

ADBII–JIIA International Symposium on  
“Current Global Trade Governance: Toward the Next Agenda?”  
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# Regional Integration in Asia and China’s New Trade Policies

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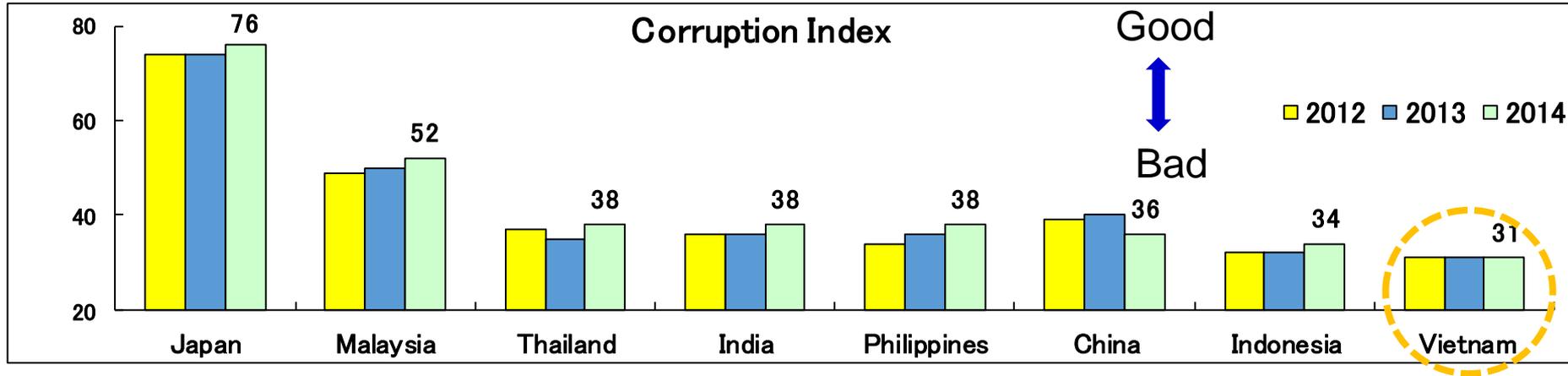
# Are TPP Rules Threatening China?

- Trade of Goods
  - tariff reduction: China's 10% tariff (MFNs) is not too high.
 

