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1. Overview

While the multilateral trade process (Doha Development Agenda) stagnates, the regional trade arrangements (RTAs) are prevailing. Currently, some 546 notifications of RTAs have been received by the GATT/WTO. The trade covered by RTAs accounts for about 50% of the global trade. Compared with WTO process, RTAs are easier negotiated since members are selected based on shared interests and good will. RTAs could cover more areas, liberalization, facilitation, cooperation, as well as political relations. RTAs are actually not an alternative to the multilateral arrangements, and they seem supplementary in nature.

Asian economic integration used to be market oriented. They have become very active in negotiating FTAs in the 21st century. FTAs in Asia has increased dramatically, with 109 FTAs in effect, 75 under negotiation and 50 proposed, and in East Asia, there are with 67 FTAs in effect, 63 under negotiation and 41 proposed as of March, 2013.1

Gains from FTAs could be realized either through traditional benefits or non-traditional benefits. The traditional benefits consist of trade creation & trade diversion, improved terms of trade, increasing returns to scale, wealth effect originating from more efficient allocation of resources due to improved competition, stimulating regional and outside investment to promote economic growth. The non-traditional benefits are more persuasive from a regionalism perspective: obtaining insurance to avoid loss of wide-range trade war through regional cooperation, creating

a more secure international environment, enhancing the bargaining power in external negotiations, promoting domestic reform.

China began its efforts on negotiating FTAs after joining WTO in 2001. The FTA strategy serves China’s interests in many ways: market access (trade, service, as well as investment), promoting domestic opening and reform, as well as improving its relations with the partners.¹ Currently, China has 14 FTA partners comprising of 31 economies, among which 8 Agreements have been signed already including China-ASEAN FTA, China-Pakistan FTA, China-Chile FTA, China-New Zealand FTA, China-Singapore FTA, China-Peru FTA, China-Costa Rica FTA and Asia-Pacific Trade Agreement (known as the Bangkok Agreement signed in 2001).²

China-ASEAN FTA (CAFTA) is China’s first initiative, which was proposed by China and supported by ASEAN as a group in 2000. The Framework Agreement was signed in 2002, the Agreement on Trade in Goods in 2004, the Agreement on Trade in Services in 2007 and the Agreement on Investment in 2009 (fully implementation from 2010). Nowadays, five more FTAs are under negotiation including China-GCC (Gulf Cooperation Council) FTA, China-Australia FTA, China-Iceland FTA, China-Norway FTA and China-SACU (Southern African Customs Union) FTA. And four more FTAs are under consideration, including China-India Regional Trade Arrangement, China-Korea FTA (CKFTA), China-Japan-Korea FTA (CJK FTA) and China-Switzerland FTA.

China has adopted a gradual approach when negotiating FTAs with trading partners: first goods, then services and investment. China-ASEAN FTA, China-Pakistan FTA (CPFTA) and the China-Chile FTA were conducted via this gradual approach. Both CAFTA and CPFTA were preceded by an Early Harvest Program, after which further negotiations around goods, service and investment took place.³ In contrast, China-New Zealand, China–Singapore and China–Peru FTAs are

¹ http://fta.mofcom.gov.cn/english/index.shtml
² As the special arrangements, Mainland China signed Close Economic Partnership Agreement (CEPA) with Hong Kong in, with Macao in, the Economic Cooperation Framework Agreement with Taiwan in.
comprehensive and single undertaking upon signing.\(^1\)

In general, FTAs between China and the developing economies tend to center upon the market access and economic cooperation, while those with the developed economies, such as New Zealand and Singapore, incorporate more policy and institutional issues including intellectual property rights, transparency measures, quality assurance standards and competition policy.\(^2\)

2. RCEP as a new strategy

Due to continuous pursuit of FTAs, East Asia is featured with a tangled web of overlapping bilateral and plurilateral trade agreements, often described as the "Spaghetti Bowl" effect (or Asian Noodle Bowl). Noodle Bowl effect usually means that one same commodity is subject to different tariffs, tariff reduction trajectories, and ROOs for obtaining preferences due to the multiple, overlapping FTAs. With a growing number of FTAs, the trading market is likely to become chaotic, and transaction costs increase correspondingly due to cumbersome red tapes and cross-border procedures.\(^3\)

