



The Wave of Regional Trade Agreements in East Asia: China's Strategy

WANG JINMIN
RICHARD SANDERS
CHEN YANG

ABSTRACT. The beginning of the twenty-first century marked the East Asian region's shift toward bilateral and regional trade agreements (RTAs). Consequently, the major question China currently faces is not whether it should get involved in the economic integration project but how it should effectively participate in this new brand of regionalism. This article first provides an overview of the RTA wave in East Asia. On the basis of the theoretical analysis of RTAs, an elaboration of China's strategy against the hub-and-spoke bilateralism is made.

KEYWORDS. regional trade agreement · East Asia · China · hub-and-spoke bilateralism

INTRODUCTION

A regional trade agreement (RTA) is a union between two or more countries in which lower trade barriers are applied to goods produced within the union compared to those from outside. In this article, the term "regional trade agreement" is taken to include "preferential trade agreements," "free trade agreements," "customs unions," and arrangements involving partial trade preferences. The past decade saw the immense increase in the number of RTAs, which have greatly affected international trade. Between January 2004 and February 2005 alone, 43 RTAs have been notified to the World Trade Organization (WTO), making this the most prolific RTA period in recorded history. The total number of notified preferential agreements in force is currently 170; approximately 20 RTAs are due to enter into force upon completion of their respective ratification procedures; a further 70 RTAs are under negotiation or still in proposal phase (Crawford and Fiorentino 2005). The number of regional trade agreements is

expected to continue increasing in the following years. For example, RTA strategy has become an important component of United States (US) trade policy. The Bush administration is trying to launch a 34-country Free Trade Area of the Americas (FTAA). Meanwhile, in the course of its enlargement, the European Union (EU) is replacing its Generalized System of Preference (GSP) with RTAs for many developing countries in the Mediterranean, Caribbean and Africa.

Traditionally, East Asia has favored multilateral trade liberalization and open regionalism, but it has recently become increasingly linked through RTAs within and outside the region. The RTA wave in East Asia is driven by economic, political and security factors. The 1997 Asian financial crisis, which broke out in Thailand and spread to other countries, accelerated the pace of East Asian cooperation. The US reacted very slowly to the crisis while the International Monetary Fund (IMF) failed to bail out the crisis-inflicted countries with appropriate measures. The Asia-Pacific Economic Cooperation (APEC) did little to alleviate the scenario as the problem was not even included on the agenda of the November 1997 APEC leaders' conference held in Vancouver, Canada. After the crisis, member-states of the Association of Southeast Asian Nations (ASEAN) were fully aware that it was difficult to depend solely on the US and IMF. Thus, East Asian countries felt the need to join hands to protect their regional interests. Consequently, the "10+3" forum—the dialogue between ASEAN, China, Japan and South Korea—was set up with an objective of promoting the formation of the East Asia Free Trade Area.

The disappointing performance of APEC has put the process of trade and investment liberalization in Asia-Pacific to a halt. Although APEC members started to carry out their Individual Action Plans (IAPs) in 1995, their immediate effects were difficult to evaluate. The Early Voluntary Sectoral Liberalization (EVSL) initiated in 1998 was declared a failure. As a result, APEC member-states, including the US, started to adopt the RTA strategy instead of open regionalism across the Asia-Pacific. The Shanghai Accord in 2001 recommended taking on a pathfinder approach in advancing some APEC initiatives. In this situation,

leaders reaffirm that those economies ready to initiate and implement a cooperative arrangement may proceed to do so, consistent with the Bogor Declaration...in adopting such an approach, APEC principles of voluntarism, comprehensiveness, consensus-based decision making,

Table 1. Average tariff rates for the US, EU and some East Asian countries

Country/Custom union	Tariff rates (%)
The United States	3.6
European Union	4.1
China	10
Malaysia	14.5
South Korea	16.1
Philippines	25.6
Indonesia	37.5

Source: Ministry of Foreign Affairs of Japan 2002.

flexibility, transparency, open regionalism and differentiated timetables for developed and developing economies should be observed. (APEC 2001)

In October 2003, APEC leaders agreed to advance free trade in a coordinated manner within multilateral, regional and bilateral frameworks to make them complementary and mutually reinforcing. This appears to be a tacit recognition of the difficulty in adhering to the principle of open regionalism notwithstanding the current trend among APEC members toward bilateral trade negotiations.

