

# Analysis on the New Trends of Global Regional Economic Integration and the Free Trade Area Strategy of China

Kuang Zengjie and Wang Jimin

Department of Economics & Administration Shanghai Customs College, Shanghai, China  
kzjdaniel@163.com, cathywangjm@sina.com

**Abstract** - Since 21st century, Regional economic integration developed rapidly in the world as the main form of Free Trade Area in the world and presented new trends. Under this background, China should further adapt to the development of regional economic integration trend, adopt multidimensional and flexible FTA strategy, actively and steadily develop free trade zone, gradually forming a global free trade zone cooperation network in order to play a more active role in areas of bilateral and multilateral trade liberalization process.

**Index Terms** - regional economic integration, new trends, free trade area, strategy

## 1. Introduction

Since 21st century with the failure of the Doha Round of WTO negotiation, little progress has made in the global multilateral trade negotiations. In stark contrast, the development of regional economic integration (REI) has just been unfolded, becoming the prominent symbol of economic globalization. Recently, there have been some new development trends in the global regional economic integration, which show the contrast of economic strength and the game of interests of global world especially between the big countries and groups. As the world's most dynamic developing country in economic development, China has always been an active supporter and advocate in the global regional economic integration, especially in that of the Asia-Pacific region. In the face of dynamic development of global regional economic integration, it is worthy of attention how China will adjust its own regional economic cooperation strategy to seek the maximum interests in the game with other countries. Through in-depth analysis on the new trends of global regional economic integration combining with the characteristics and shortcomings of China since its entry into WTO, this article will propose targeted recommendations.

## 2. New Trends of Global Regional Economic Integration Development

Current development of global regional economic integration presents new trends of further acceleration. Various forms of regional trade agreements (RTA), with free trade agreements (FTA) as their core are increasing. According to WTO statistics, till January 15, 2012, various RTA notified to WTO has up to 511, (62.3% of which were concluded in the years 2001-2011), and they are increasing at an average monthly rate of 1; 86.8% of 319 RTA, which have been in effect, take the form of FTA. <sup>1</sup> From the analysis of the

information published by WTO, the development of global regional economic integration is showing some new trends:

*A. RTA cooperative mode breaks traditional theory limit; North-South cooperation has become the new mainstream of development*

The traditional theory of regional economic integration believes that countries with the same social and political systems, similar economic level as well as common historical and cultural background are more easily to establish regional economic integration and carry out economic coordination and cooperation. But since 1990s, this theory began to be broken. The emergence of new trends that the developed and developing countries establish and implement regional economic integration shows characteristics of North-South cooperation. Since 1994 when Mexico's entry into the North American Free Trade Area, North-South cooperation mode has been launched and more and more north-south regional economic integration organizations have been established. It was the transitional developing countries of Eastern Europe that joined the European Union in 2005 and in 2007 which was the fifth and sixth expansion of EU, replacing "North-North" cooperation mode with "North-South" mode. Meanwhile, EU is also actively committed to the negotiations on bilateral FTA with Asia, Africa, the Caribbean and the Pacific Rim countries and also successfully signed FTA with some developing countries, such as South Korea, South Africa, Chile, Mexico etc. In addition, North-South regional economic integration organizations also appear continuously in other parts of the world. In the Americas, the United States, Chile, Dominican Republic - Central America, Peru, Colombia, Panama and other countries reached bilateral FTA; A large number of North-South FTA are also emerging in the Asia-Pacific region, such as Japan's signing bilateral FTA with Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei, Philippines, Vietnam, Peru. In fact, the further development of North-South cooperative model largely depends on the establishment of global production network. From the beginning of 1990s, the production network between the countries of the South and North began to flourish. In the conditions of production division, developing countries' costs in launching business management and logistics in other countries have been relatively high, and they also have been shortage of product R&D capabilities, so it is difficult to produce inputs with complex technology, while developed countries are able to provide such intermediate goods. Such

background greatly promoted the formation of RTA cooperation between northern and southern countries.

*B. Focus of RTA cooperation began to shift; Asia-Pacific Region has become a global striking highlight*

Since the wave of regional economic integration in early 1990s, Europe and North America have always been leaders in global integration, while the Asia-Pacific region has been lagging behind. Since 21st century, along with the takeoff of regional economy, economic integration of Asia-Pacific region has accelerated sharply, gradually showing paralleling and crossing pattern of RTA advancement : steady progress of APEC, integration of ASEAN, ‘ASEAN China’, ‘ASEAN Japan’, ‘ASEAN Korea’ (3 ‘10+1’), ‘ASEAN, China, Japan and Korea’(‘10+3’), ‘ASEAN, China ,Japan ,South Korea , India, Australia and New Zealand’ (‘10+6’)etc. [1] According to WTO statistics, till June 15, 2012, the number of participation in RTA (which have been already in force) of major countries and regions of the Asia-Pacific region were as follows: Australia (8), Canada (7), Chile (19), China (10) Japan (13), South Korea (12), Mexico (16), New Zealand (9), Russia (7), Singapore (19) United States (13), ASEAN (5).In addition, there are a large number of RTA which are in the stage of negotiation and research.