### Table 1 Overview of ROO of FTAs in East Asia

<table>
<thead>
<tr>
<th></th>
<th>AFTA</th>
<th>ACFTA</th>
<th>AJCEP</th>
<th>AKCEC</th>
<th>JSEPA</th>
<th>NCFTA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CTC</strong></td>
<td>Yes, but not necessary</td>
<td>Yes, but not necessary</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>RVC Ratio</strong></td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>60-40%</td>
<td>60-40%</td>
<td>50-30%</td>
</tr>
<tr>
<td><strong>SP</strong></td>
<td>Chap. 50-63</td>
<td>Chap. 50-63</td>
<td>Chap. 50-63</td>
<td>Not mentioned</td>
<td>Chap. 28-40,50-63</td>
<td>Chap. 28-40,50-63</td>
</tr>
<tr>
<td><strong>Cumulation</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>De Minimis</strong></td>
<td>Not mentioned</td>
<td>Not mentioned</td>
<td>7-10%</td>
<td>10%</td>
<td>8-10%</td>
<td>Not mentioned</td>
</tr>
</tbody>
</table>

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Notes: (1) AFTA = ASEAN Free Trade Agreement, ACCEC = ASEAN-China Comprehensive Economic Cooperation, AJCEP = ASEAN-Japan Comprehensive Economic Partnership, AKCEC = ASEAN-Korea Comprehensive Economic Cooperation, ASEAN = Association of Southeast Asian Nations, JSEPA = Japan-Singapore Economic Partnership Agreement, Korea = Republic of Korea, NCFTA = New Zealand-China Free Trade Agreement.
(2) CTC: change in tariff classification rule, RVC: regional value content rule, SP: specific process rule
Source: Summarized from individual FTA agreements.

As the ADB report indicates, inconsistencies between agreements may raise costs of doing business and cause welfare losses associated with trade diversion.\(^1\) In fact, East Asian economies differ much in their respective cross-border measures as indicated by Table 2. Noodle Bowl effect is particularly significant compared to the other regions due to regional under-development in doing business.

\begin{table}[h]
\centering
\begin{tabular}{lllll}
\hline
\textbf{Economies} & \textbf{Documents to export (number)} & \textbf{Documents to import (number)} & \textbf{Time to export (days)} & \textbf{Time to import (days)} \\
\hline
Australia & 6 & 7 & 9 & 8 \\
Brunei & 6 & 6 & 19 & 15 \\
Cambodia & 9 & 10 & 22 & 26 \\
China & 8 & 5 & 21 & 24 \\
India & 9 & 11 & 16 & 20 \\
Indonesia & 4 & 7 & 17 & 23 \\
Japan & 3 & 5 & 10 & 11 \\
ROK & 3 & 3 & 7 & 7 \\
Lao PDR & 10 & 10 & 26 & 26 \\
Malaysia & 5 & 6 & 11 & 8 \\
Myanmar & -- & -- & -- & -- \\
New Zealand & 5 & 6 & 10 & 9 \\
Philippines & 7 & 8 & 15 & 14 \\
Singapore & 4 & 4 & 5 & 4 \\
Thailand & 5 & 5 & 14 & 13 \\
Viet Nam & 6 & 8 & 21 & 21 \\
\hline
\end{tabular}
\caption{Doing Business in East Asia}
\end{table}

\(^1\) ADB, Asian Economic Integration Monitor, Mandaluyong City, Philippines: Asian Development Bank, July 2012, p44.
Notes: Documents required for clearance by government ministries, customs authorities, port and container terminal authorities, health and technical control agencies and banks are taken into account. Time required for obtaining all the documents, inland transport and handling, customs clearance and inspections, port and terminal handling and does not include ocean transport time.
Source: Dong Business 2013.

As a result of the Noodle Bowl effect, the usage rates of FTAs’ in East Asia are low in all economies. Many companies may abandon the use of FTAs’ preference due to varying schedules for phasing out tariffs, exclusion lists, conflicting standards, ROOs across FTAs and particularly cumbersome red tapes and documents including certificates of origin (CO). For instance, ADB study seeks the views of and experience with FTAs from 841 manufacturing firms based in the China, Japan, the ROK, the Philippines, Singapore, and Thailand, the average percentage of surveyed firms utilizing FTA preferences is about 28%.¹ A survey of China firms was undertaken in order to investigate the actual and perceived effects of FTAs on export businesses in late 2008. The 232 firms surveyed were randomly selected from 15 provinces and major cities. According to the firms that made use of FTAs, China-ASEAN FTA had the highest usage rate, for 29.6 percent, China-Chile FTA for 14.6 percent, China- Pakistan FTA, for 9.7 percent, China-New Zealand FTA, for 6.6 percent only.²

