is not likely for China and the EU to launch FTA talks before the conclusion of the ongoing negotiations for a bilateral investment agreement.

3. It is difficult to initiate China-Japan FTA negotiations in the near future

China is Japan's largest trading partner, and Japan was China's largest trading partner from 1993 to 2003. Since 2004, Japan has been overtaken by the EU, the United States, ASEAN, and China's Hong Kong successively. Now Japan is China's fifth largest trading partner. According to Japanese statistics, China replaced the United States as Japan's largest export destination in 2009. Besides, Japan is China's third largest source of foreign investment, and China is Japan's

20 See "Joint Statement: Deepening the EU-China Comprehensive Strategic Partnership for mutual benefit", Brussels, March 31, 2014, http://europa.eu/rapid/press-release_STATEMENT-14-89_en.htm. See also Information Office of the Ministry of Commerce of China, "Shangwubu Zhaokai 'Zimaoqu Jianshe' Zhuanti Xinwen Fabuhui" (Ministry of Commerce Holds Special Press Conference on China's FTA Development), December 5, 2013, http://fta.mofcom.gov.cn/article/ftanews/201312/14674_1.html.

21 See EU Mission to the WTO, "EU statement on 5th Trade Policy Review of China", July 1, 2014, http://trade.ec.europa.eu/doclib/docs/2012/june/tradoc_149542.pdf. See also European Commission, "Facts and figures on EU-China trade - Did you know?" March 2014,

http://trade.ec.europa.eu/doclib/docs/2009/september/tradoc_144591.pdf.

22 Reuters, "EU says Chinese FTA Possible, but Wants Market Opening", Brussels, May 22, 2013, <http://www.bdpinter-national.com/news-advisories-events/trend-watch/eu-says-chinese-fta-possible-but-wants-market-opening/>.

23 At the request the EU Foreign Trade Association, the Centre for European Policy Studies (CEPS), a renowned European think tank, published a book entitled "Tomorrow's Silk Road: Assessing an EU-China Free Trade Agreement" in April 2016, which offers a wide-ranging and in-depth analysis of a possible FTA between the EU and China.

24 Louise Watt, "EU says China needs to give EU companies fair market access", The Associate Press, July 11, 2016. <http://www.usnews.com/news/business/articles/2016-07-11/eu-says-china-needs-to-give-eu-companies-fair-market-access>.

second largest destination for overseas investment.²⁵ However, Japan is not a major destination for China's overseas investment. For instance, in 2014, China's FDI flow to Japan was \$39.45 million, which accounts for only 0.32% of China's total outward FDI that year.²⁶

On the Japanese side, although East Asia is viewed as the region with the most promising counterparts for FTA negotiations, China is not the most likely partner because of three reasons: first, China's average tariff rate is lower than most of other East Asian economies;²⁷ second, the overall relations between China and Japan is not conducive to initiating such talks; third, initiating FTA negotiations with China will probably be opposed by the United States, on which Japan's security relies on. On the Chinese side, Japan, as a neighboring country, is one of the priority FTA partners. However, since the outbreak of the Diaoyu Islands crisis in September 2012, the political relations between the two countries have further deteriorated, which bring forth great difficulties to the development of bilateral trade and economic relations. Although top leaders of the two countries have met several times on multilateral occasions since November 2014 and a four-point consensus was reached, the overall bilateral relationship is still in the slow process of recovery. Therefore, it is unlikely for the two countries to initiate FTA talks in the foreseeable future. Moreover, the ongoing CJK FTA talks make the initiation of Sino-Japanese FTA negotiations less likely.

4. There is little hope to commence China-US FTA negotiations soon

China and the United States are each other's second largest trading partners. In 2014, the United States was China's largest export market and the sixth largest source of imports, and China was the US third largest export market and the largest source of imports. The United States is also one of China's largest sources of foreign investment.²⁸ Meanwhile, Chinese enterprises have accelerated their pace of investment in the United States. The two countries are now engaged in

25 Ministry of Foreign Affairs of China, "Zhongguo Tong Riben De Guanxi" (China's Relations with Japan), Latest update: March 2015, http://www.fmprc.gov.cn/web/gjhdq_676201/gj_676203/yz_676205/1206_676836/sbgx_676840/.

26 See Ministry of Commerce of China, National Bureau of Statistics of China, and State Administration of Foreign Exchange, "2014 Statistical Bulletin of China's Outward Foreign Direct Investment", September 17, 2015, <http://fec.mofcom.gov.cn/article/tjsj/tjgb/201512/20151201223579.shtml>.

27 According to Japan's FTA Strategy (Summary) released in 2012, China's average tariff rate is 10%, while those of Malaysia, South Korea, the Philippines, and Indonesia are 14.5%, 16.1%, 25.6% and 37.5% respectively. See Ministry of Foreign Affairs of Japan, "Japan's FTA Strategy (Summary)", October 2012, <http://www.mofa.go.jp/policy/economy/fta/strategy0210.html>.

28 Ministry of Foreign Affairs of China, "Zhongguo Tong Meiguo De Guanxi" (China's Relations with the United States), Latest update: November 2015, http://www.fmprc.gov.cn/web/gjhdq_676201/gj_676203/bmz_679954/1206_680528/sbgx_680532/.

negotiations for a BIT. By August 2016, the China-US BIT negotiations have been held 26 rounds and lasted for eight years. Currently, the negotiations have entered the most substantive but also difficult period – bargaining on the negative list for foreign investment. The two sides have gone through two rounds of bargaining on the negative list, but till now have not reached agreement. Since the BIT is the first step toward a China-US FTA, the two countries are unlikely to initiate bilateral FTA negotiations before the BIT is concluded.

C. China faces challenges in exercising its right to formulate new international trade rules together with other countries

1. Competing for the right to formulate new international trade rules is the main purpose of developed countries such as the United States, the EU and Japan for their enthusiastic FTA promotion

Currently, developed countries such as the United States and the EU are keen to establish “high-standard and wide-coverage” next-generation FTAs represented by the US-led TPP and the TTIP, which was jointly launched by the United States and the EU. A common feature of these FTAs is wide-coverage, focusing on new and high-standard rules on the next-generation trade and investment issues. The scope of these agreements cover trade in goods, trade in services, investment, intellectual property, labor and environment standards, etc. Specific rules are included on such matters as subsidies, originating goods, government procurement, corporate remedies, trade financing, sanitary and phytosanitary measures, support for SOEs, restrictions on FDI, different approaches to the protection of IPRs, and various regulations on services.

The main purpose of developed countries in promoting such a kind of FTAs is to further advance regulatory convergence among different economies and reduce behind-the-border barriers to trade and investment. These barriers include: (1) cost-increasing barriers, such as inefficient or excessive taxes, excessive regulation, corruption, finance costs, and poor quality infrastructure; (2) risk-increasing barriers, including an inefficient legal system and poorly defined property rights, lack of developed financial markets, insolvency laws and creditor protection, and lack of policy predictability and credibility; (3) barriers to competition, such as regulatory barriers to market entry and exit, and inadequate competition law and policy.²⁹

29 APEC Investment Experts Group, “Enhancing Investment Liberalization and Facilitation in the Asia-Pacific Region (Stage 2): Reducing Behind-the-Border Barrier to Investment”, August 2007, http://www.apec.org/Groups/Committee-on-Trade-and-Investment/~media/Files/Groups/IEG/07_cti_ieg_BTBT_Study.ashx.

2. The essence of competition for the right to formulate new rules is a North-South conflict

For a long time, developed countries have suffered repeated setbacks in multilateral settings when advancing the next-generation trade and investment agreements. Consequently they turn to bilateral, sub-regional and plurilateral agreements. Developed countries have attempted to achieve “high-standard, wide-coverage” trade and investment liberalization in much broader areas by adopting a “competitive liberalization” strategy and using their big market scale as a bait. Their goal is still the formulation of future multilateral economic rules. Therefore, the focus of the current FTA and multilateral trade negotiations is a struggle for the right to make rules, which in essence has reflected the North-South conflict. It is this conflict that constitutes a huge challenge to China.