Particularly, since the end of 2009, the regional economic cooperation in the Asia-Pacific region has become the focus of global world, attracting the attention of the major economies in the Asia-Pacific region. Firstly, high-profile intervention and promotion of United States of America made TPP (‘trans-Pacific strategic economic partnership agreement’) become the most eye-catching issue in the Asia-Pacific regional cooperation. From a strategic point of view, the United State’s joining in TPP fits its strategic goals in the Asia-Pacific region. TPP or will become the new competitive regional cooperation mechanism in the Asia-Pacific region, so as to promote the regional integration process dominated by the United States and the establishment of Asia-Pacific free trade area (FTAAP) , accelerate the realization of trade liberalization and investment facilitation proposed by the members of Asia-Pacific Economic Cooperation (APEC) . Therefore, the establishment and development of TPP will change the regional cooperation and pattern of the free trade in Asia-Pacific region. [2] Secondly, 10 ASEAN countries and 6 partner countries of the free trade area: China, Japan, South Korea, India, Australia and New Zealand officially launched negotiation on ‘regional comprehensive economic partnership’ (RCEP) on December 20, 2012. RCEP, first proposed by the ASEAN countries in recent years, which has been dominated by EU to implement regional economic integration, aims at integrating and optimizing FTA signed by EU with China, Japan, Korea and other countries so as to build a high-quality free trade area.. This not only functions as an important driving force to close the economic relations between ASEAN and the other six countries, enhance their cohesion, consolidate and develop the right to be heard of \ ASEAN in the Asia-Pacific regional cooperation, but also injects a strong driving

force into economic integration in East Asia. Thirdly, after a decade of hard work, China, Japan and South Korea announced the start of FTA negotiations\, which reflecting the new steps has been taken in the construction of the East Asia Free Trade Area. It can expand intra-regional market, promote the economic integration of the three countries to achieve the mutually benefit and win-win situation. On the other hand, it will have a far-reaching influence on promoting the Northeast Asian integration process and the patterns of economic of trade of Asia-Pacific even that of the global world.

*C. Contents of RTA cooperation are increasingly widespread in connotation and denotation and beyond the range of WTO*

The traditional RTA covers the scope with the liberalization of trade in goods as its core, mainly through elimination or reduction of tariff and non-tariff barriers, and later extending to the liberalization of trade in services. However, the new generation of RTA involved contents increasingly widespread in connotation and denotation. In addition to the above, it also includes the facilitation of trade and investment, promotion of trade and investment, intellectual property rights protection standards, environment protection standards, labor standards, rules of origin and trade dispute settlement mechanism. In addition, some agreements also include economic and technical cooperation as well as customs cooperation. Except the rules consistent with WTO, some contents have beyond that of WTO, which has been so-called ‘super WTO agreement’ (WTO-plus Agreement), or to say, requiring members to make more commitment than that of WTO. The ‘super WTO agreement’, on the basic principle of multilateral trading system, provides more free trade space between partner countries so as to realize mutual benefit.

*D. The RTA cooperation pattern becomes more and more complex, representing network development*

Under the background of rapid development of regional economic integration, since all countries hope to get huge economic benefits through signing FTA, various RTA has sprang up around the world , forming a huge FTA network. Till now, in this network, besides Mongolia, almost all WTO members have participated in at least one or more FTA. [3]In the development process of global FTA network, when a country signs FTA with several countries, the country is just like an ‘hub’, those countries signing with it are like ‘spokes’, which forming the structure of ‘hub and spoke’ (H&S).Country in the position of hub becomes the hub country in H&S system, not only forming self-centered FTA network, but also becoming a key node in the global FTA network. Since most countries participate in more than one FTA, there appears a lot of overlapping FTA, that is to say a country can be both a hub country and a spoke country, and thereby emerge the overlapping and crossing network which is called complex ‘Spaghetti bowl effect’ 1 . ‘Spaghetti bowl effect’ makes RTA cooperation structure more complex, and may even increase trade and investment costs of the economies in this region when participating in RTA and reduce regional

marketing share. Take United States as an example, in the past five years, although the total exports to the Asia-Pacific region increased by 62%, its share of exports declined by about 3%.<sup>1</sup>