Since the 1980s, there has been a rapid expansion of intraregional trade and investment as well as industrial specialization. East Asia's overall dependency on intraregional trade rose from 22.8 percent in 1980 to 41 percent in 2001 (*The Japan Times*, November 13, 2003). The rapid growth of intraindustry trade indicates a deepening economic integration within East Asia. In the first quarter of 2005, ASEAN became the fourth largest trading partner of China. Japan's exports to China and Hong Kong combined have surpassed its exports to Europe although they still trail compared to those traded to the US. In October 2003, Japanese exports to China and Hong Kong accounted for 63 percent of the annual increase in its exports. China became the largest trading partner of Japan in 2004. East Asia, North America, and Europe are Japan's three major regional partners, accounting for 80 percent of its trade. In comparison to RTAs with the industrialized countries of North America and Europe, RTAs with East Asian countries produce the greatest additional benefits through further liberalization. As revealed in the simple average tariff rates (see Table 1), the East Asian region accounts for the highest trade percentage where Japanese products have the highest tariffs (Ministry of Foreign Affairs

Table 2. Regional trade agreements (RTA) by East Asian countries

Agreement	Type	Date of entry into force
Bangkok	Preferential arrangement	June 17, 1976
ASEAN Free Trade Area (AFTA)	Preferential arrangement	January 28, 1992
China-ASEAN	Preferential arrangement	July 1, 2003
China-Macao, China	Free trade agreement	January 1, 2004
	Services agreement	
China-Hong Kong, China	Free trade agreement	January 1, 2004
	Services agreement	
Singapore-New Zealand	Free trade agreement	January 1, 2004
	Services agreement	
Singapore-Japan	Free trade agreement	November 30, 2002
	Services agreement	
Singapore-European Free Trade Association (Switzerland, Iceland, Liechtenstein, and Norway) (EFTA)	Free trade agreement	January 1, 2003
	Services agreement	
Singapore-Australia	Free trade agreement	July 28, 2003
	Services agreement	
Singapore-US	Free trade agreement	January 1, 2004
	Services agreement	
South Korea-Chile	Free trade agreement	April 1, 2004
	Services agreement	
Thailand-Australia	Free trade agreement	January 1, 2005
	Services agreement	
Thailand-Laos	Preferential arrangement	June 20, 1991
Thailand-Japan	Economic Partnership Agreement	September, 2005

Source: World Trade Organization 2003.

of Japan 2002). The average tariff rates in East Asian countries such as China, Malaysia, South Korea, Philippines, and Indonesia are higher than those in the United States and EU countries. The deepening economic integration has laid a solid foundation for RTAs in East Asia.

The question China faces now is how to participate effectively in this new regionalism and not whether to get involved in regional economic integration. Hence, this paper elaborates China's RTA strategy against the hub-and-spoke bilateralism in the region on the basis of the theoretical analyses of regional trade agreements. This article first provides an overview of the RTA wave in East Asia, which in this paper refers to China, Japan, South Korea, Hong Kong (China), Taiwan (China) and the ASEAN member-countries (Burma/Myanmar, Brunei, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, and Vietnam).

Table 3. Proposed RTAs involving East Asian countries (excluding China)

Agreement	Type	Year
Singapore-Canada	Free Trade Area	2001
Singapore-Chile	Free Trade Area	2000
Singapore-Mexico	Free Trade Area	1999
South Korea-Australia	Free Trade Area	2000
South Korea-Canada	Free Trade Area	2005
South Korea-Japan	Free Trade Area	1998
South Korea-Mexico	Free Trade Area	2000
South Korea-New Zealand	Free Trade Area	2000
South Korea-Thailand	Free Trade Area	2001
South Korea-USA	Free Trade Area	2001
Japan-Australia	Free Trade Area	2003
Japan-Chile	Free Trade Area	2000
Japan-Mexico	Free Trade Area	1998
Japan-Indonesia	Economic Partnership Agreement	2005
Japan-Canada	Free Trade Area	2002
Japan-Philippines	Economic Partnership Agreement (signed)	2004
Japan-Mexico	Economic Partnership Agreement (signed)	2004
Japan-Malaysia	Economic Partnership Agreement (signed)	2003
Thailand-Croatia	Free Trade Area	2001
Thailand-Czech Republic	Free Trade Area	2001
Malaysia-Australia	Free Trade Area	2004
Philippines-US	Free Trade Area	2002
AFTA-CER	Free Trade Area	1999
ASEAN-South Korea	Free Trade Area	2002
ASEAN-Japan	Free Trade Area	2003
ASEAN+3	Free Trade Area	2000
BIMST-EC	Free Trade Area	2003
Japan-South Korea-China	Free Trade Area	2000

Source: Pangetsu and Gooptu (2003) and recent media reports.

Note: ASEAN+3 includes ASEAN member-countries plus Japan, South Korea and China; BIMST stands for Bangladesh, India, Myanmar, Sri Lanka, and Thailand.

THE RTA WAVE IN EAST ASIA

Regionalism in East Asia dates back to the 1970s when the five ASEAN member-countries signed a preferential trade agreement among themselves. The beginning of the twenty-first century marked the East Asian region's shift from open regionalism to bilateral and regional trade agreements (RTAs) (see Table 2).

On the bilateral level, Singapore has been leading the way while South Korea, Japan and Thailand are also succumbing to the lure of regional trade liberalization. At the multilateral level, the only working initiative aimed at regional trade liberalization has been the ASEAN Free Trade Area (AFTA). Despite deepening intratrade integration, ASEAN members are likewise looking at forging RTAs with other

regional partners, such as China, members of the Closer Economic Relations (CER) Trade Agreement (Australia and New Zealand), India, Japan, and South Korea (Table 3).