In fact, these next-generation trade and investment topics constitute a continuation of the “Singapore issues”. Shortly after the completion of the GATT Uruguay Round talks and the establishment of the WTO, developed countries started pushing forward the negotiations on the “Singapore issues”, including transparency in government procurement, trade facilitation, trade and investment, and competition policy, but till now have not made real progress. In 2013, parties to the WTO reached a package agreement on trade facilitation in Indonesia, but suffered setbacks on its implementation in 2014.

3. China as a developing country can hardly adapt to the high-standard arrangements aiming at the next-generation trade and investment issues

Such arrangements as the Investor-State Dispute Settlement (ISDS) mechanism, extension of the term of IPR protection, and provisions on environmental protection and labor standards, are difficult to implement even for some developed countries, not to mention the developing ones. For China, the SOEs will be an extremely difficult problem. Undoubtedly, as a rising developing country, China will further deepen its domestic reforms, and the reforms are in the same direction with the talks on the next-generation trade and investment issues. In other words, the next-generation FTAs promoted by developed economies represent the direction in which China is making efforts. On the one hand, China needs high-standard FTAs to lock in its reform achievements and promote further reforms. On the other hand, China should take into full account its development stage and push forward its domestic reforms in a steady way, keeping in mind that reforms can not be accomplished overnight. Under such circumstances, the construction of China’s

FTAs with foreign countries must be a gradual process, following a three-step path, i.e. first experimenting, then summarizing experience, finally spreading best practices. The ambition level of China in this regard must be moderate rather than high.

The development of China-ASEAN FTA has clearly reflected the aforementioned characteristics. After the successful implementation of the “early harvest plan”, followed by an agreement on trade in goods, and then an agreement on trade in services, and further then an agreement on investment. The two sides have just finished the negotiations on an “upgraded version” of the FTA. In negotiating FTAs with developed countries, China has adopted a gradual approach as well, i.e. first with smaller economies, later with larger economies; first covering a few aspects, later covering plenty of aspects; first with easier partners, later with more difficult partners. Six years after China established FTA with New Zealand, China included the next-generation trade and investment issues in its FTA negotiations with Switzerland and Iceland respectively in 2014, and made commitments higher than the WTO standards on such issues as trade in services. The adoption of negative list and pre-establishment national treatment (PENT) approach by China (Shanghai) Pilot Free Trade Zone shows that China is making active preparations for joining high-standard FTAs in the future.

4. It is difficult for China as a rising developing country to join the next-generation FTAs dominated by developed countries

On the question of TPP negotiations, the US position on China's accession is that China is welcomed to join if it is ready. This diplomatic rhetoric actually means that China under current circumstances should be kept out of the TPP. Obviously, what the United States is afraid of is not that China is not ready, as the majority of TPP members are not ready either, especially Vietnam, a country with similar conditions with China in economic system and development status. What the United States is afraid of is that an “unready” China will inevitably influence the negotiation process once it is at the table and the implementation of US competitive liberalization strategy might be disturbed.

Without support from major developed countries, it is certainly difficult for China to pursue a strategy of building high-standard FTAs with all of its major trading partners so as to better exercise its right to formulate future trade rules together with other countries. Under the condition that developed countries monopolize the power of making trade rules, once their views prevail on

multilateral occasions, China is bound to suffer the same dilemma as 15 years ago when it applied to join the WTO.

D. Geopolitical factors constrains China's FTA development

1. China has been constrained by geopolitical factors since it started FTA development

When China took the lead to start FTA development with ASEAN, it was interpreted by the outside as striving for dominance in East Asia, and since then free trade arrangements in the region have been marked by competition. Especially when China proposed the construction of a East Asia FTA as part of the “10+3” cooperation process in 2006, Japan put forward a counter-proposal, i.e. negotiating a Comprehensive Economic Partnership in East Asia (CEPEA) among the 16 member countries of the East Asia Summit.³⁰ The two countries disagreed with each other on this issue for a long period of time. Only after the United States joined the TPP and began to dominate its negotiation process did the two sides reach a compromise in 2011 to jointly promote RCEP negotiations with ASEAN as the center.

The struggle for dominance is obviously not conducive to the development of East Asia regional economic integration and since the break of the “spell” came a bit late, East Asian countries missed a good opportunity to advance regional economic integration. In fact, the greatest interference in economic integration in East Asia comes from the United States. Proceeding from its own foreign economic and geopolitical strategies, the United States is haunted by its misgivings about the regional economic integration in East Asia, for fear that it would actually “draw a line across the Pacific” and exclude the United States. Since the application of Obama administration’s “pivot to Asia” strategy, the East Asian integration process has been significantly affected.

2. The TPP has created dissensions within ASEAN

The TPP and the RCEP are complementary to each other with some shared members and both aim at a high-standard and wide-coverage FTA. However, neither of the two largest economies in the world is both a member of the TPP and a member of the RCEP. This is going to cast a negative impact to some extent on the economic integration in East Asia and the Asia-Pacific as a whole. As a leading

30 See Zhang Yunling, “Dongya Quyu Hezuo De Xin Qushi” (New Trends in East Asia Regional Cooperation), *Dangdai Yatai (Journal of Contemporary Asia-Pacific Studies)*, No.4, 2009, p.5.

member of the TPP, the United States will not be pleased to see the completion of RCEP negotiations on schedule or earlier than the TPP, and as a member of the RCEP, China attaches great importance to the RCEP in regional economic integration of East Asia given the fact that it is barred from the TPP negotiations. It is the ASEAN that plays a central role in the RCEP process while China is a member only and not in a position to lead the process. Thus, in terms of promoting regional economic integration, China is in a strategically unfavorable position as compared to the United States. This also explains why the United States seemingly cooperates with China in promoting the FTAAP, but in reality takes a passive attitude.

3. The CJK FTA negotiations have been disturbed by Sino-Japanese and Japan-South Korea political relations

It is gratifying that China, Japan and South Korea initiated the CJK FTA negotiations and moved forward step by step despite strained Sino-Japanese and Japan-South Korea political relations. Although various parties in East Asia are pleased to see success of the negotiations, geopolitical tensions have always cast a lingering shadow. Similarly, the South China Sea issue also has certain impacts on the economic cooperation between China and ASEAN. Overcoming difficulties in the cooperation between China and East Asian countries requires considerable strategic willpower of various parties concerned.

What should not be overlooked is that as China makes active contribution to the provision of new regional public goods, its action has once again been misinterpreted, slandered and even furtively undermined. What China needs is to withstand pressure and continue to work with various parties to push forward relevant cooperation processes with an open mind.

E. China also faces institutional bottlenecks in implementing its FTA strategy

1. The United States has relatively sound institutions for implementing its FTA strategy

The United States established an institution called “Trade Promotion Authority (TPA)” (also called “fast track”) in the mid-1970s. It established the relationship between President and Congress during trade negotiations. After the administration completes negotiations, the Congress should either approve or reject the agreement

without changing its text. In return, the administration should have close consultations with relevant committees of the Congress during the negotiations, and should notify the Congress 90 days before signing the agreement. With such expedited legislative procedures, the administration nominated the US Trade Representative (USTR) to be in charge of foreign trade negotiations.

The USTR is a member of the cabinet, the president's principal trade advisor, negotiator and spokesperson on trade issues. The Office of the USTR is part of the executive office of the President. It coordinates trade policies through an inter-agency structure, deals with different opinions, and submits trade matters to the President for final decision. The inter-agency structure functions at two levels: the Trade Policy Staff Committee (TPSC) and the Trade Policy Review Group (TPRG). The TPSC, composed of senior civil servants from the Office of the USTR and 19 federal agencies, establishes and coordinates the government's position on international trade issues below the Cabinet level. The committee consists of more than 90 special groups dealing with trade issues in different fields. If the TPSC cannot agree on a particular trade issue, it will be submitted to the TPRG, for review and decision. The TPRG is composed of USTR's deputy and deputy chiefs of 19 agencies. The National Economic Council (NEC) is the highest inter-agency trade policy institution, chaired by the President, for handling memoranda and controversial issues submitted by the TPRG.