Recognizing the problems created by the overlap of FTAs in East Asia, the need to move toward an integrated regional FTA has been emphasized. A preliminary political consensus in this direction was reached by ASEAN+3 Economic Ministers in 2004 when it was recognized that study of the feasibility of an East Asia FTA (EAFTA) was needed. Initiated and chaired by the China, a joint expert group of experts from 13 ASEAN+3 countries (ASEAN plus China, Japan and ROK) was set up in 2005. The group presented a report to the ASEAN+3 Economic Ministers in September 2006, which asserted that the rationale for an EAFTA was consistent with the interests of

¹ Shen Minghui, Towards a Region-wide FTA in East Asia----A Chinese perspective, Ritsumeikan International Affairs, No.34, 2011, pp.16-18.
East Asian countries. The economic benefits from EAFTA would exceed AFTA, any ASEAN+1 FTA, or other bilateral and sub-regional arrangements. The report recommended that an EAFTA should be comprehensive, high standard and negotiated and implemented as a single undertaking. It recommended that an EAFTA go beyond existing East Asian FTAs, be formed among ASEAN+3 countries first, and then to be extended to other countries in the region. The group urged East Asian leaders to start the process of forming an EAFTA soon. Unfortunately, the recommendations in the first report were not immediately accepted. EAFTA Phase II Study report recommended that EAFTA should follow a gradual and realistic strategy with consolidating the existing FTAs into a region-wide FTA and creating a unified ROO regime as the first step. Importance was attached on the concrete trade and investment facilitation measures which could help all participating economies to fully realize the benefits of an EAFTA.

Japan proposed an alternative approach, the comprehensive economic partnership of East Asia (CEPEA) based on the East Asia Summit (EAS) framework in 2006. The report of the feasibility study of CEPEA was completed in July 2008 and presented to the EAS ministers’ meeting. It argued that a wider regional comprehensive economic partnership that included India, Australia and New Zealand would create larger gains than any other regional FTA. The report recommended that the CEPEA should provide a broader framework for regional integration and cooperation—with economic cooperation as the priority and an FTA as a core, covering facilitation, liberalization, environment, energy, and information and communication technology. The study report sets out CEPEA's objectives as deepening economic integration, narrowing development gaps, and achieving sustainable development through the three pillars of economic cooperation, trade and investment facilitation, and trade and

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4 CEPEA Track Two Study Group, Report of the Track Two Study Group on Comprehensive Economic Partnership in East Asia (CEPEA), Monograph, June 2008.
investment liberalization, as well as institutional developments.\(^1\)

Almost no significant progress was made in forging a regional FTA in East Asia before a joint proposal by China and Japan was declared in 2011 (Initiative on Speeding up the Establishment of an EAFTA and CEPEA), which is considered as a big step for formulating a broadly based RTA in East Asia with the background of progress of Trans-Pacific Partnership agreement (TPP) in the Asia-Pacific led by the US.\(^2\) ASEAN quickly made the response by initiating the Regional Comprehensive Economic Partnership (RCEP) in November 2011. During the ASEAN Economic Ministers Meeting in 2012, the guiding principles of RCEP were endorsed. RCEP was fully supported by all ASEAN +6 countries during the EAS meeting at the end of the year.

The RCEP will seek to promote greater regional economic integration, progressively eliminate tariff and non-tariff barriers, and ensure consistency with the WTO’s rules at the same time. The RCEP is expected to tackle trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition policy, and dispute settlement etc. An open accession scheme is adopted to allow future members to join as long as they agree to comply with RCEP’s rules and guidelines.

RCEP is expected to deepen the regional integration through further liberalization of trade, service and investment, harmonization of policies, rules and standards governing trade and investment. Although market-driven economic integration has contributed much towards East Asian production networks and supply chains, many impediments, including cross-border measures, non-compatible domestic rules, discriminatory regulations and red tapes increasing doing business costs, are still left to be dealt with.\(^3\) RCEP is therefore regarded as part of supporting policy framework for deepening regional production networks and supply chains.

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\(^1\) CEPEA Track Two Study Group, Phase II Report of the Track Two Study Group on Comprehensive Economic Partnership in East Asia (CEPEA), Monograph, July 2009.