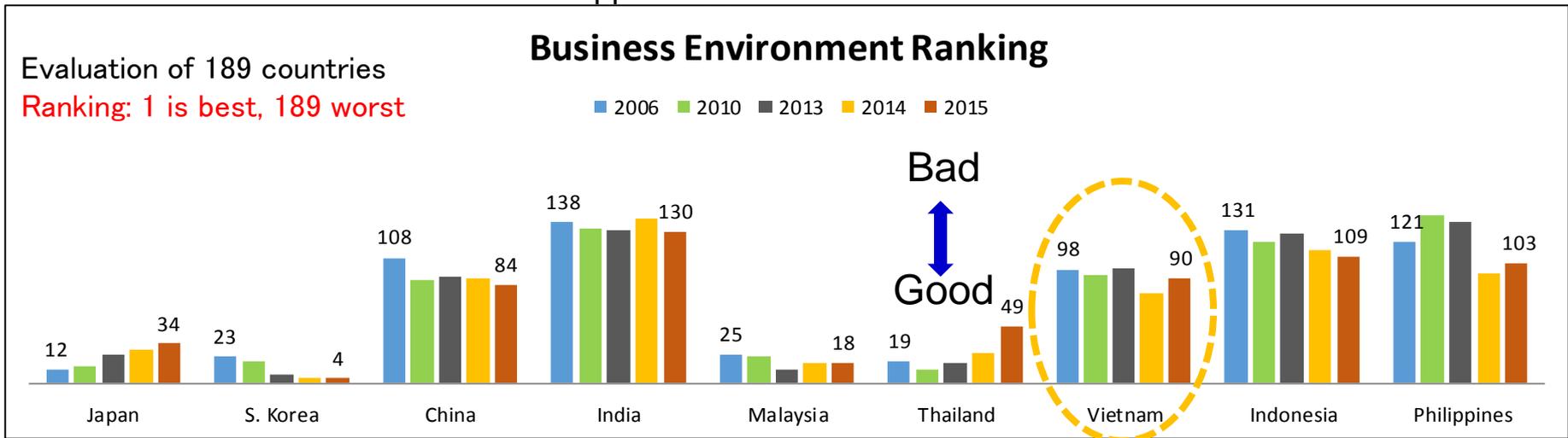
Concern over specific goods!
- Access of Investment, Service Market
  - "Pre-establishment National Treatment" and "Negative List" principles
  - ⇒ China have already decided to adopt "PNT" and "NL" principles
  - ⇒ TPP members predicted to have long negative lists
- Government Procurement: National Treatment is assured, **so it will have an impact.**
- SOE Rule
  - Allows "all TPP members to possess SOEs", stipulates that "buying and selling to be done on a commercial basis", and adds that "public services are excepted." Also insures fairness between SEOs and private sector companies.
  - ⇒ Not included in WTO rules, but similar passages found in China's WTO accession
  - ⇒ China is dividing SEOs into 1) public utilities and 2) commercial-based enterprises
- Environmental and Labor Regulations
  - TPP agreed that environmental and labor standards should not be loosened up in order to facilitate trade and investment, and to secure basic international treaties
  - ⇒ applied regulations as laid out in NAFTA.
 

Obstruction to free formation of labor unions

# Improved Domestic Governance More Important than Joining TPP !



NB: Evaluation of 100 means no corruption, 0 means rampant corruption. Evaluation include approx 189 countries.



# Blueprint for “New Open System” and Asia’s Economic Diplomacy

- **Nov 2013, 3<sup>rd</sup> Plenary Session: “Reform Plan” adopted (3 of 60 items related to external economic policy)**
- **Oct 2015, 5<sup>th</sup> Plenary Session: plan reconfirmed**
  
- (1) Opening of internal/external investment markets and regulation reform:**
  - Establish experimental free-trade zones domestically
  - Integrate three foreign capital laws to foreign investment law
  - Adopt “Pre-establishment National Treatment” and “Negative List” formats across the board
  - Sign new types of investment agreement (with US, EU, etc.)
  
- (2) Acceleration to Signing more FTAs:**
  - From FTAs with Australia, Korea to China-Korean-Japan FTA,ets
  
- (3) Opening up the interior and remote regions:**
  - “One Belt, One Road” (Silk Road economic belt, naval Silk Road)
  - Establish developmental financial institutions (AIIB, Silk Road Fund)

# “Eastern Strategy”

## (Pacific, Developed Countries Strategy)

### ➤ Short term: “Experimental Shanghai Free-Trade Zone”

▪ Domestic systems based on Negative Lists and Pre-establishment National Treatment

⇒ “Foreign Investment Act” (proposed) uses both Negative List and Pre-Establishment National Treatment formats

⇒ Negative List format to be used countrywide(internal affairs) from Jan 2018

### ➤ Mid-term: Investment Agreements with US, EU

▪ For China, investment more important than trade with developed countries (multinational corporation networking)

▪ Allowing US/EU priority access to markets will accelerate investment deals

### ➤ Long term: FTAAP and China-EU FTA(China-US FTA?)

▪ Market integration of China-US, China-EU, and China-Japan

### ➤ Regional Policy: From East to West

▪ FTA negotiations with Korea, Australia effectively concluded in 2014, to be enacted at end of 2015.

▪ China’s FTA network in East Asia nearly complete, excepting Japan.