The US Congress established the private sector advisory committees in 1974 to ensure that US trade policy and trade negotiation objectives adequately reflect US commercial and economic interests. The advisory committees provide information and advice with respect to US negotiating objectives and bargaining positions before entering into trade agreements. The trade policy advisory committee system is arranged in three tiers: the President's Advisory Committee for Trade Policy and Negotiations (ACTPN); four policy advisory committees; and 22 technical and sectoral advisory committees. These committees have a total membership of up approximately 700 advisors. The USTR has worked hand-in-hand with Congress, including through frequent consultations with Members and staff of the House Committee on Ways and Means, Senate Committee on Finance, and by providing detailed briefings for other committees, Congressional leadership office, caucuses, and individual Members of Congress.³¹

In February 2012, US President Barack Obama signed an Executive Order establishing the Interagency Trade Enforcement Center (ITEC) to enhance enforcement of US trade rights and domestic trade laws. The ITEC is led by

31 See Office of the United States Trade Representative, "Mission of the USTR", <https://ustr.gov/about-us/about-ustr>.

a Director designated by the USTR and a Deputy Director designated by the Secretary of Commerce. Participating agencies have included the Department of Agriculture, Commerce, Justice, Labor, State, and Treasury, and the Office of the Director of National Intelligence, as well as the International Trade Commission, and the Small Business Administration.³² In addition, we can find from the TPP negotiations that American stake-holders have been deliberately invited to participate in the negotiation process so as to better reflect the interests of American companies.

2. South Korea is quite successful in implementing its FTA strategy due to its active institutional building

In 2004, South Korea announced the Free Trade Agreement Procedure Regulation (official presidential order) and set up the FTA Promotion Committee. The Committee is comprised of the director of trade negotiation headquarters as Chairman, and 15 first grade civil servants in related ministries such as the Ministry of Finance and Economy, the Ministry of Foreign Affairs and Trade (MOFAT), the Ministry of Agriculture and Forestry, the Ministry of Commerce, Industry and Energy, the Ministry of Maritime Affairs and Fisheries, control committee of state affairs, the Ministry of Planning and Budget, and the Government Information Agency as its members. An FTA branch of MOFAT's Trade Negotiation headquarters was formed in late 2004, and comprised of about 30 staffs and four divisions: FTA policies, regional negotiations, FTA product negotiations, and FTA service negotiations.³³ And related ministries introduced Sections for FTA policies with 5-6 staffs. By 2006, the total number of officials for FTAs exceeded 300.³⁴ Between the FTA Promotion Committee and the FTA branch of MOFAT's Trade Negotiation Headquarters was the FTA Practice Consultation Committee, which was comprised of directors of relevant departments, and aimed to oversee the effective execution of tasks.³⁵

In addition, a Private FTA Council of Advisors, comprised of 30 representatives from various academic and industrial circles, was formed under the FTA Promotion Committee to solicit opinions of related industries and experts. An agenda reviewed

32 See Office of the United States Trade Representative, "Interagency Trade Enforcement Center (ITEC)", <https://ustr.gov/issue-areas/enforcement/itec>.

33 Park Young Bae and Moon Sang Bok, "Korea's FTA Policy Structure", Korea and the World Economy, V: Korea and the FTA - A Joint Conference of AKES, KDI, KU-BK21-Economics, KIF, and RCIE, July 7-8, 2006, Seoul, Korea, p.5, <https://faculty.washington.edu/karyiu/confer/seoul06/papers/park-moon.pdf>.

34 Inkyo Cheong, "Korea's FTA Policy: Performance and Implications", http://www.cpu.gov.hk/doc/tc/events_conferences_seminars/20120912%20CHEONG%20In-kyo.pdf.

35 Park Young Bae and Moon Sang Bok, "Korea's FTA Policy Structure", p.5.

by the FTA Promotion Committee is decided by the Ministerial Committee for International Economic Affairs (hereafter the Ministerial Committee). The Ministerial Committee has the Deputy Prime Minister for Economic Affairs as its chairman, and relevant ministers and the presidential chief of economic affairs as its members. Policy suggestions put forward by the Ministerial Committee can directly affect South Korean government policy-making processes through the President. In the FTA decision-making process, political parties in the National Assembly play an advisory role to the President, and interest groups exert indirect influence on policy via political parties.³⁶

3. China should make greater efforts in institutional building as compared to the United States and South Korea

At the beginning of the 21st century, China took the lead in promoting FTAs in East Asia, which has strongly supported its domestic reforms. While contributing to its own economic development, China's initiative in FTA development has further promoted regional economic integration in East Asia. During this process, China has been accumulating experience, improving decision-making, and enhancing negotiation capabilities. As a result, China's confidence in implementing its FTA strategy has been strengthened. However, the construction of FTAs involves profound readjustment of interests at both international and domestic levels, therefore countries concerned need to sort out interest relations, conduct adequate coordination among different government departments, and work out scientific and effective decision-making procedures. Moreover, the construction of FTAs requires extensive and professional consultations, a competent negotiating team of a reasonable size, adequate efforts in publicizing and implementing the FTAs, and the endeavor to overcome such difficulties as inter-agency wrangling, incomplete institutional setup, inadequate development of human resources, backward intellectual support, poor information communication, and top-level design being divorced from actual implementation. There is no denial that China need make greater efforts in institutional building for FTA development compared with developed economies such as the United States and South Korea.



³⁶ Ibid, p.5-6.

IV. China's Concrete Plans and Policy Choices in FTA Development

A. Actively support the Doha Round negotiations and safeguard the WTO multilateral framework

During the ninth ministerial meeting of the Doha Round in Bali, Indonesia in December 2013, negotiating parties concluded a “Bali package agreement” on the “early harvest” program. This is the first multilateral trade agreement since the establishment of the WTO, which demonstrated that the multilateral trade system is still vibrant and enjoys extensive support from the majority of economies. Therefore, China should steadfastly push forward an early conclusion of the Doha Round negotiations, and support the WTO's efforts in continuing and further improving its leadership role in the governance of international trade.

At the tenth ministerial meeting in Nairobi, Kenya in December 2015, parties to the WTO made further process in the Doha Round negotiations, agreeing on phasing out agricultural export subsidies, which had been one of the biggest obstacles in the talks.

1. The multilateral trade system is still important against the backdrop of economic globalization

Since the 1990s, economic globalization has continued to gain momentum. The global financial crisis that broke out in 2008 has not altered the overall trend of economic globalization though exerting a profound impact on the world economy. The multilateral trade system is still playing a positive role in the world economic development, and its effect has been displayed in a broader scope.

(1) The WTO has continued to be the main fortress against trade protectionism. Since the outbreak of the global financial crisis, trade protectionism is again on the rise, a reality drawing world-wide attention. As developed countries such as the EU and the United States and some emerging economies have been bogged down in the financial crisis and economic slowdown, world-wide trade protectionism

is on the rise. It should be noted that recent trade restrictive measures are no longer temporary ones to counteract crises but long-term policy measures for protecting and supporting their domestic industries. Trade protectionism has thus been institutionalized. Furthermore, trade protectionism has also developed in recent years some new features. The first is that the areas under protection have been much broadened. Since the outbreak of global financial crisis in 2008, protectionism has been applied not just to traditional industries such as iron and steel, textiles, but to high-tech areas including the photovoltaic industry as well. As long as domestic industries are threatened by imported goods, trade protectionist measures of a certain level will surely be adopted. Secondly, green and technical barriers have become important means of trade protectionism. With the widespread tariff reductions under the multilateral trade system, adoption of various non-tariff barriers has become a customary practice of many countries. During the latest financial crisis, the WTO has acted effectively as the fortress against trade protectionism by exercising its supervisory and disciplinary functions, including the use of Trade Policy Review Mechanism (TPRM) in a timely manner, the issuance of regular circulars and the monitoring of stimulus packages adopted by national governments.

(2) *The WTO is playing an important role in addressing global issues such as environmental protection.* In today's world marked by economic globalization, environmental issues have become the focus of global attention. With the liberalization of international trade and globalization of some environmental protection practices, the relationship between trade and environment has become increasingly close, and environmental protection has gained greater importance in the multilateral trade system. On the one hand, trade conducted with unsustainable development policies will lead to excessive consumption of natural resources and continued degradation of the environment. On the other hand, trade liberalization will propel the circulation of environmental goods, services and technologies, and enhanced economic activities and market development are conducive to investing more resources in environmental protection. To ensure environmental protection through economic means, many international conventions concerning environmental issues such as the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) have today included regulatory measures on international trade. The WTO has also tried to harmonize trade rules and environmental protection policies, exhibiting a tendency to "go green".