CHINA'S PARTICIPATION IN THE RTA WAVE

In the 1980s, China was not enthusiastic about economic integration and cooperation within East Asia because of Japan's leading role and the US's intervention in the region. China did not want to play second fiddle to Japan. The strong objection to the role of the US also revealed the complications and difficulties of achieving economic integration in East Asia on geopolitical grounds, given US's strong interests in the region. At any rate, China was not prepared for rapid trade and investment liberalization. Thus, China relied primarily on import substitution strategies, although an export-orientation policy was initiated with Japan, the US, and the EU as main destinations of its exports. Since the late 1980s, however, China has been endeavoring to promote multilateral trade negotiations and economic cooperation. In 1991, China joined APEC.

China's stance toward East Asian economic integration has undergone significant changes in line with deepening market-oriented reforms and international economic fluctuations. In the past decade, China has witnessed rapid economic growth and exposed itself to fierce foreign competition and integration in the global economy. In 2001, China joined the WTO, which resulted to China's interest in establishing an institutional mechanism in East Asia for dialogue and negotiation on trade and investment matters. The Vision for East Asia Long-Term Cooperation proposed by the East Asian Vision Group (EAVG), which was formed at the Manila summit in 1999 and which comprised intellectuals of the ASEAN+3 countries, was not accepted by the leaders of its member-countries. This implies that East Asian cooperation will continue to follow the "10+3" pattern rather than EAVG's clearly-defined goal of an East Asian Community. On the other hand, China has signed the following regional trade agreements (MFAPRC 2005):

1. *Bangkok Agreement*—established in 1975, it is the oldest preferential trade agreement among Asian developing countries. Members of the Bangkok Agreement include

India, South Korea, Bangladesh, Sri Lanka and Laos. China acceded to the agreement in May 2001. It is the first real preferential trade arrangement that China has participated in. The agreement aims to promote trade among member-countries by granting preferential tariffs and removing non-tariff barriers. Nonetheless, trade among member-countries has remained low. China's accession resulted in a significant increase in the proportion of trade flows among members.

2. *Closer Economic Partnership Arrangement (CEPA) between Hong Kong and Mainland China*—it is the first bilateral free trade agreement between the two parties, which conforms to WTO's requirements on RTAs. Beginning January 1, 2004, 273 types of products made in Hong Kong can be exported freely to the mainland. This, together with China's commitments upon accession to the WTO, allows about 90 percent of Hong Kong's domestic exports to enter Mainland on zero tariffs. CEPA provisions on market access cover a total of 18 service industries.
3. *CEPA between Macao and Mainland China*—this includes the liberalization of trade in goods and services as well as facilitation of trade and investment. A total of 273 types of commodities made in Macao, which meet CEPA rules of origin, can enjoy zero tariffs when exported to the mainland. CEPA provisions on market access also cover a total of 18 services industries. With regard to the facilitation of trade and investment, both sides agreed on the contents and modalities of cooperation for each of seven areas stipulated in the agreement.

In addition, China is undertaking and negotiating the following free trade agreements:

1. *China-ASEAN Free Trade Area*—in November 2001, Chinese former Prime Minister Zhu Rongji and the leaders of ASEAN decided to establish the China-ASEAN Free Trade Area by 2010. The China-Thailand

FTA for agricultural produce was the first of its kind to be concluded between the mainland and an ASEAN member-country. Tariffs for 188 types of fruits and vegetables were reduced to zero in October 2003. Under the agreement, China will fulfill its obligations and commitments in the Early Harvest Programme (EHP) and ASEAN-China Trade in Goods Agreement, as well as expedite negotiations on Trade in Services and Investment. In addition, China will strengthen economic and technical cooperation in the areas of agriculture, investment, information and communication technology, human resource development, Mekong River basin development, Brunei-Indonesia-Malaysia-Philippines-East ASEAN Growth Area (BIMP-EAGA), and other areas of mutual interest to reach the goal of common development and prosperity between China and ASEAN.

2. *China-Japan-South Korea Free Trade Agreement*—a joint study made by a group of think-tanks in China, Japan, and South Korea, entitled “Report and Policy Proposal on Strengthening the Trilateral Cooperation,” was submitted to the Trilateral Summit Meeting in 2003. The report underscored the economic benefits of a trilateral free trade agreement to the three countries. In 2004, the joint study group started a “Sector-Oriented Study on the Economic Effect of the Tripartite Free Trade Area,” focusing on agriculture and the manufacture of electrical machinery and automobiles.
3. *China-New Zealand Free Trade Agreement*—New Zealand is the first developed country which China has agreed to negotiate a free trade agreement with. The two countries signed a Trade and Economic Cooperation Framework on May 2004 in Auckland. The framework commits both countries to begin FTA negotiations and lays the foundation for more economic and trade cooperation. It is expected that the agreement will be signed in 2005.
4. *China-Australia Free Trade Agreement*—China is Australia’s third largest trading partner, with two-way trade exceeding AUD 28.9 billion in 2004. China and

Australia signed a Trade and Economic Framework in October 2003, under which both countries are jointly studying the feasibility of a China-Australia FTA.