# FTAs with TPP's AP Members

(except NAFTA and Japan)

As of Oct 2015:

●FTA

○Practical Understanding

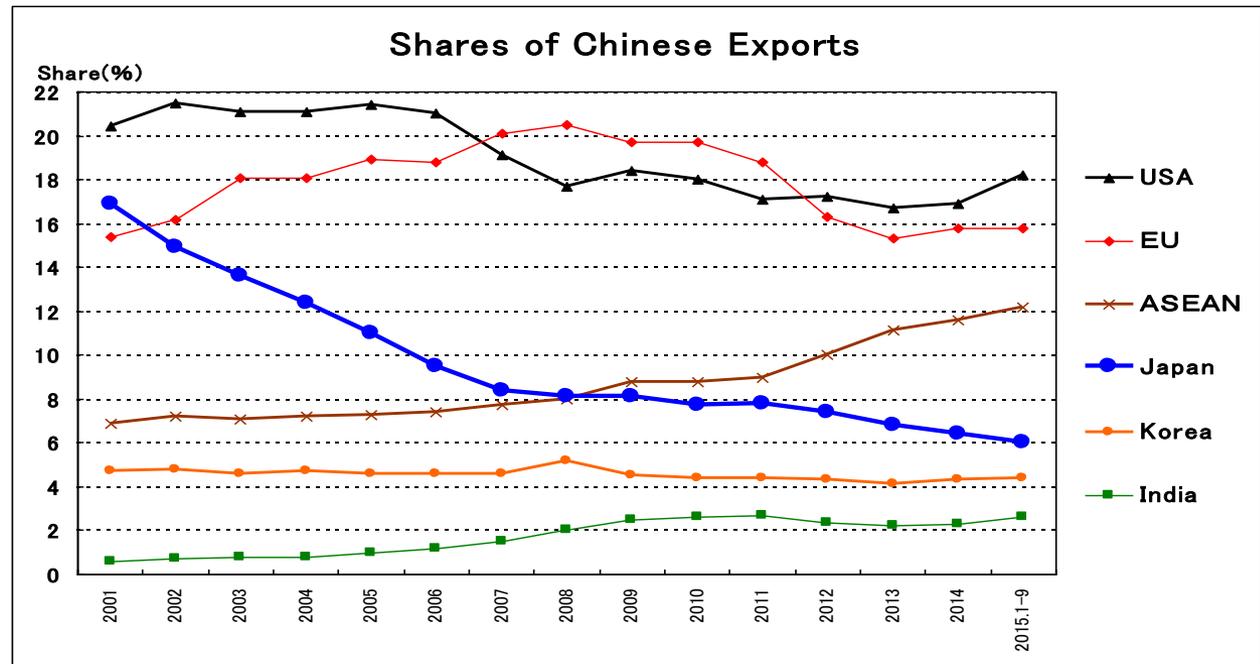
△Negotiating



	US	Aus	NZ	Peru	Chile	SG	Malaysia	Vietnam	Japan	Korea	China	India
US		●	○	●	●	●	○	○	○	●		
Aus	●		●	○	●	●	●	●	●	●	○	△
NZ	○	●		○	●	●	●	●	○	△	●	△
Peru	●	○	○		●	●	○	○	●	●	●	
Chile	●	●	●	●		●	●	●	●	●	●	
Singapore	●	●	●	●	●		●	●	●	●	●	●
Malaysia	○	●	●	●	●	●		●	●	●	●	●
Vietnam	○	●	●	○	●	●	●		●	●	●	●
Japan	○	●	○	●	●	●	●	●		△	△	●
Korea	●	●	△	●	●	●	●	●	△		○	●
China		○	●	●	●	●	●	●	△	○		△
India		△	△			●	●	●	●	●	△	

