

## **BOON OR BANE: ASSESSING THE ENVIRONMENT OF CHINA'S FREE TRADE AGREEMENTS WITH OTHER NATIONS**

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**ABSTRACT:** *In recent years, China has drawn a lot of attention, not only due to its rapid economic development and the WTO accession, but also due to its active attitude towards regional economic development. China, as the world's leading producer, also looks for multiple markets to decrease the chances of any major setback of economy in future. In these lines, China has recently signed Free Trade Agreements with different nations. This study explores the impact of China's Free Trade Agreement with other countries. APEC is the first step for this initiative, followed by bilateral trade agreements or regional trade agreements with other economies, mostly neighboring economies. China, a developing country, whose experience, would provide some insights for free trade agreements among other developing economies. This paper also explores the present situation and motives behind China's FTA engagement through analysis of last five years and bilateral trade of China with other countries and FTA partners. A thorough analysis suggests that China has gained real benefits from FTAs which have helped China boost its exports to the world. This paper further explains that as a dominating partner in these agreements, China has obtained substantial advantage after signing these agreements. This study also suggests that China can establish win-win relationships in its targeted market by providing mutual benefits to its counterparts.*

**KEYWORDS:** China, Free Trade Agreements, International Trade, Bilateral Trade Agreements

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## **INTRODUCTION**

Regional trade agreements (RTAs) have become increasingly prevalent since the early 1990s; the world witnessed a surge of RTAs. As of January 10<sup>th</sup> 2013, some 546 notifications of RTAs had been received by the GATT/WTO. Of these, 354 were in force. RTAs are reciprocal trade agreements among two or more countries. East Asia, as the most dynamic region in the world economy, still lags behind the rest of the world in terms of regionalism. But coming into the 2000s, many East Asian economies including China have been breaching with a strong history of multilateral activities, discussing and implementing regional preferential arrangements with other nations. FTA process in East Asia has been growing gradually since late 1990s. China's international trade volume has developed swiftly. China's total import and export worth grew to US\$ 4,160.42 billion in 2013 from more US\$ 20.60 billion in 1978. In 35 years China's foreign trade value has improved 106-fold and posted and regular yearly expansion rate of 16.3 percent.

Consequently, as Chinese economy opens up, the degree of China's economic reliance upon international trade has increased up to 50 percent. China in particular, has gained a large footprint in international trade and investment flows. Today, it is the world's largest exporting nation World Fact Book (2010)<sup>1</sup>. The increasing competitiveness of China's exports also has manifested itself in the noticeable changes in China's balance of International trade. Even though China's fast economic growth has helped to boost its import volumes, China's international trade record remains in a favorable balance since 1994. Many researchers feel that China is repeating the histories of the United States, Germany and Japan, featuring "a favorable trade balance for years during a period of time when the manufacturing industry's competitiveness is becoming stronger at a fast pace"; researchers also note that China will maintain a favorable trade balance for the foreseeable future.



**Figure: 1. Leading Merchandise Trader of 2012, International Trade Statistics 2013 by World Trade Organization**

According to (International Trade Statistics) ITS (2013)<sup>2</sup> United States was the World's top trader in merchandise, with imports/exports US\$ 3,881 billion in 2012 and its trade deficit amounts to US\$790 billion, 4.9 percent of its GDP. China followed narrowly behind the US with merchandise trade accounted for US\$ 3,867 billion in 2012 and China's trade surplus was US\$ 230 billion, accounted for 2.8 percent of its GDP. China's emergence as a major player in world trade is a significant development in the global trade system. China introduced its trade reform policy at the end of the 1970s when China was ranked 32nd in global trade, due to China's "Import Substitution" strategy Long, G. (2010)<sup>3</sup>. Three decades later, China became the world's leading exporter. China has become the world's largest trading nation in goods, ending the United States' post-war authority international trade dominance, according to official figures. China's customs management mentioned the collective total for imports and exports in Chinese goods reached US \$4.16 trillion in 2013, exceeding the US \$3.90 trillion trade in goods registered by the US Commerce Department. These signed FTAs will continue to have a huge impact on China and Asia's development in global sourcing and the foreign investments related to foreign trade. According to Asia Regional Integration Center, 261 Free Trade Agreements engaged which are includes 113 FTAs are in effect. In the remainder, 22 FTAs are signed but not yet in effect, 62 FTAs are in the process of negotiations, 13 FTAs are signed and 51 FTAs are proposed/under