In the preamble of the Agreement Establishing the World Trade Organization, the objective of sustainable development and the importance of protecting and preserving the environment are clearly stated. The Committee on Trade and Environment is thus established to be solely responsible for the interaction between trade liberalization and environmental protection and for revising WTO provisions in order to ensure the harmonious pursuit of the two goals.

(3) *The WTO is conducive to the establishment of a fair, equitable and new world economic order.* The WTO's demand for a new world economic order is mainly reflected in the principle of preferential treatment of developing countries, which has been incorporated into the basic aims of the multilateral trade system. It is clearly stated in the preamble of the Agreement Establishing the WTO that there is need for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development.³⁷ Almost all agreements without exception reached in the Uruguay Round have included special provisions for preferential treatment of developing member countries. It is laid down in these provisions that developing countries may have certain transitional period in the implementation of agreements. For example, in the General Agreement on Trade in Services (GATS), it is stipulated that member countries recognize the particular need of developing countries to exercise the right to regulate, and to introduce new regulations, on the supply of services within their territories in order to meet national policy objectives, and that member countries desire to facilitate the increasing participation of developing countries in trade in services and the expansion of their service exports including, inter alia, through the strengthening of their domestic services capacity and its efficiency and competitiveness.³⁸ And in the Understanding on Rules and Procedures Governing the Settlement of Disputes, it is stipulated that when a dispute is between a developing country Member and a developed country Member the panel shall, if the developing country Member so requests, include at least one panelist from a developing country Member, and that the Secretariat (of the WTO) shall make available a qualified legal expert from the WTO technical cooperation services to any developing country Member which so requests.³⁹

37 See *Agreement Establishing the World Trade Organization*. https://www.wto.org/english/docs_e/legal_e/04-wto.pdf.

38 See Annex 1B of the *Agreement Establishing the WTO - General Agreement on Trade in Services*, p.285. https://www.wto.org/english/docs_e/legal_e/26-gats.pdf.

39 See paragraph 10 of Article 8 and paragraph 2 of Article 27 of Annex 2 of the WTO Agreement – Understanding on rules and procedures governing the settlement of disputes. https://www.wto.org/english/tratop_e/dispu_e/dsu_e.htm.

2. The WTO will continue bringing important economic benefits to its member countries

During the sixty-odd years since the birth of the GATT, there are always new member countries joining the GATT and its successor, the WTO, thus maintaining the vitality of the multilateral trade system. Conversely, the WTO has continued bringing benefits to its member countries through trade liberalization and facilitation.

In March 2012, Russia became the 156th member of the WTO. Accession to the WTO would not only offer Russia trade benefits, but have a profound impact on its domestic reforms. Firstly, the accession to the WTO will vigorously promote the construction of Russia's foreign trade legal system and institutional reforms. WTO's basic principles, such as non-discrimination and transparency, have exerted great influence on Russia's reforms of its economic and trade system and its process of rule of law. Secondly, the accession to the WTO has provided Russia opportunities to restructure its economy for innovative growth. Being over-dependent on exports of energy resources and raw materials, Russia's economy suffers from structural imbalance and susceptibility to changes in the external environment. In recent years, the Putin administration has started to implement the economic strategy of innovative development, promoted economic restructuring and endeavored to transform Russia's mode of economic growth. However, this strategy cannot be implemented without free trade in goods and services and technological exchanges in the international market. And accession to the WTO has provided Russia this very condition to move forward and carry out market-oriented economic reforms. Thirdly, accession to the WTO has offered Russia a platform to enhance the openness of its economy and the role of market forces in its economic development. Russia can now enjoy the same non-discriminative treatment in market access that other WTO member countries enjoy, which has created opportunities and impetus to Russia's participation in economic globalization. And that is conducive to Russia's further integration into the world economy, an enhanced role of market forces in its economy, greater openness of its market to foreign enterprises and the sound development of its economy.

In October 2012, Laos, one of the least developed countries (LDCs) in the world, was admitted as the 158th member of the WTO. Accession to the WTO will help Laos be involved in economic globalization in a broader and deeper way. It will also help Laos to attract foreign investment, expand foreign trade,

push forward reforms and opening-up, and accelerate its economic and social development. Furthermore, since Laos is the last ASEAN member to join the WTO, its accession to the WTO has injected new vitality to the regional economic development in Southeast Asia. Laos's accession to the WTO is important not only for ASEAN's economic integration, but also for the development of CAFTA. The reason is that after Laos' accession to the WTO, all ASEAN members have reached the required level of openness, thus paving the way for the establishment of a single market within ASEAN. It is also conducive to the development of an East Asia free trade system centering on ASEAN.

3. China should make efforts to break the stalemate in the Doha Round negotiations as early as possible

For years, the WTO Doha Round negotiations have failed to make progress due to the following reasons:

(1) *The direct cause is the complex interest relationship among members in agricultural negotiations.* It is pointed out in the Doha Ministerial Declaration adopted in 2001 that the long-term objective referred to in the Agreement on Agriculture is to establish a fair and market-oriented trading system through a program of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets. However, during the negotiations on agricultural issues, member countries are divided into groupings with entirely different positions. Generally speaking, there are fundamental contradictions between the interests of developing countries and those of developed ones. Member countries form different groups in order to exert greater influence on the negotiation process and ultimately to safeguard their interests. The existence of sharp contradictions and disagreements among various negotiating parties is the main reason leading to the long-term deadlock in the Doha Round negotiations.

(2) *The internal cause is the rule of consensus by all WTO members.* In the decision-making process, the present rule of consensus lacks efficiency. Today, the WTO has around 160 full members with great disparities among themselves politically, culturally and in the level of economic development. It is practically very hard to reach an agreement by consensus. In fact, the WTO decision-making mechanism is by no means democratic, but rather under the control of developed parties such as the United States and the EU. This is quite evident in document drafting, "coordinator" nominations and Green Room meetings.

(3) *The external cause is the catalytic effect of the global financial crisis.* The global financial crisis that broke out in 2008 has led to a worldwide economic slowdown. The core of various countries' economic recovery policies is to revive their domestic economy, which has given rise to trade protectionism. At the same time, economic slowdown has jeopardized the real economy, and economic growth and unemployment have become the focus of attention of many national governments. Consequently, their aspirations and resources for the Doha Round negotiations are much lessened. Important negotiating parties, including the United States and the EU, were severely hit by the financial crisis and there has been a lack of willingness to advance the negotiations among these major parties. Just on the eve of the tenth ministerial meeting held in Nairobi in 2015, for the first time the United States publicly called for "giving up the negotiations".

To break the stalemate in the Doha Round talks, China may play a positive role in promoting the reforms of WTO internal mechanisms by uniting itself with the vast number of developing countries and urging the United States, the EU and other developed parties to agree to the reforms. It is most important that explicit regulations and procedures be laid down for agenda-setting and rule-making by the WTO. To ensure broad participation of developing countries, financial support and capacity building must be provided and a basis be created for the implementation of rules. Only through reforms can the WTO become a more efficient and transparent organization with broader participation, and continue to play a central role in governing international trade.

B. China should have its feet firmly planted in its neighborhood and focus on the construction of FTAAP on the basis of East Asian regional cooperation

China's neighboring region, especially East Asia, constitutes not only the starting point for China's FTA cooperation, but also an area of China's focus for further efforts. China has all long supported the ASEAN-led East Asia regional cooperation with "10+3" as the main channel, of which FTA construction is the core. Today, negotiations for an East Asia FTA represented by the RCEP are on the whole going on smoothly. China should strive to promote the timely conclusion of RCEP negotiations and further advance on this basis the process of FTAAP.

1. FTA development within the East Asian framework have reached a critical stage

FTA development in East Asia started with CAFTA. Thanks to China's initiative, dialogue partners of ASEAN started FTA negotiations with ASEAN one after another. As a result, ASEAN concluded successively another four "10+1" FTAs with Japan, South Korea, India, and Australia-New Zealand. Thus, a FTA network between ASEAN and all major countries in its neighborhood came into shape. However, due to economic disparities of various countries, the afore-mentioned five "10+1" FTAs differ in market openness, rules of origin, etc. The excessive number of cooperation mechanisms has led to higher transaction costs. The "spaghetti bowl phenomenon" brought about by the overlapping FTAs have led to procedural complexity and low efficiency in applying these agreements by enterprises in the region. Consequently, a unified FTA covering the entire East Asia has become a priority. To overcome the long-standing divergence between EAFTA and CEPEA, China and Japan jointly proposed the "Initiative on Speeding up the Establishment of EAFTA and CEPEA" in the East Asia Summit Economic Ministers' Meeting in August 2011. In November of the same year, ASEAN Leaders endorsed a "Framework for RCEP", replacing references to CEPEA and EAFTA with references to ASEAN's FTA partners. In November 2012, RCEP negotiations were officially launched during the East Asia Summit held in Phnom Penh, which were expected to be concluded by the end of 2015.