\(^3\) Masahiro Kawai and Ganeshan Wignaraja, Asian FTAs: Trends and Challenges, ADBI Working Paper Series No. 144, August 2009, p5.
RCEP is expected to be one new effort to embrace East Asian model of FTA for the region. Considering large development gap in East Asian economies, one high standard FTA could hardly meet the diversified needs in the region. Flexible and differential treatment may emerge to better adopt less-developed countries. When comprehensive coverage is expected to be insisted, more importance may be attached on traditional trade clauses instead of labor rights, environmental standards, state-owned enterprises and intellectual property rights. Furthermore, priority will be given to the economic cooperation to promote balanced development in the region. In the mean time, issue such as connectivity could be incorporated in the RCEP. That is, RCEP could provide better environment to promote regional investment and to strengthen development cooperation.

China shows its high interest to RCEP since it made lots of efforts on the consolidating the overlapping FTAs by leading the EAFTA study and initiating joint proposal with Japan. China intends to play an active role in promoting the negotiation of RCEP and take forward looking and practical policy in the negotiation.

China’s positive attitude towards RCEP is understandable for several reasons. For examples, as China makes efforts to rebalance its trade structure, an integrated East Asian market becomes more important and significant if considering the declining market potential of the United States and EU. As TPP potentially excludes China, China pays more attention to the alternative choice in East Asia. And also, China expects to play a significant role in the regional integration and institutional building in the background of rising economic power.

3. CJK FTA as a real test

The trilateral cooperation between China, Japan and Korea (ROK) has made progress since it was formally initiated in 2008. Among the achievements, the launch of the trilateral FTA (CJK FTA) is considered as the most significant. The three economies are highly integrated by the close supply chain and the complementary structure. A FTA among them will surely help them to enhance the economic efficiency and promote the upgrading their economic structure. The three countries
signed the agreement for investment promotion, facilitation and protection which sets up a good base for further negotiation.

The proposal of CJK FTA was made in 2002 and received positive support by the leaders of three countries. The joint academic studies were conducted for 7 years that provide comprehensive analysis on the benefit and cost, the modality and approach. An official led joint study was started from 2011 and final report was accepted by three countries. The formal negotiation is planned to start in early 2013 though the preliminary consultations were conducted earlier.

Considering the structural differences among three economies, the negotiation would be not easy though there are strong common interests among the three. Concerning the liberalization, both Japan and ROK have sensitive lists on the agriculture products, while China has its weakness on some industrial products. In the service and investment sectors, China has the difficulty to adopt the negative list approach and pre-national treatment policy. Considering the difficulties of the negotiation, CJK FTA really needs strong political support and consensus.

CJK FTA is a real test for the three countries. Unfortunately, the political environment of three countries seems not good for making close cooperation due to the disputes on the islands between China and Japan and Japan and ROK though the business community of the three countries has shown strong support to an early conclusion of the negotiation. Ideally, an early conclusion of the CJK FTA will give a very strong support to the negotiation of RCEP since three economies account for more than 2/3 of the GDP of RCEP members. Alternatively, if the negotiation of CJK FTA goes slowly, RCEP negotiation process may be a catalyst for the negotiation of CJK FTA.

4. TPP as a challenge

The US’s announcement to join the P4 in 2009 intends to change the landscape and redesign it to be one high-standard, broad-based regional pact by renaming it as Trans-Pacific Partnership (TPP) and inviting more countries to join, including Australia, Peru, Vietnam and Malaysia, Canada, Mexico, as well as Japan. The TPP is
designed to create a comprehensive, modern template in future FTA negotiations and to provide an alternative model for consolidating existing trade agreements.\(^1\)

Although TPP is claimed to consolidate existing trade agreements and thus handle noodle bowl effect, it has been doubted whether it could serve as one model to curtail noodle bowl effect.\(^2\) The US has strongly urged that existing FTA market-access schedules should be maintained in the current TPP negotiations. The existing complex ROOs, instead of one new simple, region-wide cumulation rules, are expected to be incorporated into the TPP agreement. And the US negotiators are pushing for narrow, product-specific ROOs to protect its sensitive products. In addition, for textiles, the US is demanding that the so-called yarn-forward rule be incorporated into the agreement. In effect, this rule would mandate that the material (cotton or synthetic fiber) for a textile product be sourced either in the home country or in an FTA partner country.\(^3\) If the hybrid approach is adopted throughout the TPP negotiation,\(^4\) the ROOs of TPP would fail to be liberal, effective and simple rules and be expected to be one noodle in the noodle bowl.\(^5\)

The TPP is expected to be one strategic activity. Some scholars in China believe the real US’s intention is to gain indirect long-term economic benefits, including helping American enterprises enjoy an enabling FTA environment, and ensuring the US as the rule-maker in regional trade regulations.\(^6\) More importantly, the US worries that the American firms would face discrimination and trade diversion therefore. While the “21st century” TPP agreement including environment, transparency, labor and intellectual property is supposed to help the American multinationals and SMEs

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to acquire market access in the Asian markets.