### 3. Characteristics of China's implementation of FTA strategy

In order to actively respond to the climax set off by regional economic integration on a global scale, and also further enhance the breadth and depth of opening up, China will continue to increase the intensity of regional economic cooperation through signing multilateral and bilateral FTA with neighboring countries and announced officially the 'implementation of free trade area strategy' in October 2007 so as to lift participate in regional economic integration to a new national strategic height. Till December 2007, China has signed 10 FTA, namely China - ASEAN, China - Chile, China - Pakistan, China - New Zealand, China - Singapore, China - Peru, China - Costa Rica FTA, CEPA. The Chinese authorities have launched 7 negotiations on free trade area, and have completed 2 official joint researches on free trade area.

Although the practice of free trade area in China started late, it developed rapidly and advanced from two levels of breadth and depth, showing obvious characteristics as follows:

*A. The main object of FTA is neighboring countries, and is gradually advancing to Latin America, Africa, and Europe, radiating the global world*

Depending on being the 1st country to implement FTA (China - ASEAN FTA), China accelerates the establishment of free trade area platform with surrounding countries. 6 countries and regions of 10 FTA partnerships which have signed with China were its neighbouring countries or regions, concentrating in the Asia-Pacific region, which shows that the Asia-Pacific region is increasingly becoming one of the most closest regions with the China's economy and is consistent with the fact that trade liberalization of Asia-Pacific region has become a new highlight in the development of regional economic integration. Meanwhile, China is negotiating with the countries of Gulf Cooperation Council (GCC), South Korea, Japan on FTA, and completed official joint study on FTA with India, South Korea. Such processes show that the current focus of Chinese FTA strategy is in the neighbouring countries. On the other hand, China chose to expand to some important countries such as Latin America, Africa, and Europe, and gradually form the global free trade network of China. This reflects China's overall layout established when participation in regional economic cooperation, 'stabilize surrounding environment, expand to global world' as well as the guiding principles 'comprehensive planning, highlight focus'.

*B. The main object of FTA is neighboring countries, and is gradually advancing to Latin America, Africa, and Europe, radiating the global world*

In the countries signing FTA with China, Chile, Pakistan, New Zealand, Singapore, Peru, Costa Rica are small economies. The bilateral negotiations pressure with such countries is relatively low, so it is easier for China to adopt a flexible strategy and make a breakthrough to agreements. Meanwhile, the impact of bilateral economic cooperation with such small economies to the domestic industry is relatively limited. On this basis, China is or will negotiate with large economies such as Australia, South Korea, Japan, India, which showing China's consistent principle in FTA, 'easy things first, step-by-step'.

*C. FTA's fields are continue to expand, and its content is deepening continually*

Along with the increasing number of negotiation signed and yet to be signed, the cooperation of China is deepening and widening continually. For example, since China 's signing with ASEAN the' Comprehensive Economic Cooperation Framework Agreement ' in 2002, the two sides signed trade in goods agreement, service trade agreement and investment agreement in 2004, 2007, 2009, with the cooperative field ranging from agricultural products to the general trade in goods ,service and investment. Viewing from China's FTA with New Zealand, Singapore, Peru, Costa Rica, bilateral cooperation is further deepening ,extending to many areas such as the movement of natural persons, intellectual property, trade remedies, rules of origin, customs procedures, technical barriers to trade and sanitary and phytosanitary measures, etc. Some FTA arranged 'early harvest', which not only help members enjoy the benefits of FTA, but also help members to build confidence

*D. Complementary resources become an important factor for China to choose FTA object*

Currently, limited resources have become the factors restricting the development of China's economy, while the expansion of the scale of resource products imported to some extent has eased the pressure on resources and also provide a guarantee for the sustainable development of China's economy. The countries signing FTA with China are the countries with rich natural resources, such as ASEAN 's forestry resources, Chile 's copper mines, New Zealand's livestock and forestry resources, Russia's oil and natural gas, Australia's iron ore and agricultural resources, GCC 's oil and South Africa's iron ore. According to statistics, China's imported copper mine sand from Chile in 2011, which accounting 33% of total imports, and iron ore from Australia, which accounting 43% of the total imports. This feature reflected China's target to practice FTA. That is to say through the signing of FTA with countries boasting rich resource, alleviate the resource constraints in the development process of domestic economy by the use of foreign resources.