5. *China-Chile Free Trade Agreement*—on a state visit in Chile in November 19, 2004, Chinese President Hu Jintao declared the launch of negotiations leading to the signing of a China-Chile FTA.

THE EAST ASIAN RTA WAVE: THEORETICAL PERSPECTIVES

In 1950, Jacob Viner put forward the concepts of “trade creation” and “trade diversion,” which offered one of the most useful analytical tools for measuring the welfare gains of customs union and laid a solid foundation for customs union theory. Trade creation takes place when production shifts from a high-cost country to a low-cost country as a result of the formation of a customs union. Trade diversion implies a shift of production from a low-cost to a high-cost country as a result of a customs union being formed. If trade creation exceeds trade diversion, the welfare of a nation will increase; otherwise, it will fall. Johnson (1960) pointed out that trade creation and trade diversion induce both consumption and production effects. Even if there is trade diversion in one customs union, the welfare of member-countries might still increase if the consumption gains exceed the welfare losses associated with deteriorating terms of trade. Corden (1972) introduced economies of scale into the theoretical framework of customs unions. In addition to the static concepts of trade creation and trade diversion, the dynamic effects of cost reduction and trade suppression must also be taken into account.

Kemp and Wan (1976) presented an elementary proposition concerning the formation of customs unions. If the member-countries impose a uniform tariff and establish an income transfer system within the union, a competitive equilibrium will emerge, avoiding a loss of welfare in both member and nonmember countries. However, Winters (1997) argued that the Kemp-Wan theorem is not sufficient to measure the welfare of nonmember countries, which is better evaluated through the market share of imports from rather than of exports to the member-countries. The traditional trade literature on customs union mainly deals with the static effects of regional trade agreements and does not conclude definitely on the relative sizes of trade creation and trade

diversion, which depend on the assumptions of and approaches to measurement.

THE NEW TRADE THEORY AND RTAs

In the new trade theory literature, incomplete competition, product differentiation, and increasing returns to scale are assumed. The real world is reflected more vividly as a result of endogenous growth theory. Economic geography and trade costs have been included in the economic framework of RTAs. Krugman and Venables (1990) have investigated the relationship between RTAs and economic geography, particularly with regard to the relationship between a low-wage small country (periphery) and a high-wage big country (core). The removal of trade barriers transfers the production to the periphery countries but the cost disadvantages do not disappear at the same time. The complete elimination of trade barriers will thus improve the competitiveness of periphery countries.

RTAs can also have dynamic effects on economic growth through investment and industrial distribution. Economic growth results from the accumulation of factors of production such as physical or human capital. Traditional growth theory suggests that accumulating more factors of production alone will eventually run out of steam as the rates of return will decline as more units of physical and human capital are added to a fixed stock of land. Endogenous growth theory argues that production exhibits constant returns to scale in capital and increasing returns to scale overall. Since RTAs facilitate trade, they will tend to raise the returns to at least some factors of production. If the cost of capital is unchanged, the response to the increasing rates of returns is to invest more and thus increase the capital stock. Once the new steady-state level of capital stock has been achieved, there will be higher levels of output. Baldwin (1992) analysed the measurable dynamic gains. The size of this dynamic gain from trade depends on the wedge between social and private returns to capital. An RTA might influence long-run growth through some mechanisms. The first possible mechanism arises from technological spillovers between members either as a consequence of increased trade volumes or of policies designed to encourage scientific interchange. The second mechanism can arise if an RTA directly affects the efficiency of sectors that produce accumulated factors. For example, if the knowledge-creation sector is imperfectly

competitive and the effect of integration is pro-competitive, integration may have long-run growth effects.

The “natural-trading-partner hypothesis” put forward by Wonnacott and Lutz (1989) states that RTAs constituting natural trading partners are more likely to create trade between member-countries and less likely to divert trade from nonmember countries, thus leading to large improvements of economic welfare. In this theory, geographically proximate countries are more likely to be natural partners for RTA. Frankel (1995) examined the welfare effects of RTAs between continental countries and transcontinental countries. Natural trading blocs refer to the trading groups formed by the countries within one continent while unnatural trading blocs—also called transcontinental trading blocs—are composed of single nations from each continent. Empirical research suggests that natural trading blocs would increase global welfare more than unnatural ones, but not all continental RTAs would make welfare improvements. This possibility can be obtained when intercontinental transportation costs are not necessarily as low as intracontinental costs. The natural zones that fail to enhance world welfare are also called “supernatural areas.”