Although RCEP negotiations have been delayed by the disagreements among different parties in such key areas as trade in goods, trade in service, investment and rules, and changes of the international landscape, including Brexit and US presidential election, the 16 negotiating parties of the RCEP have been trying their best to finish the negotiations as soon as possible. In a joint statement released during the East Asia Summit held in Kuala Lumpur in November 2015, the leaders agreed on concluding the negotiations by the end of 2016. To this end, they have sped up the pace of talks, with three rounds of negotiations to be held from early August to mid-October.

2. Properly handle the relationship between TPP and RCEP

The speeding up of FTA development in East Asia is not only brought by the efforts of countries in the region, but also by the changes in the external environment. The most important change in the external environment is the launch and conclusion

of TPP negotiations. As TPP and RCEP overlap in member countries, they have posed a situation of competitive co-existence in East Asia and the Asia-Pacific at large. The development of the situation would have a direct bearing on the future of Asia-Pacific economic cooperation. While pushing forward the RCEP negotiation process, China should have a proper understanding of the relationship between RCEP and TPP, and deal with it accordingly.

Obviously, TPP and RCEP are two totally different FTAs. First, they are different in nature. RCEP is led by ASEAN with negotiating parties who are already ASEAN's FTA partners. The RCEP negotiations will mainly focus on the practical benefits and pursuits of developing economies. In contrast, TPP is a U.S.-led process that includes six advanced economies with professed goal of maintaining their own interests.⁴⁰ It is evident that TPP negotiations represent the interests and claims of advanced economies.

Secondly, TPP and RCEP differ in the level of development. It is laid down in the Guiding Principles and Objectives for Negotiating the RCEP that the RCEP shall be a high-level FTA covering a wide range of areas including trade in goods and services, investment, economic and technological cooperation, IPRs and competition policies, etc. However, to accommodate the varying levels of economic development of negotiating parties, efforts would be made to strike a balance among the three areas, namely trade in goods, trade in services and investment. This implies that the level of openness of the service sector and investment may be limited in the final agreement. However, TPP negotiators aim for a comprehensive 21st century FTA, which covers not only traditional areas like trade in goods, trade in services and investment, but also “behind-the-border issues” such as labor, environment, SOEs, government procurement, etc.

Thirdly, TPP and RCEP differ in objectives. The goal of the RCEP is closely related with the actual interests of member countries and the region, including enhancing the transparency of intra-regional trade and investment environment, reduction of transaction costs, establishment of a more efficient production network in East Asia and a better global supply chain, so as to further improve regional economic environment. The TPP's objective is more strategic in nature, aiming at formulating next-generation trade rules, including provisions concerning science and technology, culture, SMEs, consistency of rules, SOEs, and supply chains, which are rarely or never included in other FTAs. All these provisions have clearly

40 According to the International Monetary Fund (IMF), six out of the twelve negotiating parties of the TPP are “advanced economies”. They are Australia, Canada, Japan, the United States, Singapore and New Zealand. See IMF, *World Economic Outlook: Too Slow for Too Long*, Washington, April 2016, p.148, <http://www.imf.org/external/pubs/ft/weo/2016/01/pdf/text.pdf>.

exhibited the US intention to turn the TPP into a model for next-generation trade agreements.

Fourthly, they differ in approaches. In view of the different levels of development of its members, the RCEP has inherited the traditional flexibility of East Asian countries in negotiating FTAs. It adopts flexible negotiating policies by offering special and differentiated treatment for underdeveloped nations and even allowing extra flexibilities to the LDCs within ASEAN. However, the TPP adopts a high-standard and overall approach through eliminating all trade and investment tariffs or complete zero-tariff with few exceptions. It puts forward higher requirements in market access in the service sector, investment, government procurement, etc.

Comparatively speaking, the RCEP fits the realities in East Asia better because East Asia is a region with developing countries as the majority, and the RCEP, marked by high inclusiveness and gradual approaches, suits Asia's industrial structure, mode of economic development and social traditions better. Moreover, the RCEP can also better accommodate the different development levels of its members. However, that does not mean that the RCEP and the TPP are antagonistic towards each other. It is precisely because of their different levels in international trade, fierce and direct conflicts between the TPP and the RCEP are not likely in the short term. Although the TPP high standards may be ahead of the time for developing economies in East Asia, they serve as benchmarks and references for future East Asia free trade development. Moreover, the TPP has in reality accelerated the launch and progress of the RCEP negotiations. Their differences may lead to a relationship of cooperative competition. In the foreseeable future, the TPP and the RCEP will co-exist and promote each other over a long period of time.

Therefore, China should adopt an open-minded approach towards the TPP, being aware that it will co-exist with the RCEP in the Asia-Pacific for a long time. While working to expedite the conclusion of RCEP negotiations, China should watch closely the development of the TPP, and draw useful experience and inspiration from it to serve as a reference for its FTA development and domestic economic reforms.

3. Promote East Asian FTA process with the FTAAP as the objective

The FTAAP was first proposed in APEC meetings in Hanoi, Vietnam in 2006. The Yokohama Vision adopted by the APEC Ministerial Meeting in Yokohama

in 2010 clearly stated that “we (the Leaders of APEC) will take concrete steps toward realization of a FTAAP, which is a major instrument to further APEC’s regional economic integration agenda”.⁴¹ In April 2014, Chinese Premier Li Keqiang proposed to start a feasibility study on the FTAAP at Boao Forum for Asia. During the APEC trade ministers’ meeting in May 2014 in Qingdao, ministers agreed to formulate a Roadmap for APEC’s Contribution to the Realization of the FTAAP, which was officially adopted by the APEC Economic Leaders’ Meeting in November in Beijing.

The FTAAP was thereby officially initiated, exhibiting APEC’s confidence and resolve in promoting regional economic integration. Important achievements made in the APEC Beijing Meeting have demonstrated China’s will to promote the FTAAP with far-sightedness.

With regard to the ongoing regional FTA negotiations in East Asia, such as the RCEP, China should strengthen its communication with other negotiating parties, combine principles with flexibility, seek common ground while reserving differences, and resort to innovative modes of thinking to overcome various difficulties that may arise during negotiations. For example, China may apply the China-R.O.K. FTA model to promote CJK FTA, and apply in turn CJK FTA model to promote the RCEP negotiations. In addition, China needs to build up consensus at home, participate in and promote various FTA negotiations in East Asia with greater openness and confidence, and have the courage to turn the RCEP talks into a testing ground for further deepening of its domestic reforms and opening-up. China should regard this as an opportunity to initiate a new round of high-level opening-up and to upgrade domestic liberalization in such fields as trade in goods and services and investment, and accelerate its pace in aligning its domestic rules and standards with the international ones. Only by so doing can China play an active part in FTA talks in East Asia, accelerate the negotiation process with its actions and be ready for the establishment of a FTAAP.

Chinese President Xi Jinping re-emphasized the importance of the pursuit of a FTAAP at the APEC summit 2015. At the 22nd APEC Trade Ministers Meeting in Arequipa, Peru in May 2016, experts for the collective strategic study of the FTAAP submitted the final draft of the first 8 chapters of their report and the first draft of the 9th and last chapter, and confirmed to deliver the complete report to the APEC summit 2016. This means that the FTAAP has got its foot in the door.

41 See “APEC Leaders Declaration: ‘The Yokohama Vision – Bogor and Beyond’”, Yokohama, November 13, 2010, <https://www.whitehouse.gov/the-press-office/2010/11/13/apec-leaders-declaration-yokohama-vision-bogor-and-beyond>.