consultation and studied by some of the 48 Asian Development Bank–members countries/economies. Being the world factory, China has also increased rapidly as a source of merchandise imports and exports for FTA partners. SEAN was the first to launch the ASEAN economic community plan, with the aim of forming an integrated market and a productive base by the end of 2020 (ASEAN 2004), although ASEAN free trade area has been operational with accelerated pace since 1992. China has joined the WTO in December 11<sup>th</sup> 2001. China has reached high number of FTAs with other partners especially with neighboring countries after the joining of WTO. In early 2014 China's FTAs with other nations are 27 in total which includes 6 FTAs are proposed and under-negotiations, 12 are signed and in effect. According to ministry of commerce of China, FTA partners of China are ASEAN, Pakistan, Chile, New Zealand, Peru, Hong Kong, Macau, Costa Rica, Iceland, Australia and Switzerland. With no end in sight for the decade-long Doha Round trade talks, China like other major Asian economies is deepening its implementing a multi-track trade policy of multilateralism and regionalism. The benefits of China using FTAs used as a tool to further multilateral liberalization are apparent. Under this premise, a focus on further integration beyond goods in FTAs is the key to success.

## LITERATURE REVIEWED

A wide range of theoretical articles, working papers have studied the incentive to calculate China's gains from FTAs. Aghion, Antras and Helpman (2007)<sup>4</sup> use cooperative game theory to analyze FTA formation. Here we will analyze the China's FTAs with other nations to answer the following question: whether or not FTAs are beneficial to China? China has developed a well thought-out position when entering free trade agreements – a policy of allowing dutiable and tax diminution on certain products and services as one of the main cornerstones. This policy has designed the nation to be the world's top manufacturing center over most recent years. Thakkar and Sands (2011)<sup>5</sup> in their working paper broadly mentioned that the regional trade agreements such as the North American Free Trade Agreement (NAFTA) were intended to ease and ultimately reduce barriers to allow businesses to flourish in North America. But current economic conditions are having a negative effect on export, import, and many of the economic indices. By using the augmented gravity model in the tradition of Rose (2004)<sup>6</sup>, the paper shows that there is significant potential for the expansion of bilateral trade of China and other countries as a result of the free trade agreement. Rose (2004) also analyzed bilateral trade flows between the two countries in terms of a trade specialization index and the Grubel-Lloyd index of intra-industry trade. Samina and Reema (2007)<sup>7</sup> presented paper which attempts to analyze the pros and cons of forming a Free Trade Agreements with China given the size, formation and trade patterns of Pakistan's existing economy. Kawai and Wignajara (2008)<sup>8</sup> mentioned that free trade agreements are fruitful for both trading partners. Zhang (2010)<sup>9</sup> said that FTAs may also prompt diversion of trade and investment away from countries with less favorable business conditions. Scott and Jeffrey (2006)<sup>10</sup> proved that in their working paper using gravity model, Free Trade Agreements actually increase membership. They also found that, on average, an FTA approximately doubles both members' bilateral trade after 10 years.

As Saqib's (2014)<sup>11</sup> study explores the impact of one such Free Trade Agreement between China and ASEAN countries. Taking a qualitative and descriptive approach, this paper studies the effects of this agreement on both sides. The analysis indicates that both sides received substantial benefits

in this kind of agreements. As a result, China needs to continue working on such agreements not only with ASEAN but also with other neighboring countries to develop sustainable markets for future trades.

## **METHODOLOGY**

To evaluate China's FTAs with other nations and their trade performances (merchandise imports and exports) data from 2009 to 2013 has been used to analyze China's FTAs with other nations. The trade data utilized in this study is at HS-2 digit level for the calculation of overall trade performances under concession-wise multiple tracks offered under the FTA, the top ranked products from the earner's and loser's end, and calculation of China's export competitiveness with FTA partners. The main data source used for current study is from trade-map along with certain other additional commerce and trade data sources. The analysis conducted in this paper majorly comprise of shares analysis and calculation of certain trade indicators and indices.