HUB-AND-SPOKE BILATERIALISM

The configuration of RTAs has changed from a given country being a member of only one RTA to membership in multiple RTAs. Both hub and spoke can be a single country such as China or an RTA itself such as ASEAN. RTAs imply a loss of cost-competitiveness by imperfectly-competitive nonmember firms whose profits in the RTA markets decline because they must face the tariffs that member countries' firms do not have to pay. These firms then lobby for entry, tilting the political equilibrium at the margin towards entry demands in their countries. The countries closest to the margin will then enter the bloc, assuming that the members have open entry, thus enlarging the market and thereby increasing the cost of nonmembership and pulling in countries at the next margin (Panagariya 1999a, 1999b, 2000).

The hub-and-spoke structure creates two layers of discrimination. The hub is accessible to each spoke on a preferential basis, but each spoke can only enjoy the preferential access to the hub. Both hub and spoke discriminate against nonmembers. The hub country also gains if it diverts investment from each of its spokes; its favored position gives

Table 4. The welfare changes of RTAs in the Asia-Pacific region (percentage of GDP)

Countries/ regions	Bilateral (Japan- South Korea)	Multilateral (China- South Korea- Japan)	Multilateral (ASEAN+3)	Multilateral (APEC Free Trade Area)	Global
China	-0.05	2.09	1.96	3.19	4.51
South Korea	-0.28	0.80	1.18	1.63	1.83
Japan	0.01	0.25	0.34	0.74	0.98
Singapore	-0.07	-0.87	4.12	0.72	6.94
APEC	-0.01	0.16	0.25	0.58	0.84
All the members	-0.01	0.50	0.64	0.58	n.a.
Nonmembers	-0.01	-0.03	-0.12	-0.12	n.a.
The world	-0.01	0.09	0.27	0.27	0.56

Source: Scollay and Gilbert 2001.

producers access not only to the domestic market but also to those of all the spoke economies. Furthermore, producers based in the hub are likely to get more inputs at low or zero tariffs than those based in the spokes, since they can source both from the hub and from any of the spokes. An inefficient pattern of investment may be perpetuated, as a result of inertia, even if a hub-and-spoke system evolves into a free trade area. A spoke economy does not gain from trade with other spokes. It may be discriminated in other spoke markets and it may have a reduced ability to compete in all markets against the firms that are based in the hub (Wonnacott 1996). Hub-and-spoke RTAs, where the hub signs no deals with spokes, create a self-inflicted periphery.

Hub-and-spoke bilateralism will also bring about “spaghetti bowl” effects. Complex regulatory trade rules such as antidumping and antitrust policies, rules of origin, technical standards, and sanitary and phytosanitary (SPS) provisions and safeguards will increase the transaction costs both for enterprises and governments involved in the hub-and-spoke pattern. The problem worsens as the network of RTAs becomes more complicated. Since the beginning of the century, the East Asian region has been moving towards the hub-and-spoke bilateralism, which will tend to bring about more trade discrimination and investment deterring effects. In order to maximize the regional and global welfare, RTAs in East Asia should focus more on facilitating trade measures and lowering the trade barriers to nonmembers, becoming building blocks to multilateral trade liberalization.

CHINA'S STRATEGY AGAINST EAST ASIAN "HUB-AND-SPOKE" BILATERALISM

Most studies indicate that trade creation will exceed trade diversion if China joins RTAs in East Asia. Scollay and Gilbert (2001) conducted an empirical analysis of potential RTAs in the Asia-Pacific region using the Computable General Equilibrium (CGE) model. CGE models provide a framework that can detail how the extra trade translates into improved economic performance. They also suggest why the growth process can be faster for one subset of countries but slower for another. In CGE models, analysts assemble the relevant economic structural features and behaviour of agents and simulate the economic effects of existing or proposed RTAs using the framework. The analytical design of the model drives the results of the empirical analysis and establishes the model's credibility. The simulations showed that if Japan and South Korea signs the RTA first, the welfare of China will be lowered by 0.05 percent. However, it will be improved greatly if China participates in the other multilateral RTAs in Asia-Pacific (see Table 4).

The ASEAN-China RTA will liberalize and promote trade in goods and services and create a transparent, liberal and facilitative investment regime in the region. The initial ASEAN-China milestone was the EHP, which has been in effect since January 1, 2004. Market access opportunities for specific products or services of interest to China and ASEAN—such as agricultural and tropical products, textiles and clothing, machinery and electronic products, footwear, oils and fats, foodstuff, forestry and aquaculture products and energy—will be enhanced. The Agreement on Trade in Goods will take effect on July 1, 2005. Preferential customs duty rates will be granted on products imported from ASEAN into China and on exports from China to ASEAN (e.g., 10 percent versus 15 percent). As a general rule, RTAs are a source of significant customs duty savings.

China has to pursue its RTA strategy actively now since the country is still facing great challenges in international markets where regional trading blocs are playing an increasingly important role even after WTO entry. RTAs cover many topics besides merchandise trade, such as standards, transport, customs cooperation, services, intellectual property, investment, dispute settlement, labor, and competition. The Chinese government can integrate unilateral, regional, and multilateral initiatives and make regionalism complementary to multilateralism, minimizing the negative impact induced by hub-and-spoke bilateralism and promoting the regional security in East Asia.