C. Accelerate the establishment of FTAs with developing countries and create a model for “South-South FTAs”

As the world's largest developing country, China should have fewer difficulties in establishing FTAs with other developing countries than with the developed ones. The fact that developed economies like the United States and the EU try to monopolize the formulation of global economic rules through their own FTA networks has in reality provided the developing countries with fresh impetus to strengthen their FTA cooperation. China should make good use of the existing platforms, create new opportunities for cooperation, and explore the paths of establishing mutually beneficial FTAs with developing countries all over the world.

1. Build a FTA network that covers the regions along the “Belt and Road”

In September 2013, President Xi Jinping put forward the proposal of building a “Silk Road Economic Belt” in his visits to four Central Asian countries. In October of the same year, he further proposed the establishment of a “21st-Century Maritime Silk Road” during his visit to Indonesia. The two proposals have been called the Belt and Road Initiative thereafter. To outline the background, principles, framework, cooperation priorities and mechanisms of the Belt and Road Initiative, China released an important document entitled “The Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road” in March 2015. The Belt and Road Initiative has been highly valued both at home and abroad. Internationally, countries along the Belt and Road have voiced their support one after another. At home, provinces and cities went into actions immediately. The Initiative is of profound and far-reaching strategic significance. It has not only brought about new contents to China's new round of opening-up, but provided a direction for China's inland and coastal areas in their economic development and opening-up.

The Belt and Road Initiative is an ambitious conception covering a wide range of fields, involving numerous countries and requiring in-depth cooperation. And for that reason, comprehensive and meticulous planning and design are called for. Currently, specific implementation plans of the Belt and Road Initiative are to be made, which will include such contents as infrastructure building, enhancement of connectivity, increase of trade and economic cooperation, building of a new Eurasian Land Bridge, and development of China-Mongolia-Russia, China-Central

Asia-West Asia and China-Indochina Peninsula economic corridors.⁴²

Among these plans, regional economic integration based on FTAs constitutes the basic requirement and important component of the Belt and Road Initiative. Therefore, the existing platform of FTAs should be fully used and expanded while new FTA negotiations to be initiated. Domestic and foreign FTAs should be fully integrated. Efforts should also be made to establish free trade arrangements with more countries and regions along the Belt and Road, thus forging a high-standard network of FTAs covering the entire Belt and Road region.

(1) *Make full use of the existing FTAs to deepen cooperation.* Efforts should be made to incorporate the construction of the 21st-Century Maritime Silk Road into China's cooperation with ASEAN through the CAFTA platform. CAFTA is the first FTA for both China and ASEAN, and it can serve as a solid foundation for the construction of the Maritime Silk Road. Proposed by Chinese Premier Li Keqiang in October 2013 at the China-ASEAN Summit, negotiations for an upgraded version of CAFTA were launched in August 2014. After four rounds of talks, the two sides signed the upgraded Protocol of the CAFTA in November 2015.

(2) *Speed up the expansion of China's FTA partners.* As China has not signed FTAs with most of the countries along the Belt and Road, it is necessary to explore new FTA negotiations according to different situations. With regard to China-GCC FTA currently under negotiation, efforts should be made to conclude the agreement as soon as possible. With regard to India and other countries with which FTA feasibility study has been completed, negotiations should be launched at an early date. For those countries along the Silk Road Economic Belt with which consensus on FTA construction has been reached, feasibility study either on the governmental or non-government level should be carried out as early as possible.

(3) *Strive for an in-depth integration of domestic and foreign FTAs.* The objectives of the Belt and Road Initiative have determined that the Initiative will become a link between China's domestic reforms and opening-up and economic integration in the vast external regions. China's domestic FTZs should be closely linked to the international FTAs of related regions for mutual promotion. On the one hand, the establishment of a 21st-Century Maritime Silk Road can be combined with Shanghai Pilot FTZ so as to promote the economic restructuring and industrial upgrading of China's eastern region as well as its outbound investment. China's

42 See "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", Issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China with State Council authorization, March 2015, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1249618.shtml.

eastern region, which started opening-up quite early and has enjoyed rapid growth, has now entered a new stage featuring economic restructuring and accelerated outbound investment. Through the construction of the Maritime Silk Road, new areas of cooperation between China's eastern region and Southeast Asian countries can be explored, and economic cooperation and trade between the two sides can be strengthened. We should spread the experience gained at selected units to an entire area so as to achieve joint development. On the other hand, China's central and western parts are late comers in opening up, FTZs can be established at an appropriate time in cities along the Silk Road, to be linked with the proposed Silk Road Economic Belt FTA in the future, so as to enhance the development level of China's inland and border areas as open economies. Thus, the Silk Road Economic Belt shall become an engine driving forward China's central and western regions to attain the goal of greater opening-up and economic upgrading.

2. Take advantage of the progress made in financial cooperation to gradually promote the development of a FTA among BRICS countries

The New Development Bank, established in July 2014, turned BRICS economic cooperation from concept to substantive development, thus providing a powerful backing to financial stability of BRICS countries in the post-crisis period and laying the foundation for their comprehensive and deepened cooperation in trade and investment. Taking this as an opportunity, BRICS countries can now go ahead with the development of a FTA among themselves step by step.

(1) There exist quite a few favorable conditions for BRICS countries to work for a FTA. First, BRICS countries have common interests in shaping international economic order. Recent years have witnessed profound changes in the industrial structure and competition pattern of developed countries and emerging economies. There is a tendency in developed countries such as the United States and the EU that the industries are moving toward high-end and virtual ones. As a result, the competitiveness of traditional manufacturing industries in these countries is declining rapidly. However, the existing international trade rules are based on the principle of free trade of goods, focusing on the elimination of tariffs and non-tariff barriers at the border. Therefore, they are more favorable to emerging economies since most factors of production, such as labor force and land, are cheaper in emerging economies than in developed countries. To change this disadvantaged situation, the United States is strongly pushing forward TPP and TTIP negotiations

so as to reshape international trade rules. Under such circumstances, BRICS countries have realized that unless they unite to influence the shaping of future international economic order, they will continue to be treated unfairly by developed nations. Secondly, BRICS countries have great development potential and high complementarity in economic development. The five countries hold 20% of the global GDP, 42% of the world population and 18% of the global trade.⁴³ BRICS countries have made outstanding contributions to the global economic recovery after the outbreak of the latest international financial crisis. In terms of the endowment of production factors, BRICS nations are highly complementary to each other. China possesses a huge domestic market and a fairly good industrial base, Russia has rich energy resources and advanced basic science, India possesses an advantage in software technologies, Brazil has advanced clean energy and modern agricultural technologies, and South Africa has a technological edge in mining mineral resources. Thirdly, BRICS countries have good institutional basis for FTA cooperation. Currently, BRICS nations have regular meeting mechanisms for leaders, foreign ministers, trade ministers, etc. These mechanisms have created a good institutional foundation for the establishment of a BRICS FTA.

(2) *One should not fail to note the difficulties in establishing a BRICS FTA.* There are four major difficulties as follows. Firstly, BRICS countries are experiencing an economic slowdown, which is likely to generate inward-looking policies, increased competition and expanded contradictions and disagreements. Some BRICS countries have already shown a tendency toward trade protectionism, which will hinder the establishment of a BRICS FTA. Secondly, BRICS countries have different FTA strategies. India, due to its large economic scale, has adopted an active and all-round FTA strategy, while Brazil and South Africa base their FTA strategies on their own regions and have pursued a defensive strategy centering on the South American Common Market (MERCOSUR) and the African Free Trade Zone. Russia is a late comer in FTA development. It had not joined the WTO until 2012. Russia's FTA strategy is resources-oriented and based on the construction of a FTA within the Commonwealth of Independent States (CIS), whereas China, taking East Asia as its strategic base, is actively building its own FTA network in an all-round way. Thirdly, BRICS countries have similar industrial structures and there exist rising competition between domestic products and imported goods. BRICS countries are all in the process of industrialization. To boost development of domestic industries, they have all pursued export promotion policies, and as a result, trade disputes and frictions become inevitable. Therefore,

43 Wang Lin, "Jinzhuan Guojia Zimaoqu Jianshe De Jiyu Yu Tiaozhan" (Opportunities and Challenges of Building a BRICS FTA), *Zhongguo Guoqing Guoli (China National Conditions and Strength)*, No.2, 2015, p.58.

there are still uncertainties in the economic benefits and impact of a BRICS FTA on its member countries. Lastly, due to the huge economic scale and market size, the high standards and new rules laid down in the TPP and the TTIP on “border” and “behind-the-border” issues will have an exemplary effect on global economic and trade rules. Other developed countries and some middle-income nations are likely to follow the example, thus lifting the global economic and trade rules and standards. The United States and the EU will also spread the aforementioned standards and rules in their economic and trade cooperation, including FTA negotiations, with other countries and in the multilateral trade system as well. This is likely to generate frictions and disagreements among BRICS nations in their FTA talks.