### **China's Policy and Strategy for FTAs**

According to WTO policy review China continues to expand its bilateral and regional free-trade agreements (FTAs). Since 2009, new FTAs with Costa Rica and Chinese Taipei entered into force. Auxiliary agreements were signed with ASEAN (Association of Southeast Asian Nations) countries, Hong Kong SAR (Special Administrative Regions) and Macao SAR. Chinese authorities state that FTAs are a set off to the multilateral trading system and are used to assist import growth. There were few changes to China's policies on imports and on inward foreign investment in the period under evaluation. Applied MFN tariffs linger close to China's bound charge, and the simple average applied MFN tariff is untouched, at 9.6%. China uses various non-tariff measures, such as import and export licensing and state trading to assign the allocation of resources. China actively promotes the regional economic integration of East Asia, which depends deeply on external neighboring economies Song and Yaun (2012)<sup>12</sup>. China's foreign trade agenda is to actively push its own FTAs. Chinese government's policy is to accelerate the development of free trade areas with China's major trading partners in Asia. There is an old Chinese proverb: "Close neighbors are better than distant relatives." China's close geographical proximity with other Asian countries is a vital guarantee for each other's economic stability and development and cooperating with countries far away might not be beneficial for these countries own economic development. Li Wei (2012)<sup>13</sup>.

### **Motivations behind China's FTA Engagements**

In the early 1990s, China was not very enthusiastic about regional trade commitments of a more formal or controlled nature, partially because it was not yet ready for rapid trade and investment liberalization at home. The strong objection of the United States to formation of any East Asian economic grouping (such as the East Asia Economic Caucus proposed by Malaysia) also revealed the political barrier of any attempt to take new regional economic initiatives. China's participation in the Asia-Pacific Economic Cooperation (APEC) was cautious as it insisted that APEC should remain as a "forum." However, at the dawn of the 21st century, China's attitude towards regional cooperation has changed significantly Wang (2004)<sup>14</sup>. First of all, the WTO accession, on one hand, has forced China to make many commitments in terms of market liberalization; and on the other hand, it integrated China deeply with the World economy. Secondly, since China's rapid

emergence has raised concerns in neighboring countries, China has proved itself as a responsible and positive partner in keeping prosperity and stability in the region. Peaceful rise remains one of China's important objectives of its foreign diplomacy.

## ANALYSIS OF TRADE COMPETITIVENESS

### China's Overall Trade Analysis

#### Geographical Composition of China's Import and Export

China's leading exports destinations are Hong Kong, USA and Japan, which absorb 41% of China's total exports in year 2013. The exports commodities to these countries mainly consist of electronics, electronic equipment of Chapter 85, machinery of chapter 84 and article of apparel, accessories, knit of chapter 61. In recent years, the shares of USA and Japan in China's exports have experienced a decline and it also shows the variations in Hong Kong imports from China. US was the leading partner of China's export with share of 17.2 % amounted US \$ 352 billion in 2012 followed by Hong Kong and Japan with share of 15.8% or US \$ 323 and 7.4% or US \$ 151 billion respectively in 2012. Subsequently in 2013 exports to Hong Kong, surpassing that to the United States, reached US\$ 384.52 billion with share of 17.41%.

Importer	2009	2010	2011	2012	2013
World	1201.65	1577.76	1898.39	2048.78	2210.52
Hong Kong, China	166.22	218.30	267.98	323.45	384.85
United States of America	221.30	283.78	325.01	352.44	369.11
Japan	97.91	121.04	148.27	151.63	150.39
Korea, Republic of	53.68	68.77	82.92	87.67	91.20
Germany	49.92	68.05	76.40	69.21	67.368
Netherlands	36.68	49.70	59.50	58.91	60.33

**Table: 1. List of importing markets for a product exported by China (values in US\$ Billions)**  
**Source: Author's own calculations based on ITC & UN COMTRADE statistics**

Imports from Japan and Korea account for 18% of China's total imports followed by imports from China re-import<sup>1</sup>, Chinese Taipei, US and other countries as shown in Table 2. In 2013 Korea surpassed Japan and became the top importer with share of 9.4% .The two leading countries Korea and Japan mainly supply products in the categories of machinery and electronics, electronic equipment and mineral fuel, oils and so on to the Chinese market. The 6 countries in table 4 account for more than 47% of China's total imports. China has been the world's fastest-growing major economy for many years. It becomes the world's second largest economy, after the US, the biggest exporter, and the succeeding biggest importer of goods. China's overall trade was close to US\$4.2 trillion in 2013, with exports and imports of US\$ 2.2 trillion and US\$ 1.9 trillion, respectively according to International Monetary Fund's data.