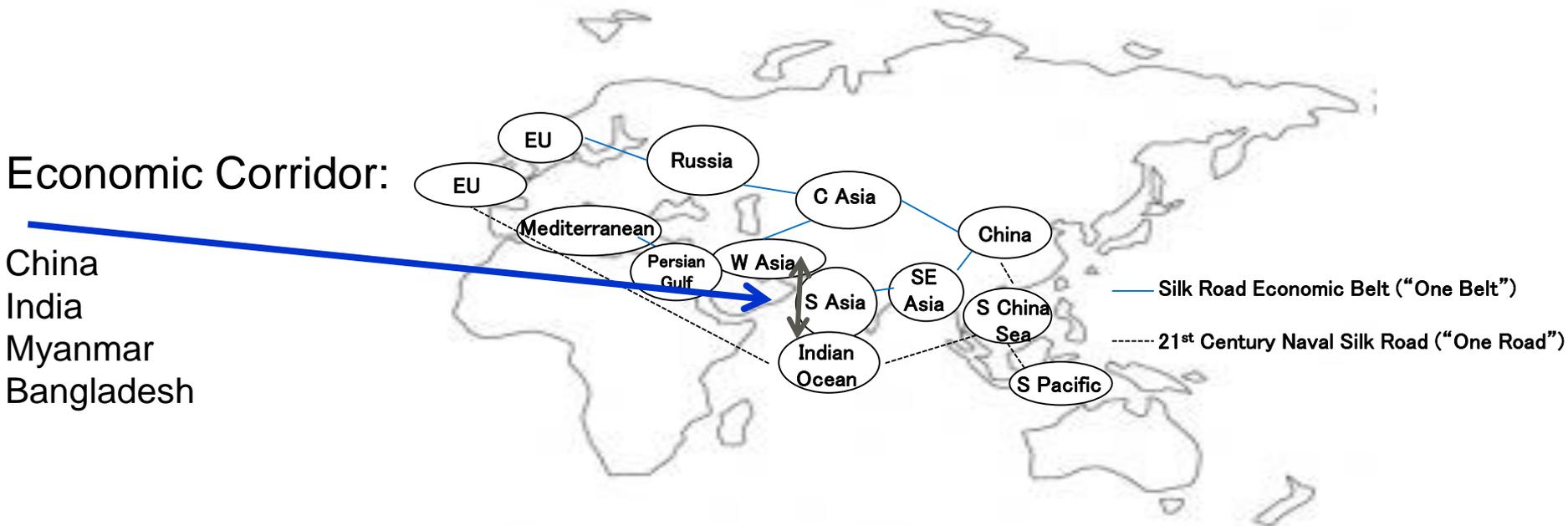
# China's Stance on FTA with Japan

- China's trade dependency on Japan, Korea is very low
  - 21% in 2005 ⇒ 14% in 2015, with exports very low at only 6.0%
  - FTAs might unearth regional trade demand
- Stable framework needed for bringing in foreign capital, technology and M&As with Japan, Korea.
- Japan-China cooperation essential for regional integration.  
⇒ Because Japan prioritized TPP, China prioritized FTA with Korea.



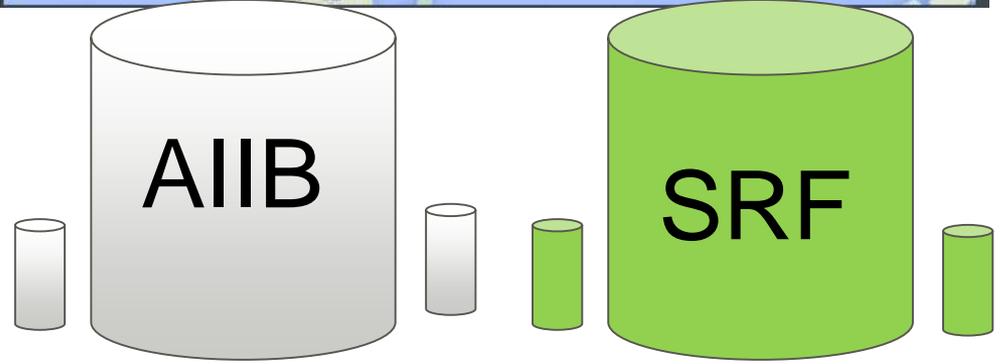
# “Western Strategy” (New Silk Road Strategy)