<sup>1</sup> USTR, "Economic Opportunities and the TPP", [http:// www.ustr.gov/about-us/press-office/favt-sheets/2009](http://www.ustr.gov/about-us/press-office/favt-sheets/2009)

#### 4. Strategic Choice of China's Participation in FTA

##### A. Formulate a scientific, complete and clear FTA strategic planning, and further promote China's FTA strategy

Firstly, we should consolidate the fruits of 10 free trade area, strengthen economic cooperation with these 10 free trade zone in breadth and depth. Strategically, Hong Kong, China, Macau, Taiwan can be taken as the core area of China Free Trade Area, because these three areas belong to China in sovereignty which implement independent economic and trade policies as separate customs territories and are independent members in the International Trade Organization. Such unique political and economic relations provide favorable conditions for the mainland of China to further promote free trade area strategy; Secondly, we should speed up the negotiation process with the southern African on Customs Union, Gulf Cooperation Council, Australia, Norway, Switzerland, Iceland Free Trade Area, especially strive for an early bilateral FTA with those countries boasting rich strategic resource, such as Gulf cooperation Council(GCC) and Australia so as to alleviate China's resource constraints and contradictions caused by rapid economic development; Finally, we should positively launch feasible joint study with more countries, especially the emerging countries with large trade potential. The BRIC countries of Brazil, Russia, South and Africa should become the aim for China.

##### B. Build a global FTA network so as to ensure the hub position in the network

Firstly, we should closely track and pay attention to the bilateral free trade strategic action of the 3 hub countries, Europe, the United States and Japan, and also take measures positively. In recent years with the rapid rise of the Chinese economy, Europe, the United States and Japan, especially the United States and Japan take China as a major competitor in leading liberalization of global trade and investment. They always co-exist and constrain with China. Therefore, China should always pay attention to bilateral free trade action of Europe and the United States, further study FTA constraint on China and take appropriate countermeasures. Meanwhile, China should take a positive attitude to negotiate with Europe, America and Japan, and strive to achieve a breakthrough and sign bilateral FTA in the near future; Secondly, the current global FTA has entered a flourishing period. New regional trade arrangements not only emerge in developed countries but also in developing countries .Chile, Mexico, ASEAN and other developing countries have become leaders in global FTA network development. At present, China is an important trading partner of these countries; such countries play pivotal roles in the process of China's establishment as a hub country.

Therefore, it is necessary not only to understand the movements of those spoke countries, speed up with them in breadth and depth, but also learn the successful experience and actively build FTA network with China itself as a hub country so as to seize driving position in ever-changing world trade pattern.

##### C. Pay great attention to the rapid development of the economic integration in the Asia-Pacific region ; take the establishment of China, Japan and South Korea free trade area as a recent breakthrough.

China should pay great attention to and track the TPP negotiations issues and developments, and strengthen self-construction and take expanding the space of Asia-Pacific regional economic cooperation as one of the main breakthroughs to TPP. At the same time, China should take China-Japan-ROK free trade area construction as the focus of the recent breakthrough in order to play core role in the Asia-Pacific economic integration. The construction of China-Japan-ROK free trade area is an important part of China's strategy to the participation in global regional economic integration. Under the current background of the United States' recommendation of TPP, China should attach great importance to the dynamic economic integration in the Asia-Pacific region and the possible impact caused by the game between great power and understand from strategic latitude that China-Japan-ROK free trade area is a 'win-win' situation. The enormous macroscopically economic fruits and regional influence brought by construction of China-Japan-ROK free trade area will not only ensure that China's foreign economic benefits will not be affected for failing to join the TPP, but also guarantee that initiative of China to implement the strategy of regional economic cooperation will not be intervened by U.S. strategic intentions, and also assure China's status and influence in the future negotiations of the free trade area of the Asia-Pacific (FTAAP). [5]Therefore, China should promote '10 +3', '10 +6', '10 +8' and the process of the free trade area of the Asia-Pacific (FTAAP) based on this step by step in order to realize the ultimate economic integration in the Asia-Pacific region.

#### References

- [1] FANG Xiao-jun and SUN Yu, "Analysis on the Asia-Pacific Economic Integration Process in New Era," *International trade*, p. 54, April 2012.
- [2] LIU Zhong-wei and SHEN Jia-wen, "The Review of Research Frontier and Frameworks of Trans-Pacific Partnership Agreement (TPP)," *Journal of Contemporary Asia-Pacific Studies*, p.37, January 2012.
- [3] HE Jian and SUN Yu-hong, "The Effects of the Global FTA Networks Development on Different Countries," *China Soft Science*, p.57, May 2008.
- [4] YU Xiao-yan, "On the Strategy for China to Promote the Construction the China- Japan- ROK Free Trade Area," *Nankai Journal (Philosophy, Literature and Social Science Edition)*, p.23, April 2011.