

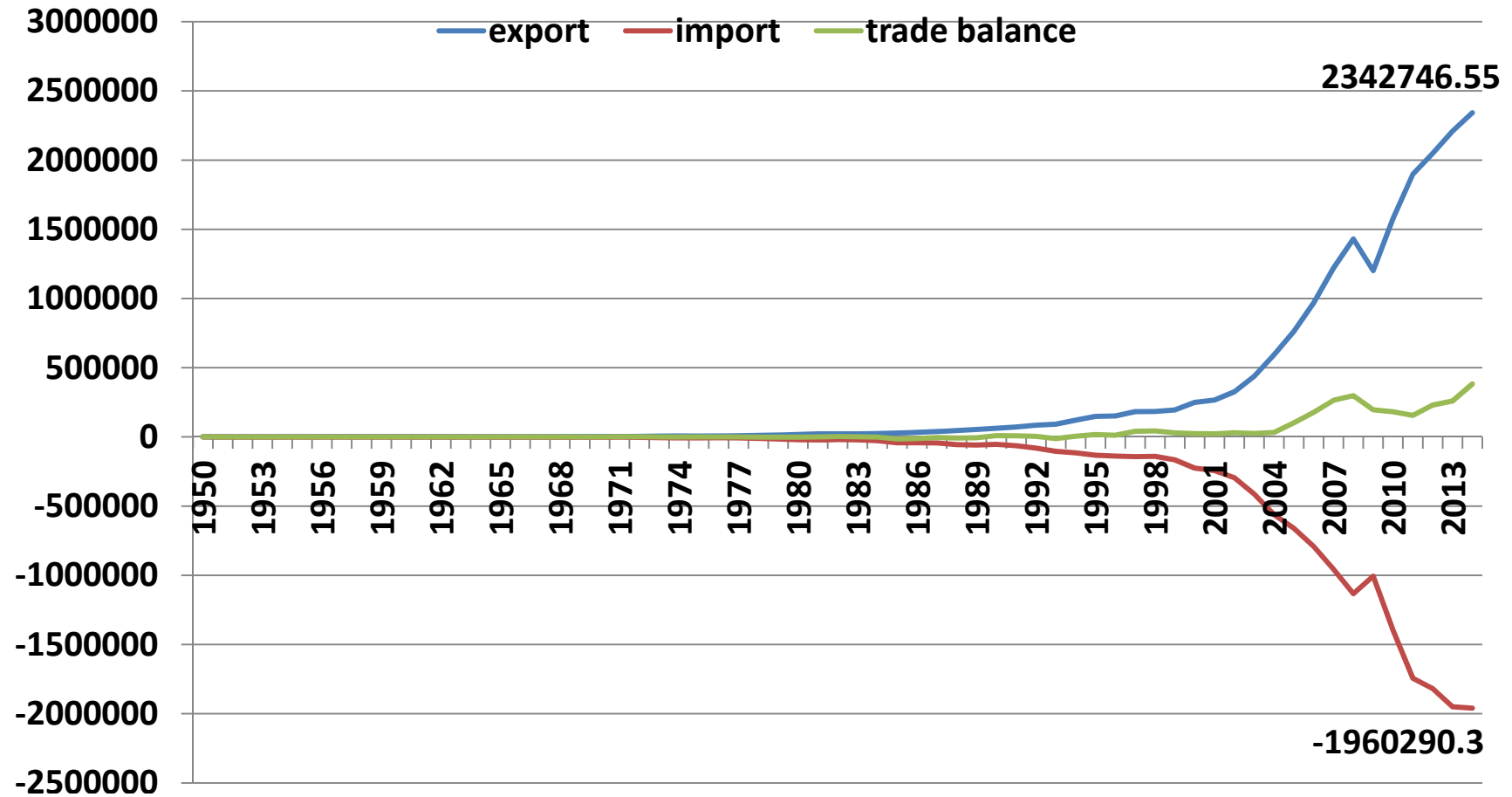
China's trade: TPP, APEC or ASEAN?