- “One Belt”: Silk Road Economic Corridor (Central Asia, Russia, Europe)
  - Connects to policy for opening the west, hedges risks for energy supply channels
- “One Road”: 21<sup>st</sup> century naval Silk Road (SE Asia, South Asia, Africa, Europe)
  - A more advanced CAFTA, securing safety of sea lanes
- Instead of rule-based approach of FTAs, this sets basic foundation for integration (connectivity) from the start.



Source: created by the author based on “Silk Road Economic Belt and 21<sup>st</sup> Century Naval Silk Road Concept and Implementation”

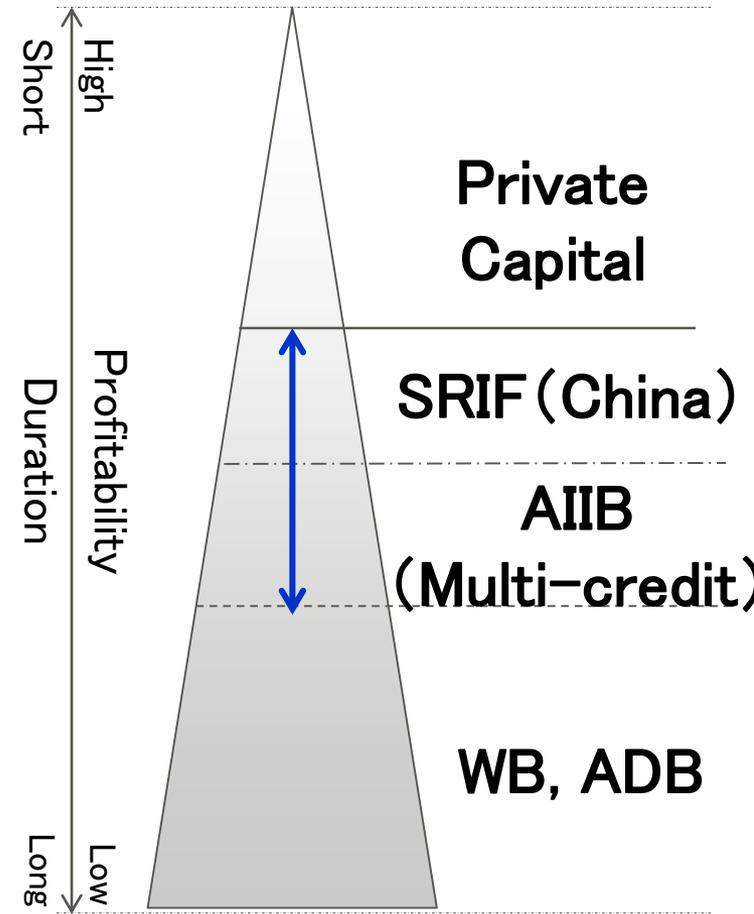
# Policy Measures: Financial and Industrial Cooperation