<sup>1</sup> Trade between China and China can be explained by the re-import activity. Re-imports refer to imports of goods in the same state as previously exported. The country of origin of the goods is in this case the compiling country itself, which is reflected as a country's trade with itself.



Exporter	2009	2010	2011	2012	2013
World	1005.56	1396	1743.39	1818.19	1949.93
Korea, Republic of	102.55	138.34	162.72	168.73	183.02
Japan	130.94	176.74	194.57	177.83	162.38
China	86.41	106.87	122.61	142.93	157.49
Taipei, Chinese	85.72	115.73	124.91	132.2	156.59
United States of America	77.76	102.73	123.12	133.77	153.61
Australia	39.44	61.11	82.67	84.57	98.59

**Table: 2. List of supplying markets for a product imported by China (values in US\$ Billions)**  
**Source: Author's own calculations based on ITC & UN COMTRADE statistics**

### Product composition of China's Import and Export

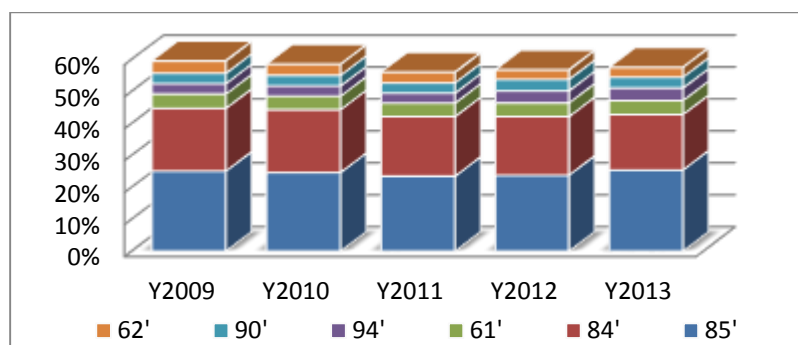
China's emergence as a major player in world trade is a significant development in the global trade system. China revised its trade improvement policy at the end of the 1970s when China ranked 32nd among global trade nations, due to China's "Import Substitution" strategy Long.G, (2010)<sup>15</sup>. Three decades later, China became the world's prime exporter. China has become the world's biggest trading nation in goods, ending the United States' post-war international trade dominance, according to official figures. China had contributed 11.34% in world exports in 2012 based on the China's ministry of commerce's data. China's total exports in 2013 were valued at US\$ 2210.52 billion compared to US\$ 1578.85 billion in 2013. Similarly, China's Imports in 2013 were valued at US\$ 1949.93 billion rising from just US\$ 412.75 billion in 2003. According to Kowalski (2008)<sup>16</sup>, more than 50% of China's exports come from final processing and assembly of intermediate goods imported from its Asian neighbors. China specializes in the export of Electronics, electronic equipment and Machinery, nuclear reactors, boilers and such. Author used top 6 products for analyses from year 2009 to 2013. The share of chapter 85 and chapter 84 have been rising persistently, valued at US\$ 945 billion in China's total exports and currently account for 42.75% of total exports.

HS-code	Product Label Top Ten Imported Items	2009	2010	2011	2012	2013
Total	All Products	1201.65	1577.76	1898.39	2048.78	2210.52
'85	Electrical, electronic equipment	301.09	388.76	445.76	487.32	561.70
'84	Machinery, nuclear reactors, boilers, etc	236	309.81	353.76	375.90	383.31
'61	Articles of apparel, accessories, knit or crochet	53.76	66.71	80.16	87.05	96.81
'94	Furniture, lighting, signs, prefabricated buildings	38.94	50.58	59.34	77.89	86.44
'90	Optical, photo, technical, medical, etc apparatus	38.91	52.11	60.68	72.63	74.69
'62	Articles of apparel, accessories, not knit or crochet	46.72	54.36	63.07	61.22	68.27

**Table: 3. List of Products Exported by China from World (values in US\$ Billions)**

**Source: Author's own calculations based on ITC & UN COMTRADE statistics**

(Table 3) shows that chapter 61 and chapter 94 has rapidly increased from 2009 to 2013 from US\$ 53.76 billion to US\$ 96.81 billion and from US\$ 38.94 billion to US\$ 86.44 billion respectively. China's others major export products are optical, photo, technical, medical, and apparatus of chapter 90 and Articles of apparel, accessories, not knit or crochet of chapter 62 with share of 3.98% and 3.31% respectively in 2013 (see figure 2).