STRENGTHENING CHINA'S ROLE AS A HUB IN THE EAST ASIAN RTA WAVE

Leadership plays an important role in regional economic integration. At present, ASEAN dominates the East Asian economic cooperation but it is impossible for the organization to be the region's leader because of its limited economic capacity. Japan could dominate because of its economic strength but its negative historical credentials, including its prior beggar-thy-neighbour policies, have led to a lack of trust to the country among East Asian countries. Unlike the US which dominates the Western hemisphere, Japan is unlikely to rule in East Asia due to economic and political reasons. Japan accounts for a significantly smaller share of East Asian Gross Domestic Product (GDP). Likewise, it is in a state of temporary economic decline in contrast to the dynamic expansion of the US economy throughout most of the past decade. Japan is unable to match the ability of the US to exert economic hegemony at the global and regional levels, both directly through its own economic initiatives and indirectly through its influence in global economic institutions.

Since the mid-1980s, the rapid development of the Chinese economy has modified the pattern of East Asian economic cooperation. The "Goose" model led by Japan is being replaced by the "Twin-Locomotive" model, which involves the advanced technology of Japan and the huge market of China. Inevitably, East Asian regionalism is moving towards the pattern of two hubs (China and Japan) and many spokes. In the future, an RTA union might be established, which should avoid the negative effects of hub-and-spoke bilateralism. China must strengthen its role as the hub in the new regionalism of East Asia.

HARMONIZING REGIONAL TRADE RULES TO AVOID "SPAGHETTI BOWL" EFFECTS

Regulatory provisions in RTAs include rules of origin, standards, technical regulations, SPS provisions and safeguards, and trade and competition (antidumping and antitrust) policies. Depending on its design, the trade regulatory regime enforced among parties in a given RTA may operate in a manner which adds to or detracts from parallel trade liberalization efforts. The current negotiations on RTAs at the WTO are focusing on transparency and systemic issues, but an "early harvest" on transparency issues was not achieved in time for the WTO

Ministerial Conference in Cancun in August 2003. China must keep an eye on the latest developments in the WTO negotiations and draft transparent trading regulations vis-à-vis potential RTAs to reduce trade frictions. In terms of trade policies, foreign direct investments (FDI) have been recognized as one of the most important motives for signing RTAs. RTAs have been extended beyond the trade in goods. Hence, they will impose great economic impacts on trade in services, investment agreements, and intellectual property.

On the quarantine question between China and Japan, discussions between the two governments have been conducted since February 2004 in view of strengthening bilateral relations, especially that of resuming the import of heat-processed poultry meat from China through facilities designated by the Japanese authority. In the Korea-China bilateral context, the two countries agreed on October 30, 2003 to establish a consultation mechanism for quality supervision, inspection, and quarantine. In addition, both Korean and Chinese food safety authorities signed the Arrangement for Cooperation on Food Safety on October 31, 2003 (Ministry of Foreign Affairs of the People's Republic of China 2004a, b). On the other hand, standards and conformity assessment have had been one of the measures under the EHP of the China-ASEAN FTA.

RTAs can probably offer an intermediate solution as they improve regional antidumping legislation, pushing national authorities into relinquishing their powers. The experience of doing this at a regional level may encourage countries, in the long run, to eliminate antidumping on a large scale. Independently, RTAs that eliminate antidumping offer a micro model of how things should work and should be taken as exemplars of good practice (Wooton and Zanardi 2002). China should attach more importance to the regulatory provision of RTAs in the region so that it may lead to a more harmonious global trade regime and avoid the "spaghetti bowl" effects. In this sense, RTAs can be the building block of multilateral trade liberalization.

REDUCING ANTIDUMPING VULNERABILITY THROUGH RTA NEGOTIATIONS

China has become the biggest victim of global antidumping allegations. According to statistics by the WTO Secretariat, there are 386 antidumping allegations against China from 1995 to the first half of

2004. More and more developing countries have also filed antidumping allegations against Chinese products since 1995 (see Table 5). Among these countries, India is ranked first followed by the US, the EU, Argentina, Turkey, South Africa, Australia, Peru, Canada, Brazil, South Korea and Mexico.

The expansion of Chinese exports, which rely on low labour costs and cheap raw materials, into the overseas markets is being restrained because of antidumping allegations. Since 2001, the US has initiated 32 antidumping investigations on imports from China. In 2004, the US Department of Commerce decided to levy antidumping taxes on wooden furniture, colour television sets, and shrimps imported from China, amounting to USD 1.5 billion. On March 9, 2005, the US government imposed antidumping duties on imports of tissue paper from China, which hit as high as 112.84 percent. One of the main reasons for this is the nonrecognition of China's market economy status (MES) among developed countries in the West. In recent years, China has been moving towards the market economy. Meanwhile, there has been a steady decline of the state-owned economy and ongoing development of institutions that underpin the market economy. When China joined the WTO in 2001, some countries retained the right to discriminate against China on the grounds that it was a nonmarket economy. This was the justification for having special and discriminatory antidumping and safeguards against China.