Asian Infrastructure Investment Bank

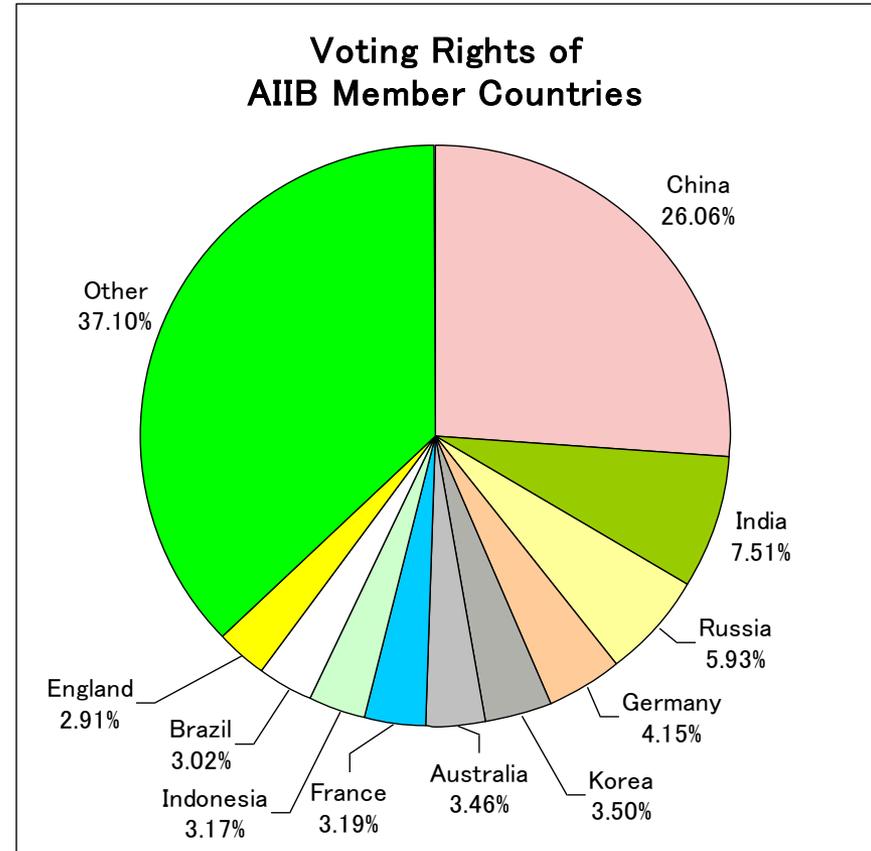
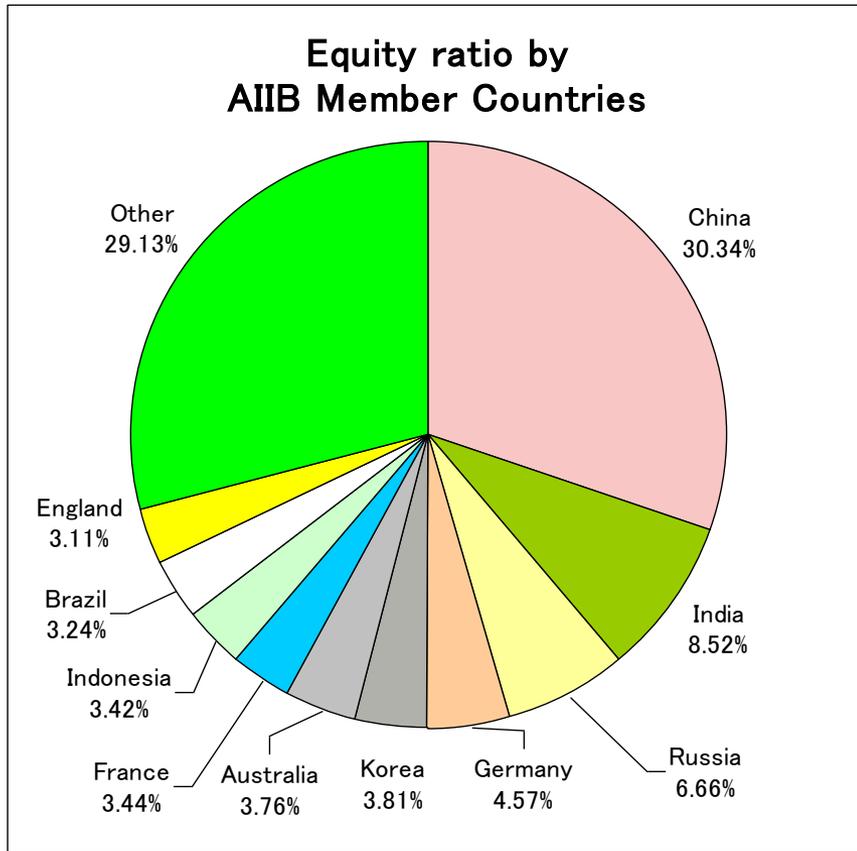
Silk Road Fund