(3) The establishment of a BRICS FTA must be a gradual process and should proceed in a step-by-step manner. In view of the aforementioned favorable conditions and difficulties, BRICS countries may take the following measures to explore a roadmap for building the BRICS FTA. First, trade and investment facilitation should be further promoted so as to consolidate the basis for building the BRICS FTA. Secondly, while maintaining high-level exchange of visits, we should strengthen the exchange and cooperation between enterprises, especially the SMEs, so as to inject new vitalities into the trade and investment between BRICS countries. Thirdly, considering the complexity of BRICS countries' strategic interests and the difficulties in launching FTA negotiations in the near future, we should promote the construction of a BRICS FTA in a gradual way, proceeding from the easier sectors and issues to more difficult ones, and from small scope to wide areas.⁴⁴

From a long-term perspective, BRICS nations share common desire and interests in their efforts to optimize domestic industrial structure, improve external environment for development and enhance their respective international standing. Building FTAs with foreign countries is now considered as an important way to enhance a country's economic power and expand its international influence. Major trading partners are usually regarded as priorities in negotiating FTAs. Therefore, establishing a BRICS FTA will inevitably become a strategic consensus of BRICS countries gradually.

3. Deepen China's economic and trade cooperation with developing countries in Latin America and Africa

There have been quite rapid development of economic and trade relations

⁴⁴ Ibid.

between China and developing countries in Latin America and Africa. But the establishment of FTA has not been placed on the agenda yet. Therefore, China should try to develop and deepen its economic relations and trade with those developing countries or regions and promote trade liberalization and facilitation through various channels according to the circumstances.

Trade development between China and Latin America is excellent, registering a growth by leaps and bounds in recent years. China has signed FTAs with Chile, Peru and Costa Rica in succession. Currently, China is the second largest trading partner of Latin America next only to the United States. China is the largest trading partner of Brazil, Chile and several other Latin American countries. Two-way investment between China and Latin America has also shown robust growth, with project contracting just at an early stage of expansion. In recent years, huge amount of investment has been made by a considerable number of Chinese enterprises which have succeeded in their transnational strategies in Latin America, in such areas as agriculture, telecommunications, automobile industry, energy resources and mining. In addition, new growth points have kept emerging in China-Latin America economic cooperation and trade. Marked progress has been achieved in areas ranging from high-tech sectors such as communication satellite and short-haul aircraft to infrastructure sectors such as agricultural projects, manufacturing and hydropower stations.

To deepen economic and trade cooperation with Latin America, China should watch closely the rising consumption power of the middle class in Latin America, make corresponding adjustment in commodity composition and try to capture the middle and high-end market in its export. As for investment, China should, in compliance with its domestic transformation of economic development mode and the structural adjustment of its economic growth, complement Latin America with its own advantages and vice versa, and participate in the international division of labor together with Latin American countries. As for project contracting, China shall seize the trend of vigorous growth in infrastructure in Latin America and undertake construction projects of airports, docks, superhighways and ports, and take root there for long-term development through effective localization.

At the same time, in view of the structural imbalance of the economic and trade relations between China and Latin America, China should take appropriate measures to readjust its import-export pattern so as to address China's rising trade surplus with the region. To be specific, China should import not only raw materials but more high value-added products from Latin America so as to achieve trade

balance and sustainable development of both sides.

Similar to China's relations with Latin America, China-Africa economic relations and trade have also developed rapidly. From 2000 to 2015, the trade volume between China and Africa rose from 10.6 billion USD to 179.0 billion USD, registering an annual increase of 20.74%.⁴⁵ A striking feature of China-Africa trade is that China has been on the whole in the deficit. Since the beginning of the 21st century, with the implementation of various favorable policies for Africa's exports to China such as zero-tariff treatment, China's trade with Africa has been in deficit in most years with only three exceptions, a slight surplus in 2004, a surplus in 2009 associated with the financial crisis and a surplus in 2015 due to China's economic slowdown. In 2012, China's trade deficit with Africa reached an all-time high of 27.85 billion USD.⁴⁶

In the foreseeable future, China's economic and trade relations with Africa will continue to develop on the whole. On the one hand, Africa's position in China's economic development strategy is on the rise due to China's increasing demand for Africa's commodities and market as well as its ever-increasing investment in Africa. On the other hand, African countries attach increasing importance to the development of infrastructure, agriculture and manufacturing along with the advancement of Africa's regional economic integration. All this will provide opportunities for China-Africa trade development.

However, China-Africa economic and trade relations face several challenges. First, the economic slowdown of emerging economies represented by China has led to a decrease of African exports. Secondly, price drops of bulk commodities in the international market have severely affected African countries' foreign trade, resources-rich countries in particular. Thirdly, China's exports to Africa are mainly middle and low-end consumer goods. The market for high-end consumer goods and capital goods is still controlled by developed economies such as the EU and the United States, thus casting a shadow over the image of Chinese products in Africa and obstructing the upgrade of China-Africa trade pattern.

Therefore, efforts should be made to find new growth points for China-Africa economic and trade cooperation, so as to achieve a transformation from mere

45 See "Zhongguo Jinchukou Shangpin Zhuyao Guobie (Diqu) Tongji (2000 Nian 1 – 12 Yue)" (China's Exports and Imports in Commodities to and from Major Countries and Regions in 2000), *Guoji Maoyi (International Trade)*, No. 2, 2001; "Zhongguo Jinchukou Shangpin Zhuyao Guobie (Diqu) Tongji (2015 Nian 1 – 12 Yue)" (China's Exports and Imports in Commodities to and from Major Countries and Regions in 2015), *Guoji Maoyi (International Trade)*, No. 2, 2016. The annual increase rate was calculated by the authors.

46 Xinhua News Agency, "2012 Nian Zhongfei Maoyi Zong'e Chuang Lishi Xingao" (China-Africa Trade Volume Reaches an All-Time High in 2012), August 29, 2013. http://news.xinhuanet.com/fortune/2013-08/29/c_117143791.htm.

quantity pursuit to equal emphasis on quantity and quality. China should also take the initiative to provide further preferential treatment and assistance to African countries in such areas as trade, technology, infrastructure and capacity building. For instance, China can open its market wider to African countries with effective implementation of zero-tariff treatment, help African countries increase the added value of their agricultural and resource products and optimize their export mix through personnel training by sending technical staff there. China should also provide support to African countries in infrastructure building so as to enhance connectivity, and strengthen cooperation on logistics, customs, inspection and quarantine so as to promote trade facilitation. At the same time, Chinese enterprises must maximize their potential, improve the grades and quality of their exports to Africa, and strengthen brand building, thereby creating a fine image of Chinese products in Africa.

D. Explore the possibility of bilateral free trade cooperation with some countries and regions

On the basis of maintaining close ties with neighboring countries, managing Asia-Pacific affairs and establishing “South-South FTAs”, China should actively explore the possibility of carrying out bilateral free trade cooperation with other countries and country groups by combining work at selected spots with that of the whole area.

1. Explore the establishment of high-standard FTAs with China-South Korea FTA and China-Australia FTA as the start

In November 2014, conclusion in substance of the negotiations for China-South Korea and China-Australia FTAs were announced successively. On December 20, 2015, the two FTAs came into effect. China-South Korea FTA and China-Australia FTA share similarities in many aspects, the most prominent one being that both South Korea and Australia are important economies in the Asia-Pacific in proximity to China. The significance of the two FTAs goes beyond the bilateral relationships and has a direct impact on the process and development of regional economic integration in East Asia and the Asia-Pacific as well.