In fact, the aim for the US pushing TPP is thought to monopolize regulating international economic rules. The US has been the champion to level the playing field in trade negotiation through initiating several FTA negotiations simultaneously (competitive liberalization), pushing the negotiations by asymmetric power, then forming one larger ad hoc and finally leveraging the multilateral trading negotiation, which is also called as sequential negotiation.\(^1\) The on-going TPP negotiations cover not only traditional WTO-plus issues such as financial services, E-commerce, investment, environment and labor, but also many cross-cutting horizontal issues like SOE, regulatory coherence and SMEs. As noted by the US chief negotiator for the TPP Barbara Weisel, the US aim was to reach a set of rules applying to all the Asia-Pacific countries, and any country ready to join must comply with the rules.\(^2\)

The exclusion of China from TPP makes China nervous. Many Chinese scholars are quite skeptical about the US’s authentic aim to push the TPP negotiation. Some indicate that TPP reflects the fact that the US is taking a substantive step on its strategy of returning to the Asia-Pacific region.\(^3\) Yang suggests that the US pivot strategy dilutes and reduces China’s influence in the Asia-Pacific region, which could be considered a soft confrontation.\(^4\) Some even assert that the US not only wants to contain China, but also expects to postpone and interrupt the East Asian cooperation process, paving the way for the US to claim dominance over the East Asia.\(^5\) However, some others hold different views. They insist that TPP would have little impact on China since China has its own advantage due to its continuous growing potential and special competitiveness. China becomes the largest market for most of the economies

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\(^3\) Fu Mengzi, TPP, the Adjustment of America's Asia-Pacific Strategy, and Its influence on China, China Review, March 2012


\(^5\) Huangpu and Liping, The Real Intention behind the United States’ Proactive Promotion of TPP, Outlook, December 6, 2011, p58.
in East Asia and will provide more public goods to the region.¹

In fact, most countries in East Asia keep their interests in engaging both TPP and RCEP since they may serve their different interests. The differences in interests could be documented. From the geopolitical perspective, the parallel architectures including TPP and RCEP would make both US and China rest assured. The TPP and RCEP may be viable and complementary pathways to Asia-Pacific integration in the future.²

5. Future perspective

Considering the risk to be marginalized by the TPP, the Chinese government may attach much more importance to its own FTA strategy. China needs to exert more efforts through FTAs to promote its steps towards liberalization both at home and abroad due to the disenchantment with the WTO. For instance, more efficient and freer regional production networks as well as supply chain could be restructured with the RECP pact. Several cumbersome rules of origin across East Asian economies are expected to be eliminated and more market access is likely to be obtained through the RCEP. China is confident in participating in this process and is believed to contribute to the success of the RCEP.

As the economies of China, Japan, and Korea are highly integrated through an FDI-trade network. Each of the three has an FTA with ASEAN, but there is no formal arrangement among them. CJK FTA is highly demandable and beneficial to all. Although the political momentum at the moment seems weak and vulnerable, China will continue to participate and promote the negotiation process.

Currently, CKFTA is under the negotiation. The two economies are highly integrated based on the investment-trade structure. CKFTA may serve as a catalyst for the CJK FTA since Japan would worry it may pay the cost if only China and ROK sign the agreement. Interestingly, we are witnessing some competitively driven efforts in FTAs in East Asia.

China seems not possible to join TPP in the near future. However, China takes

great attention to its relations with the US. Although a FTA between China and the US will be difficult to be negotiated, the two is now considering an investment agreement. However, even this single investment pact will not be easy since there are issues like pre-establishment national treatment, SOE, performance requirements, labor and environment that must be handled. China will also seek other opportunities to expand the FTA networks. China-Canada FTA now is taken into consideration. As Canada is both the member of NAFTA and TPP, it is highly strategic for China to forge the China-Canada FTA.

Moreover, China’s past economic success has relied highly on an open and supportive global environment. Although China has committed to change its export-oriented growth model and to create a stronger internal demand structure, its interest in the global market will not be reduced because its future economic dynamism will be closely associated with the global market environment. To this end, China has its real interest in supporting multilateral trading system and tries to play a more active role in supporting the active role of WTO in either negotiating the new plural agreements like trade facilitating agreement, new ITA agenda, even an investment promotion and facilitation agreement, or the renewed DDA agenda.

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