**Song Hong, Senior Fellow/Professor
Institute of World Economics and Politics(IWEP),
Chinese Academy of Social Sciences (CASS)
2015, Mexico**

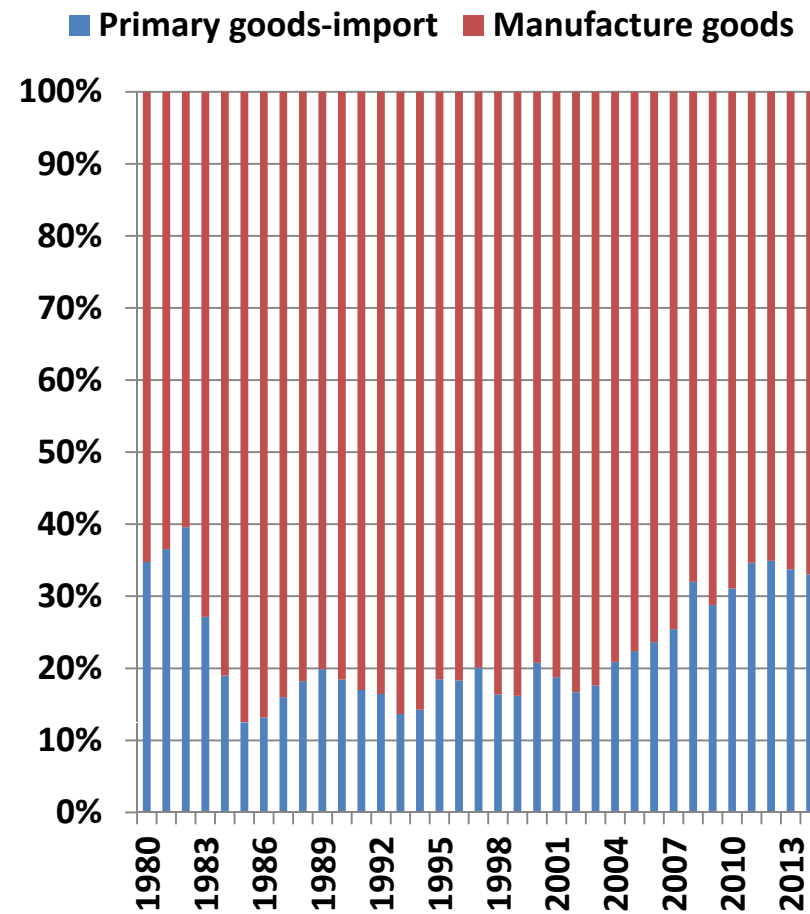
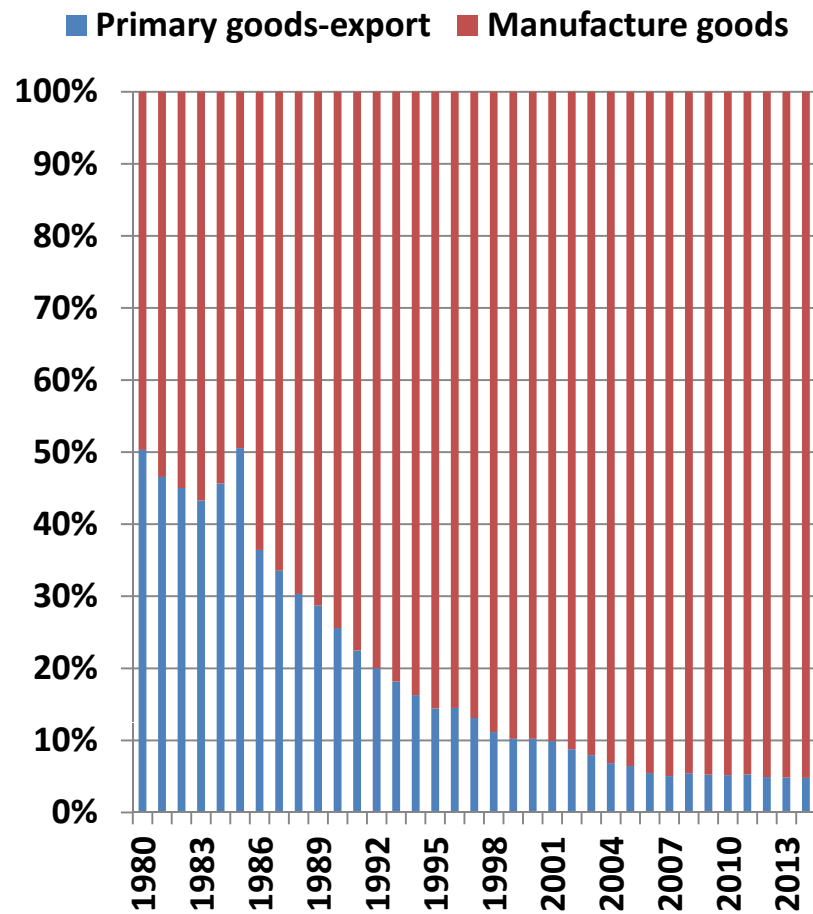
Outline of this presentation