**Figure 2. Percentage share of Products Exported by China from World**

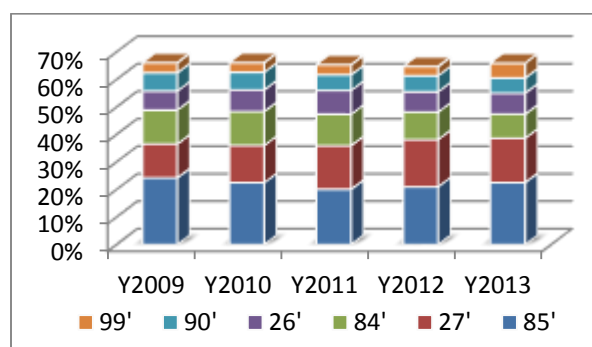
**Source: Author's own calculations based on ITC & UN COMTRADE statistics**

China's total imports in 2013 were valued at US\$ 1949.93 billion rising from just US\$ 412.23 billion in 2003. As Figure 3 depicts, China's major Import products includes of Electronics, electronic equipment of Chapter 85, mineral fuel of Chapter 27, and Machinery nuclear reactors of chapter 84, which had a combined share of 48% in total imports for the year 2013. Product imports from the world sharply increasing each year.

HS-code	Product Label Top Ten Imported Items	2009	2010	2011	2012	2013
Total	All Products	1005.56	1396	1743.39	1818.19	1949.93
'85	Electrical, electronic equipment	243.75	314.28	350.95	381.52	439.31
'27	Mineral fuels, oils, distillation products, etc	123.97	188.96	275.76	313.07	314.70
'84	Machinery, nuclear reactors, boilers, etc	123.71	172.15	199.31	181.96	170.67
'26	Ores, slag and ash	69.59	109.39	150.65	133.73	148.45
'90	Optical, photo, technical, medical, etc apparatus	67.00	89.92	99.14	106.15	107.74
'99	Commodities not elsewhere specified	3.30	18.43	49.50	68.77	104.73

**Table 4. List of Products imported by China from World (values in US\$ Billions)**

**Source: Author's own calculations based on ITC & UN COMTRADE statistics**



**Figure: 3. Percentage share of Products Imported by China from World**

Source: Author's own calculations based on ITC & UN COMTRADE statistics

### China's FTAs Analysis

#### China's tariff profile

China is enthusiastically engaging itself in bilateral/regional free-trade agreements, while preferential margins provided by China are still minimal and trade with FTA partners only accounts for a small share of its total trade. China's average applied MFN tariff was 9.6% in 2013, slightly lower than in 2007 (9.7%). Bound rates are close to the applied rates, giving the tariff a high degree of predictability. However, the tariff could be complex: for example, the applied MFN tariff contains 60 different ad valorem rates. An extensive variation in applied tariffs can be seen in case of Agriculture (15.6%) and Non-Agriculture (8.7%) sectors in 2013<sup>2</sup>.

2013	Tariff Applied	Total	Agriculture	Non-Agri.
China	Simple Avg. MFN Applied	9.6	15.6	8.7
	Duty Free	7.5	5.9	7.7
	Non ad Valoren duties	0.5	0.5	0.5
	Duties > 15%	14.6	34.6	11.6