## China's Planned Use for Each Tool



# AIIB: “World’s Factory” to “World’s Bank”

Equity ratio and voting rights of AIIB member countries



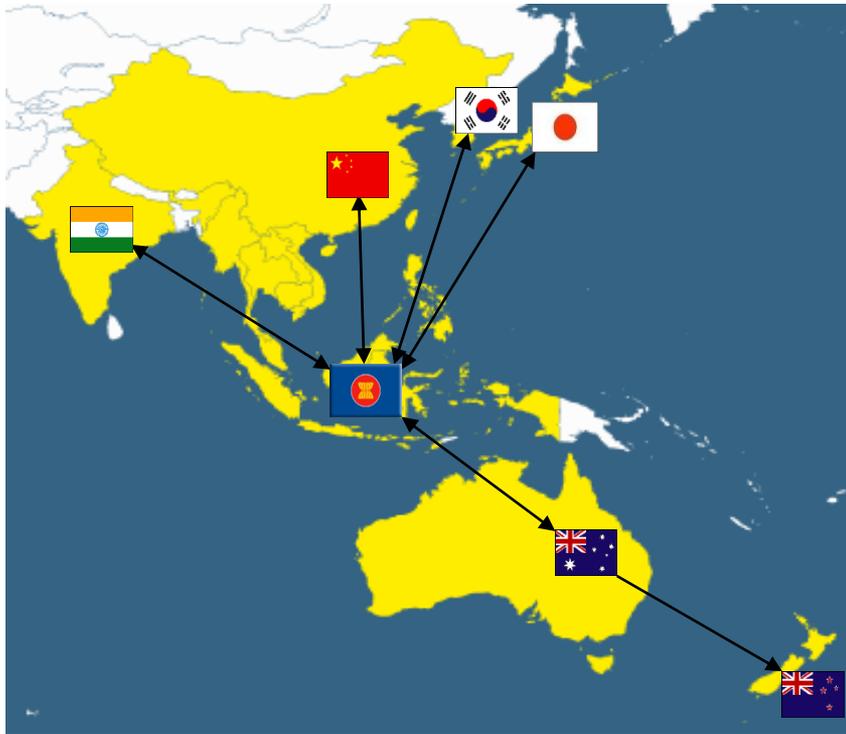
➤ **Needless fears over decision-making power?**

**China (AIIB), 26.06% vs. Japan & US (ADB), 31.244%**

➤ **Worries of economic security?**

**AIIB (4.9 billion people, ¥4,723 trillion) vs TPP (800 million people, ¥3,100 trillion)**

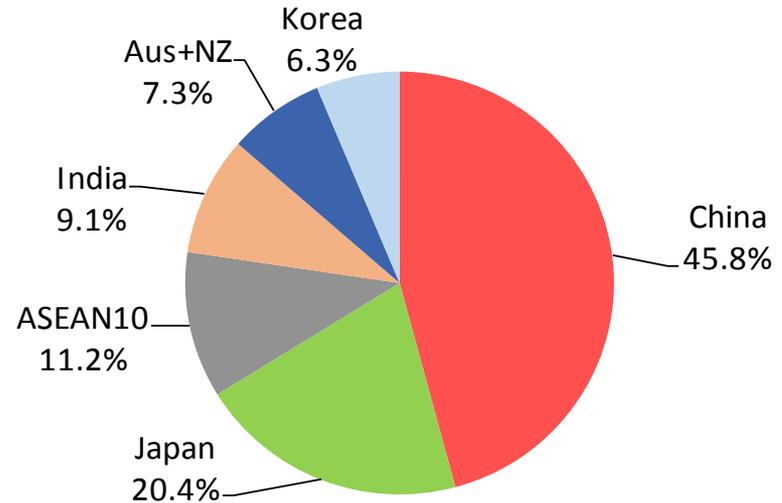
## RCEP Combines 5 “ASEAN+1”s



- Leadership struggle:  
**Japan (ASEAN+6) vs. China (ASEAN+3)**
- ASEAN strikes a balance