- **Stytilize facts of China's trade developments;**
- **The development stage of China's trade**
- **Regional cooperation and its implications for China;**
- **China's new regional initiative----one belt, one road initiative**

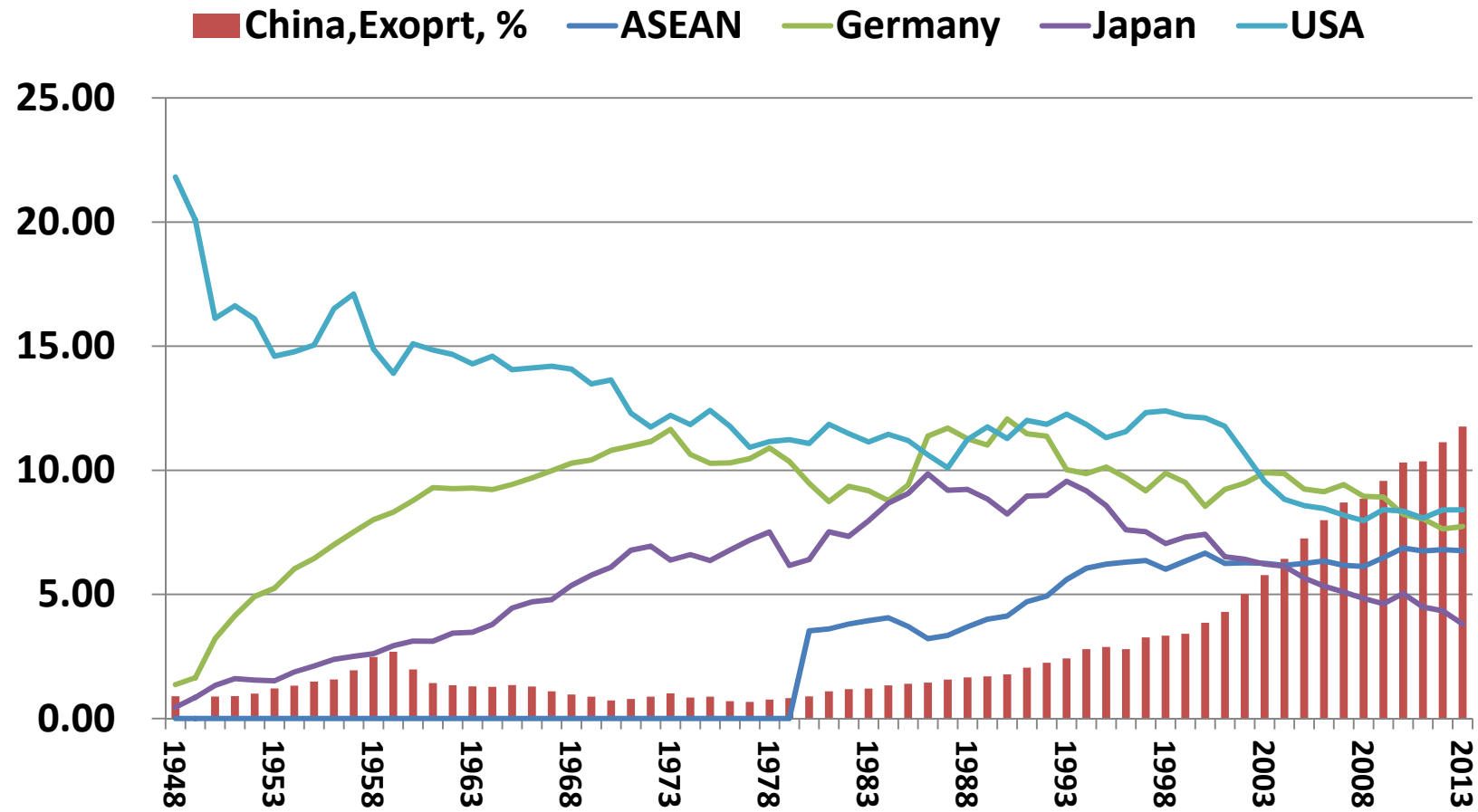
I. China's trade development, 1950-2014, \$ million