Economy in Transition (EIT) status has had significant negative impact on Chinese exports. Protectionists want to continue to treat China as an EIT because when an antidumping investigation against Chinese imports is initiated, there may be concerns about the reliability of Chinese price information, leading to petitions for information to come from a third party, such as India, instead. The use of this "surrogate information" inflates domestic market price data leading to higher dumping margins for the Chinese products under investigation. Higher margins increase the likelihood of finding injury to the affected industry and the imposition antidumping duties. When the US Department of Commerce investigated the antidumping allegation of concentrated apple juice from China in 2002, the price of high-quality apples on the Indian supermarket was utilized and the dumping margin of Chinese apple juice reached 91 percent in the initial judicial judgment. After correcting the price distortion in the judicial courts, the Chinese enterprise won the case and nullified the antidumping

Table 5. Antidumping allegations against China by country distribution, January 1, 1995 to June 30, 2004

Country	Number of cases filed
Argentina	39
ASEAN member-countries	11
Australia	17
Brazil	14
Canada	16
Chile	1
Columbia	1
European Union	47
Egypt	3
India	70
Israel	1
Lithuania	1
Mexico	12
New Zealand	5
Peru	16
Poland	2
South Africa	20
South Korea	14
Turkey	29
Trinidad and Tobago	2
United States	57
Venezuela	9

Source: World Trade Organization 2003.

Note: Adapted from http://www.wto.org/english/tratop_e/adp_e/adp_stattab3_e.xls.

allegation. Because the cost of Chinese exports is often estimated to be higher if the price of a surrogate country is used, it is hard for Chinese enterprises to win antidumping allegations, which has led to a worsening trade cycle.

The present situation could be improved if China makes good use of RTA strategy to gain MES and thereby reduce the number of antidumping allegations against Chinese products. On April 14, 2004, New Zealand was the first to grant China MES. Afterwards, South Africa, Singapore, Thailand, Togo, Kyrgyzstan, and Malaysia followed suit. The next breakthrough may be South Korea, followed by Australia, Japan, Canada, members of the EU and the US. The conclusion of RTA deals will further improve trade facilitation among member-countries and reduce China's vulnerability to antidumping allegations.

RTA AND REGIONAL COOPERATION IN EAST ASIA

RTAs will broaden the regional potential, but it is impossible to realize regional prosperity without bridging the development gap in East Asia.

This makes a framework to minimize the disparity between nations imperative. In this sense, China may well take an initiative in East Asia to call for member-countries to identify themselves as East Asian citizens and to set up an East Asian community by sharing regional public goods among themselves.

At present, China is attaching more importance to the economic and regional security, since an individual economy is very vulnerable to external shocks and the existing multilateral agencies may not act in the best interests of developing economies in Asia. Without having an identity, RTAs may merely be a device to allow rich countries to reap the fruits in the region by division of labor in a bigger economy, leaving the “North-South” problem untouched. That must not be the way to go. Important public goods in East Asia include the creation of an Asian bond market, environmental protection, maintenance of regional security, protection of intellectual property and so on. As a result, China was supportive of the Japanese proposal for an Asian monetary fund right after the outbreak of the Asian financial crisis. Additionally, China indicated its strong consent to the Joint Ministerial Statement of the ASEAN+3 Financial Ministers Meeting in May 2000 in Chiang Mai on regional cooperation in the area of the monitoring of capital flows. International capital flows, energy, environment, and food have been regarded as the four most important economic security issues in China.

Given the actual circumstances and possibilities in East Asia at present, the economic and trade cooperation should be taken as the focal point in the initial stage of cooperation. In the long run, it is essential to develop cooperation based on institution building, such as the Asian monetary fund. In view of significant political differences, the objective of political cooperation in East Asia may not lie in establishing a supranational regional political organization, but in establishing a mechanism for political consultation among the countries in the region.

CONCLUSION

China joined in APEC in 1991. Since then, for 10 years, the Chinese government had been advocating open regionalism. In 2001, China participated in the WTO and announced to establish a free trade zone with ASEAN, which indicated that Chinese regional economic policy

started to change. The Chinese government attached more importance to the institutional RTAs instead of keeping an eye only on open regionalism. Within the five years in the new century, China has made great progress in its actual RTA strategy.

China's RTA strategy options are being laid out based on the country's policy declarations in the article. Now China is mainly pursuing RTA strategy with its neighboring countries in East Asia because of its diplomatic strategy. Besides, China also intends to sign RTAs with those countries that are rich in energy and natural resources so as to ensure the stable supply of energy and natural resources. However, many of potential RTAs in East Asia are of the hub-and-spoke pattern, which will lead to some negative effects towards Chinese economy. Thus, China needs to strengthen its role as a hub in the region and contribute to harmonize the regional trade rules to avoid "spaghetti bowl" effects.