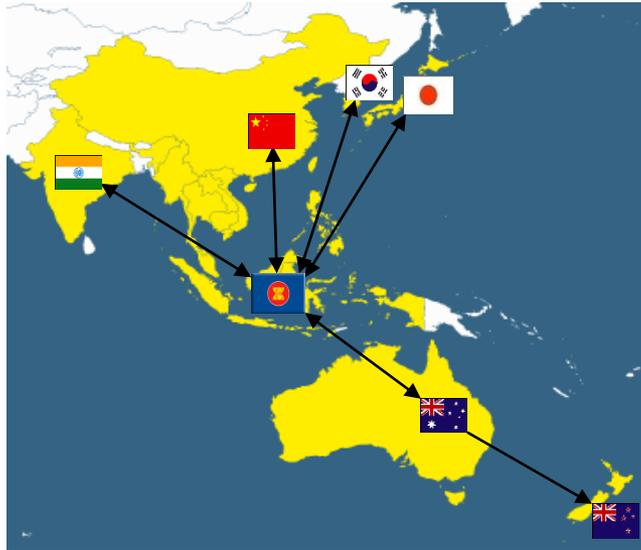
## RCEP: ASEAN-led with support from Japan, China

### GDP Shares of RCEP Members (2014)

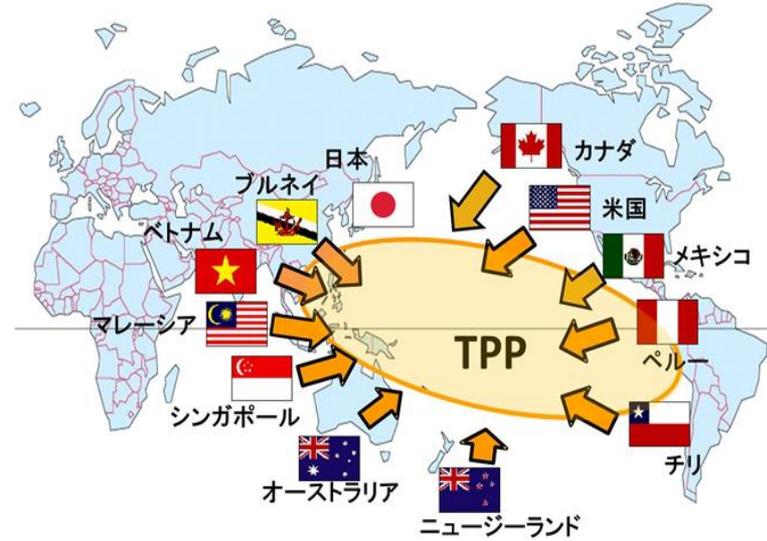


- 7 countries also TPP members
- ASEAN not strong enough as anchor!
- India hesitant over “high” liberalization
- China an effective backer?

# AP Regional Economic Integration: Merging TPP and RCEP into FTAAP



RCEP VS. TPP  
or  
RCEP+TPP



	Pop. (billion)	Share of Global GDP (%)	2011-15 GDP Growth Rate (%)	In-Region Trade Rate (%)	Target Year	Tariff Reduction Principles	Leader
<b>RCEP (16 countries)</b>	3.4	29.2	7.1	44.2	2015	Exceptions allowed	ASEAN
<b>TPP (12 countries)</b>	0.8	36.3	4.2	41.6	2015	No principles or exceptions	US



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