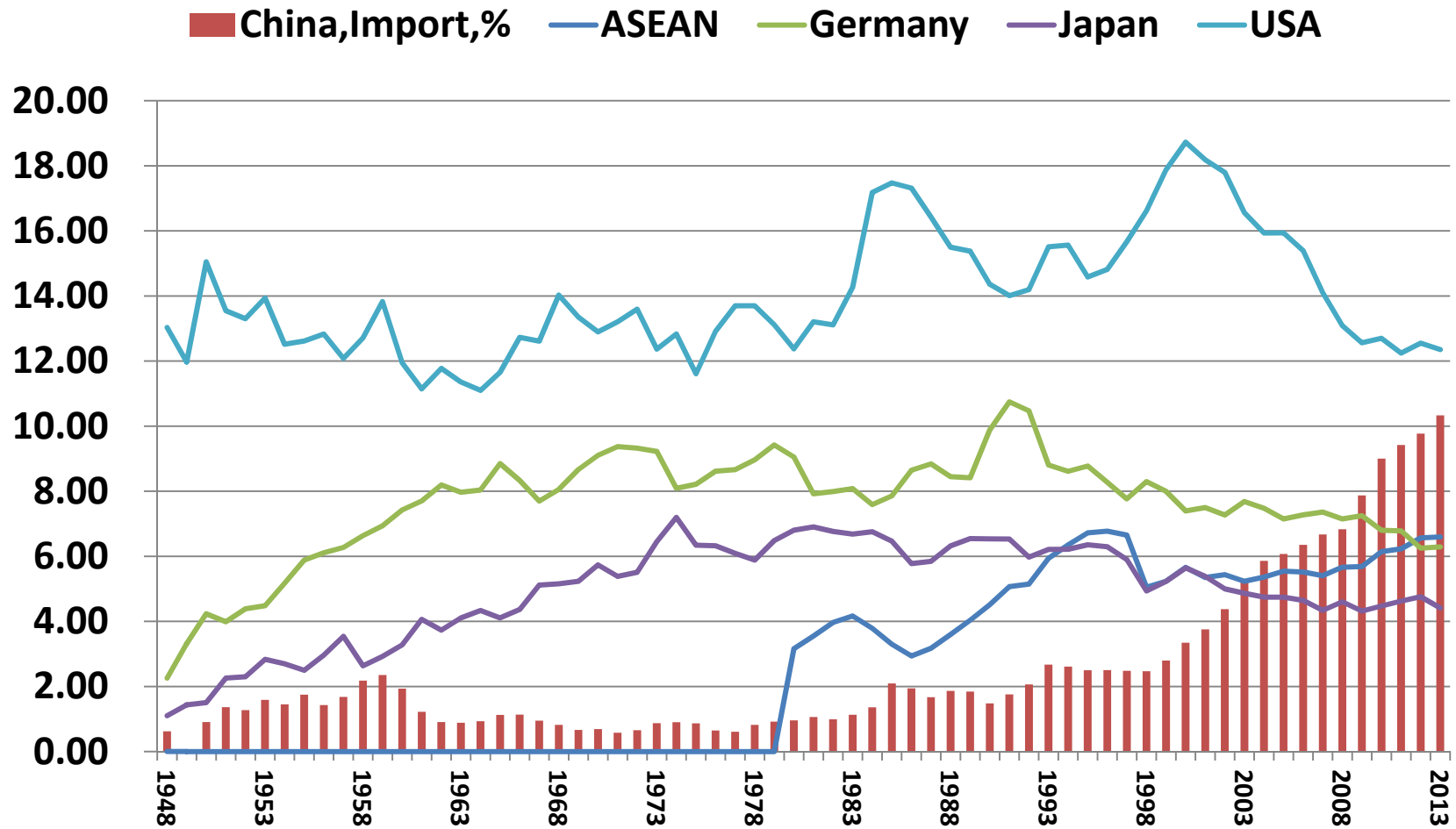
The composite of China's trade, 1980-2014, \$ million