**Table: 5. China's tariff profile 2013**

Source: WTO tariff profile 2013

#### Product and Geographical Composition of China's Import and Export with FTA Partners

China's major FTA partners are Association of Southeast Asian Nations (ASEAN) and Asia-Pacific Trade Agreement (APTA) which covers 10.23%, or US\$ 199.5 billion, and 18.4% or US\$ 359.4 billion of share in China's total imports respectively. ASEAN and APTA account for and 11.04%, or US\$ 244.1 billion and 7%. Or US\$ 154.5 billion of China's exports in 2013 respectively. China ASEAN FTA was signed on July 1<sup>st</sup> 2005 and China-APTA FTA was signed on January 17<sup>th</sup> 1976. It is the oldest preferential trade agreement between developing countries in the Asia-Pacific region. East Asian economies and from other world economies, especially Korea, Japan and Australia have been actively involved in bilateral negotiations. Now China, Thailand, and Malaysia are also trying to keep pace of the trend. Thailand has reached out to launch separate negotiations with China. China has conducted a joint study with Korea on the

<sup>2</sup> See World Trade Organization, World Tariff Profile 2013; [http://www.wto.org/english/res\\_e/booksp\\_e/tariff\\_profiles13\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/tariff_profiles13_e.pdf)



possibility and feasibility of an FTA. They also set up a joint task force to study how to encourage closer economic relationship with Japan. Malaysia, in an important shift in policy, has started talks with Japan as well. East Asia has seen a network of FTAs emerging, which represents a new economic trend of economic integration and regionalism across Asia. Pakistan and China signed a bilateral Free Trade Agreement (FTA) in 2006 which came into effect in 2007. The agreement was separated in two parts with Phase I ending in December of 2012 and negotiations for Phase II beginning in July of 2013. The agreement targeted bilateral trade of 20 billion dollars between Pakistan and China at the end of Phase II. Total trade of Pakistan and China under FTA rapidly increased from US\$ 3.5 in 2006 to US\$ 14.3 billion in 2013. China was second largest importing partner of Pakistan with share of 16.17% of Pakistan's total imports in 2013.

China's imports from New Zealand have increased. In 2013 total exports from New Zealand to China accounts for US\$ 8.2 billion compare to 2009's accounts US\$ 2.5 billion. Top products imports from New Zealand chapter 04, (Dairy products, eggs, honey, edible animal product and etc.) accounts for US\$ 2.04 billion in 2013. China's exports to New Zealand remains slow, compared to imports. Total imports accounts for US\$ 2 billion in 2009 and US\$4.1 billion in 2013.

China's Partner	FTA	China's Imports in US\$ Billion					China's Exports in US\$ Billion				
		2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
<b>Total</b>		<b>1005.56</b>	<b>1396</b>	<b>1743.39</b>	<b>1818.19</b>	<b>1949.93</b>	<b>1201.65</b>	<b>1577.76</b>	<b>1898.39</b>	<b>2048.78</b>	<b>2210.52</b>
Total FTAs <sup>3</sup>		338.9	544.8	667.6	697.6	775.8	402.5	529.5	651	751.1	863.3
1	ASEAN	106.7	154.6	193	196.8	199.5	106.3	138.1	170	204.4	244.1
2	APTA	203.3	267	310.1	331.8	359.4	89.7	118.9	144.7	147.3	154.5
3	Pakistan	1.3	1.7	2.1	3.1	3.2	5.5	6.9	8.4	9.2	11
4	New Zealand	2.5	3.7	4.9	5.8	8.2	2	2.7	3.7	3.8	4.1
5	Australia	39.4	61.1	82.6	84.6	98.6	20.6	27.2	33.9	37.7	37.5
6	Chile	12.8	17.9	20.5	20.6	20.8	4.9	8	10.8	12.6	13.1
7	Costa Rica	2.6	3.1	3.8	5.2	4.8	0.53	0.68	0.88	0.90	0.93
8	Hong Kong	8.7	12.2	15.4	17.9	16.2	166.2	218.3	267.9	323.6	385
9	Ice Land	0.033	0.041	0.075	0.088	0.075	0.054	0.071	0.076	0.095	0.15
10	Macao	0.25	0.12	0.16	0.27	0.4	1.9	2.14	2.35	2.70	3.2
11	Peru	4.3	6.3	7.8	8.4	8.5	2.1	3.5	4.6	5.3	6.2
12	Switzerland	7	17	27.2	23	56.1	2.7	3	3.7	3.5	3.5