As a WTO member, China is likely to make net gains when pursuing its RTA strategy with multilateralism. For instance, China is playing a critical role to achieve further discipline on issues of common interests at the WTO such as antidumping. The sustainable development of China's economy will strengthen the image of East Asia as a community to contribute more towards the multilateral trade liberalization process. ❀

ACKNOWLEDGEMENT

The authors wish to thank the anonymous referees for their constructive comments, the Asia Research Center of the London School of Economics and the Political Science and "Sunlight" Program of Zhejiang University.

REFERENCES

- Asia-Pacific Economic Cooperation (APEC). 2001. APEC economic leaders' declaration: Meeting new challenges in the new century. http://www.apec.org/apec/leaders_declarations/2001.html (accessed June 16, 2004).
- Baldwin, Richard. 1992. Measurable dynamic gains from trade. *Journal of Political Economy* 100 (1): 162-74.
- Corden, W.M. 1972. Economies of scale and customs union theory. *Journal of Political Economy* 80 (3): 465-75.
- Crawford, Jo-Ann and Roberto V. Fiorentino. 2005. The changing landscape of regional trade agreements. http://www.wto.org/english/res_e/booksp_e/discussion_papers8_e.pdf (accessed September 12, 2005).
- Johnson, Harry. 1960. The economic theory of customs union. In *Economic analysis of regional trading arrangements*, ed. Richard Pomfret, 64-77. Cheltenham: Edward Elgar.

- Kemp, Murray and Henry Wan Jr. 1976. An elementary proposition concerning the formation of customs unions. In *Economic analysis of regional trading arrangements*, ed. Richard Pomfret, 85-88. Cheltenham: Edward Elgar.
- Krugman, Paul and Anthony Venables. 1990. Integration and the competitiveness of peripheral industry. In *Unity with diversity in the European economy*, eds. Christopher Bliss and Jorge Brage de Macedo, 56-75. Cambridge: Cambridge University Press.
- Ministry of Foreign Affairs of Japan. 2002. Japan's FTA strategy (summary). <http://www.mofa.go.jp/policy/economy/fta/strategy0210.html> (accessed March 20, 2005).
- Ministry of Foreign Affairs of the People's Republic of China. 2004a. Plan of action to implement the joint declaration on ASEAN-China strategic partnership for peace and prosperity. <http://www.fmprc.gov.cn/eng/wjb/zzjg/yzs/dqzzywt/t175851.htm> (accessed February 20, 2005).
- . 2004b. The progress report of the trilateral cooperation among the People's Republic of China, Japan and the Republic of Korea. <http://www.fmprc.gov.cn/eng/wjb/zzjg/yzs/dqzzywt/t175822.htm> (accessed February 20, 2005).
- Panagariya, Arvind. 1999a. The regionalism debate: An overview. *World Economy* 22(4): 477-511.
- . 1999b. *Regionalism in trade policy: Essays on preferential trading agreement*. Singapore: World Scientific Publishing Co. Pte .Ltd.
- . 2000. Preferential trade liberalization: The traditional theory and new developments. *Journal of Economic Literature* 38 (2): 287-331.
- Scollay, Robert and John Gilbert. 2001. *New regional trading arrangements in the Asia Pacific*. Washington, D.C.: Institute for International Economics.
- Viner, Jacob. 1950. *The customs union issue*. New York: Carnegie Endowment for International Peace.
- Winters, Alan. 1997. Regionalism and the rest of the world: The irrelevance of the Kemp-Wan Theorem. *Oxford Economic Papers* 49 (2): 228-234.
- Wonnacott, Paul and Mark Lutz. 1989. Is there a case for more free trade areas? In *Free trade areas and US trade policy*, ed. Jeff Schott, 59-89. Washington, D.C.: Institute for International Economics.
- Wonnacott, Ronald. 1996. Trade and investment in a hub-and-spoke system versus a free trade area. *The World Economy* 19 (3): 237-252.
- Wooton, Ian and Maurizio Zanardi .2002. Trade and competition policy: Anti-dumping versus anti-trust. <http://homepages.strath.ac.uk/~hubs03115> (accessed March 1, 2005).
- World Trade Organization (WTO). 2003. The changing landscape of RTAs. <http://www.wto.org> (accessed July 1, 2004).

WANG JINMIN is lecturer at the School of Economics, Zhejiang University, the People's Republic of China and with The China and Transitional Economies Centre, University College Northampton, the United Kingdom. Send correspondence to the author at jinmin.wang@northampton.ac.uk / jimonboat@sohu.com.

RICHARD SANDERS is director of the China and Transitional Economies Centre, University College Northampton. Send correspondence to the author at richard.sanders@northampton.ac.uk.

CHEN YANG is deputy director of the China and Transitional Economies Centre, University College Northampton. Send correspondence to the author at yang.chen@northampton.ac.uk.