The share of China's export in the world, 1948-2014, %

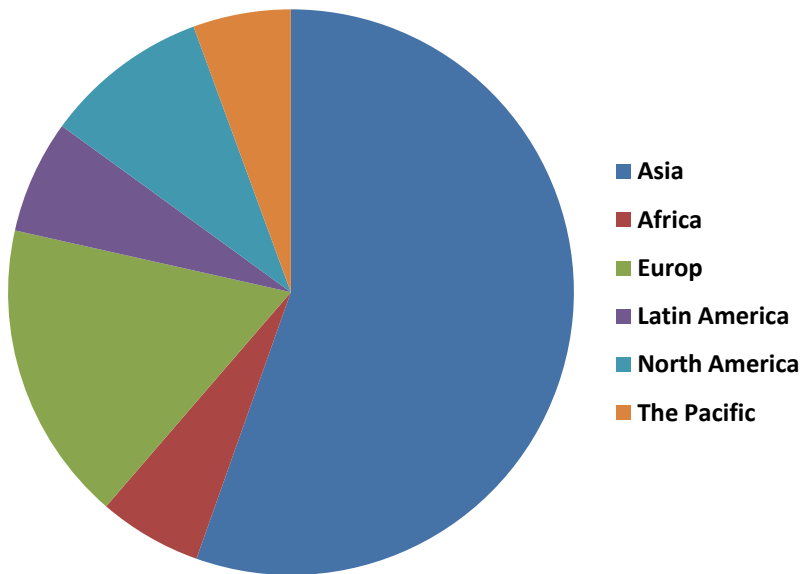


The share of China's Import in the world, 1948-2014, %