**Table: 6. China's import and export from China's FTA partners (values in US\$ Billions)**

**Source: Author's own calculations based on ITC & UN COMTRADE statistics**

China and Australia signed their FTA in 2005. After signing the FTA changes quickly happened in China's imports from Australia. It just rose up from US\$ 39.4 billion from in 2009 to US\$98.6 in 2013. China's exports to Australia also increased from US\$ 20.6 billion in 2009 to US\$ 37.5

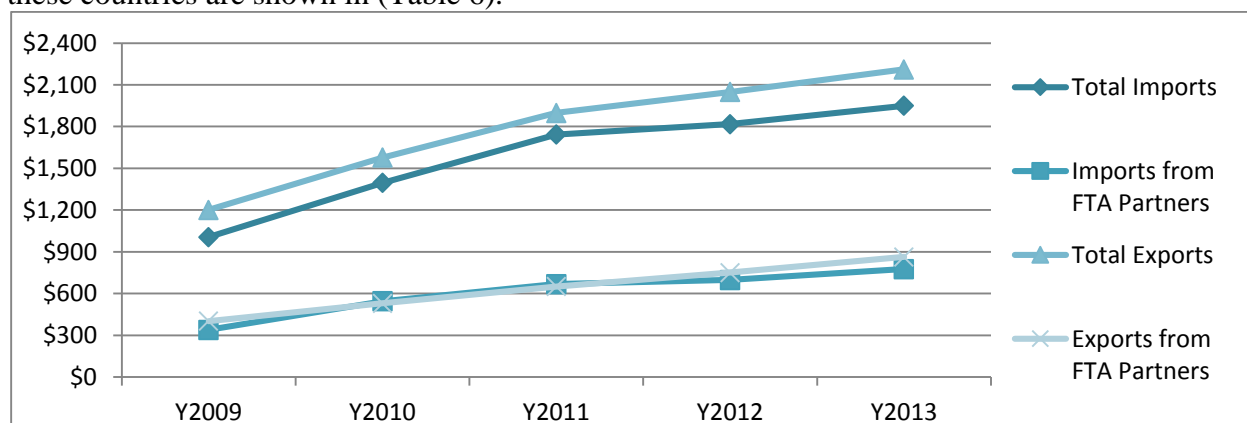
<sup>3</sup> China's Total imports and exports with FTA Partners

billion in 2013. Chapter 26 (Ores, Slag and ash) covers 62% or US\$ 60.6 billion in China's total imports from Australia. China stands as top importer for Australia in 2013.

China signed a FTA with Chile in 2006. Since then both nations have increased their bilateral trade with high priorities. China's total imports from Chile under FTA were US\$20.8 billion and China's Exports to Chile were US\$ 13.1 billion in year 2013. The top import and exports products include chapter 74 (Copper and articles thereof), accounted for 50% or US\$ 10.2 billion and chapter 85 (Electrical, electronic equipment) accounted for US\$ 1.8 billion in 2013.

The Hong Kong Special Administrative Region (SAR) government and the Chinese central government signed the Closer Economic Partnership Arrangement (CEPA) on June 29, 2003, which came into effect on January 1, 2004. According to CEPA, the mainland not only opened up its goods market, but also has opened up its service sector to Hong Kong, CEPA is beneficial to SAR. CEPA accounts for 85% of Hong Kong's GDP. Hong Kong is eager to fully participate in the Mainland's huge emerging service market. China and Hong Kong (HK) has long history of multilateral trade. HK is the top partner of China's exports among FTA partners. Hong Kong's import accounts for 16.2% or US\$385 billion of China's total exports to the world. However, China's imports from HK are only US\$ 16.2 billion in 2013 which is lower comparing to the year before. Top export product of China to HK include chapter85 (Electronics, electronic equipment) with 48.3% or US\$186 billion of China's exports in 2013.

China also signed FTA with Costa Rica, Ice Land and Macao. Since then the trade between these nations and territory rapidly increased but not at a very impressive level. Imports and exports from these countries are shown in (Table 6).