The official conclusion of China-South Korea FTA negotiations may trigger interactions for the CJK FTA and other East Asian countries' FTA negotiations. As

South Korea won greater market access in China through the bilateral FTA, Japan, which has a similar trade pattern with South Korea, will surely be concerned about the decrease of Japanese enterprises' market share in China. Thus the CJK FTA negotiations, stalled for various reasons, may move forward again. If the CJK FTA negotiations go forward smoothly, negotiations for the RCEP, a mega-regional FTA in the Asia-Pacific, are most likely to be concluded as expected. Furthermore, the establishment of China-South Korea FTA will hopefully break the vicious cycle of long-term "political estrangement with economic closeness", which has tortured countries in Northeast Asia. A virtuous cycle of political and economic interactions can thus be promoted, which is conducive to maintaining regional stability and development.

China-Australia FTA development, affected by both economic and non-economic factors, is also of dual significance. Initiated in 2005, China-Australia FTA has gone through a prolonged process of 21 rounds of negotiations. Major differences lie in two areas: Australia is concerned about its agricultural products' access to Chinese market while China's concern is Australia's terms of qualification and restrictions on Chinese enterprises entering Australia. However, the ever-deepening China-Australia trade relations and the demand for further growth by both countries have determined that there is no other way but to conclude the bilateral FTA negotiations as soon as possible. It was repeatedly stressed during high-level visits between China and Australia that the two countries had reached consensus on the conclusion of the bilateral FTA talks by the end of 2014, and that had helped bridge the differences between the two negotiating teams in sensitive areas. The establishment of China-Australia FTA will economically promote two-way trade, investment and mutual trust, which is conducive to the advancement of RCEP negotiations.

More importantly, China-South Korea and China-Australia FTAs have paved the way and accumulated experience for China to explore the establishment of high-standard FTAs as both are comprehensive and high-standard FTAs covering not only traditional areas like trade in goods, trade in services and investment, but also the "21st-century economic and trade agenda" such as e-commerce, government procurement, etc. Therefore, with China-South Korea and China-Australia FTAs as the start, China should work to explore the establishment of FTAs of high quality, high level and high standard gradually, so as to prepare itself for extensive participation in the shaping of future global economic and trade rules.

2. Steadily promote negotiations for a China-EU investment agreement and explore the possibility of establishing a China-EU FTA

During the 16th China-EU summit held in November 2013, Chinese Premier Li Keqiang, together with President of the European Council Herman van Rompuy and President of the European Commission José Manuel Barroso, declared to start negotiations for a China-EU investment agreement. By August 2016, China and the EU have completed eleven rounds of talks. Different from earlier investment agreements reached between China and European countries, the China-EU investment agreement is more concerned with market access and the substances of openness while giving due attention to investment protection. The agreement is a priority for both sides and falls in line with both China's and EU's actual and strategic interests.

Under the impact of global financial crisis, the EU has suffered economic recession for years and lost its position as China's biggest export market for six consecutive years since 2006, though it remains the largest trading partner of China. Although the EU has now more or less recovered from the sovereign debt crisis, it still needs a considerably long period of time to restore its economy to long-term steady growth. If EU's advanced technologies, brand-name credibility and industrial design capability were combined with China's competitiveness in the manufacturing industry through deepened two-way investment, the two sides would achieve win-win results with a great leap forward in cooperation.

However, there exist many obstacles difficult to overcome in China-EU investment negotiations, which may prolong the talks. Obstacles that China faces are mainly EU's strict requirements and high standards on investment protection, market access and social considerations such as labor issues. These requirements and standards are probably beyond China's bearing capacity under the current level of social and economic development. Obstacles for the EU are mainly the difficulties in reaching consensus inside the Union because of member countries' different levels of economic development and varied stances on foreign investment. Therefore, the negotiations for a China-EU investment agreement call for patience and in-depth coordination for steady progress. China should also make tentative explorations with the EU and its important members such as Germany and France on the possibility and feasibility of establishing a China-EU FTA, by promoting joint non-governmental studies and conference exchanges conducted by academic and industrial organizations. These endeavors on the one hand will deepen shared understanding of free trade cooperation between China and the EU, and on the

other hand will generate pressure for advancing the bilateral investment agreement talks.

3. Accelerate negotiations for a China-US bilateral investment treaty

Since it was launched in 2008, the negotiation for a China-US BIT has been held 26 rounds. At present, the negotiation has entered a critical stage of in-depth discussions on the negative list for foreign investment, which is the last step before an agreement is reached. The China-US BIT will underline in explicit terms the necessity for deep reforms in China's domestic institutions, including investment system, administrative examination and approval system, foreign investment management system, financial system, capital account liberalization, etc. All these are significant in generating pressure for deepening China's economic reforms. It should be noted that the TPP and the TTIP led by the United States has explicit long-term objectives of writing new international trade rules. The acceleration of China-US BIT negotiations can in a way extricate China from its adverse situation in formulating new international trade rules. During the 5th round of China-US S&ED in July 2013, China agreed to adopt the principle of "pre-establishment national treatment and a negative list" in BIT negotiations, thus removing the biggest obstacle in the BIT talks. However, major differences have remained on such issues as fair competition, investment protection, and exchange of interests. Proceeding from an explicit "negative list", China must work out corresponding strategies, get prepared in policy and legislation, and strengthen capacity building of its enterprises so as to greet the advent of a China-US BIT.

In the absence of any fundamental progress in Doha Round negotiations under the WTO and when various countries have turned to bilateral or multilateral trade negotiations outside the WTO, the United States, the EU and Japan have attempted to group together major Western economies in a new bloc so as to create an economic and trade pattern favorable to them. As a rising economic power, China should try to establish a global FTA network on the global, regional and bilateral levels in order to avoid falling into a passive situation amid the shaping of a new world economic order.

On the global level, China should reiterate its concept of opening to the outside world, actively promote WTO's reforms so as to ensure its sound development. The Belt and Road Initiative should be vigorously promoted through strengthened policy coordination, connectivity in infrastructure, monetary circulation, and people-to-people exchanges. By connecting the two continents, Europe and Asia, and

covering over 30 countries, the Belt and Road Initiative shall be the main artery to promote a steady growth of international trade, and expand China's strategic space for economic development. Economic connections with other BRICS countries should be further strengthened. Taking financial cooperation as an opportunity, China should further strengthen its economic connections with other BRICS nations by enriching the contents of their financial cooperation so as to provide important safeguards to the financial stability of BRICS countries. China should also promote in a gradual way the establishment of a BRICS FTA.

On the regional level, China should take an active part in the negotiations for the RCEP and other regional cooperation mechanisms with equality, "inclusiveness" and greater openness, and coordinate RCEP's relations with the TPP for mutual enhancement and coordinated development. At the same time, by following the 2014 Leaders' Declaration of the APEC and the Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP, China should, together with other countries, go ahead and take realistic measures to initiate the FTAAP process, so as to inject new vitality to the regional economic integration in the Asia-Pacific.

On the bilateral level, the successful experience of China-South Korea and China-Australia FTA negotiations should be summarized, and China-EU and China-US bilateral negotiations on investment agreement should be prioritized so as to pave the way for an early launch of FTA negotiations with the two largest economies in the world.

(This report was written in Chinese and co-translated by Li Yang, Wang Jiapei, Zhu Hongtao and Lu Zhihong. The translation was checked by Zou Mingrong and updated by the authors in July and August 2016.)





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ABSTRACT

This report consists of four parts. The first part introduces the initiation and progress of major FTA negotiations in today's world, focusing on the US "dual ocean strategy", i.e. the TPP and the TTIP; the RCEP, a new regional economic cooperation mechanism centering on ASEAN; and the latest development of China-Japan-South Korea FTA negotiations. The second part depicts the overall situation of China's FTA development, and points out the reality that China lags behind the EU, the United States and some ASEAN countries in constructing FTA with foreign nations. The third part mainly expounds various difficulties and challenges, both internal and external, China is facing in FTA development. The fourth part puts forward some lines of strategic thinking regarding China's future FTA development based on the analysis of the first three parts: maintain the multilateral framework of the WTO by offering strong support to the Doha Round negotiations; base its FTA strategy on the neighborhood, and prioritize the building of the Free Trade Area of the Asia-Pacific (FTAAP) with East Asia regional cooperation as its basis; strengthen the construction of FTAs with developing countries and forge a model of "South-South FTA"; and explore the possibility of building bilateral FTAs with some regions and countries.

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