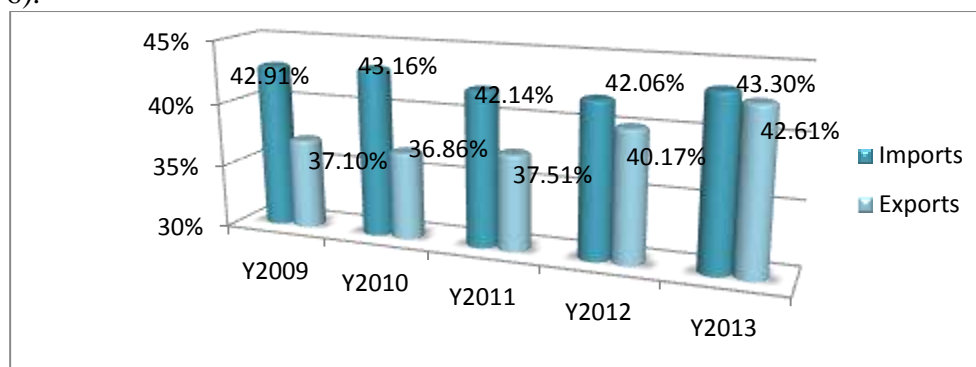


**Figure: 4. China's Imports and Exports from FTA Partners and Total from World**

In 2010 China and Peru agreed to sign FTA to boost their bilateral trade. Since then the trade between two countries have doubled. China's imports from and exports to Peru were US\$ 8.5 billion and US\$ 6.2 billion respectively in 2013.

Last year Switzerland and China reached a bilateral trade agreement. After the FTA signing, China's imports from Switzerland in 2013 astonishingly doubled from the 2012's level. China's total imports from Switzerland was US\$ 56.1 billion in 2013 increased significantly from US\$ 23 billion in 2012 and US\$ 27.2 billion in 2011. Chapter 99(HS code) covers more than 82% or

US\$ 46.3 billion of total imports of China from Switzerland in 2013. China's exports to Switzerland remains at the same level in recent years, accounted for US\$ 3.5 billion. As in (Table 6).



**Figure: 5. Percentage shares China's total Import and Exports with all FTA partners**

**Source: Author's own calculations based on ITC & UN COMTRADE statistics**

(Figure 6) demonstrates China's exports to the FTA partners rapidly increase year over year and imports remain nearly unchanged. The growth in exports proves that China slowly and steadily benefits from those FTAs that will also lead to increasing balance in trade and promote the gains from trade.

## CONCLUSION

China's FTA policy helps it gain better access to the world market. Although China entered the WTO in December 2001, the stagnation of WTO negotiations and the prevalence of regionalism in the rest of the world made China aware of the importance of regional trade agreements. China is also made aware of regional trade agreement as a necessary alternative to the multilateral trading system in pursuit of a more liberalized trading environment. On one hand, an FTA is an efficient device to ward off future protectionist pressures from its trading partners and to manage trade tensions with them in an orderly manner. China's position in the world trade system has rapidly improved with the fast growth in total value of China's foreign trade. China has quickly moved up on the list of the world trading powers to become the biggest exporter and the 2<sup>nd</sup> biggest importer, up from 32<sup>nd</sup> place in 1978. These figures show that with the FTAs in place, China's overall trade balance is improving and China gains tremendously from these FTAs. WTO's statistics show that in 2013 China's export value was 10.6 percent of the World's total and its import value was 7.3 percent of the World's total. China will take a pragmatic position and attitude towards cooperation with other countries. However, An FTA could present some challenges to China. China used to be an international price-taker in the world market and a rule-taker in the world economy. China has always concerned about issues such as how to integrate into the world economy, how to respond to the changes in the world economy and so on. Rarely has it been concerned about the impacts of its economic policies on the world economy. The situation has changed in the past 10 years. The echoes of the threats of China's rising are heard in other countries once and again, though these countries have benefited greatly from China's growth. The international impacts of domestic policies are now important variables in the policy formulation process in China. China's exports to other FTAs nations rapidly increase every year. Based on this analysis, the paper argues that

while there is great potential for expansion of bilateral trade of China's FTA partner countries trade is likely to be heavily tilted in China's favor, at least in the short term. From a longer-term perspective, however, these FTAs are likely to cause change in production structures that may support a more balanced level of bilateral trade among FTA partners. The balanced level of bilateral trade will potentially spur competitions in the FTA countries' domestic economies, resulting in lower prices for consumers, more product variety and quality, and increased incentives for innovation. By promoting a more efficient allocation of resources, bilateral trade will help increase the productivity, living standards, and long-term growth of the economies.

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