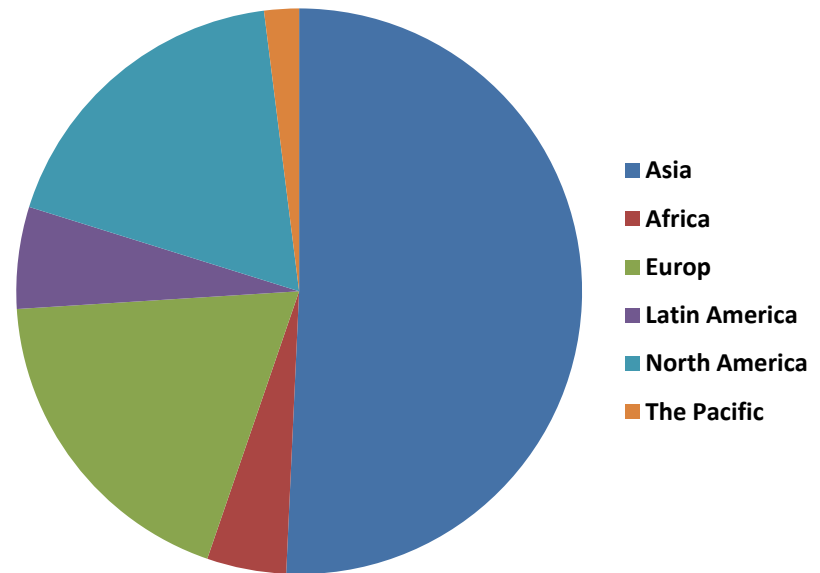


China's trade partners, 2014, %

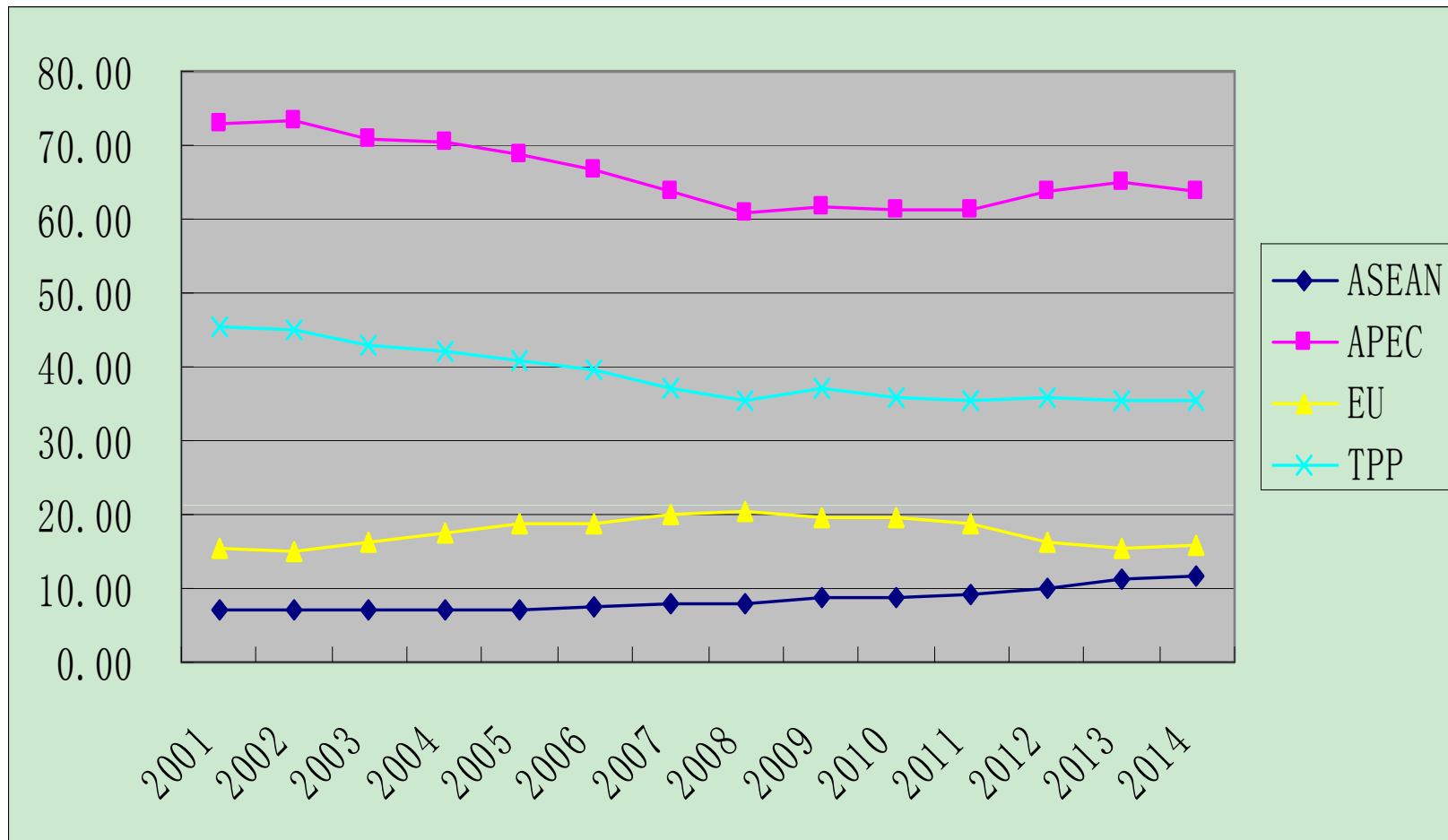
share of region, import, %



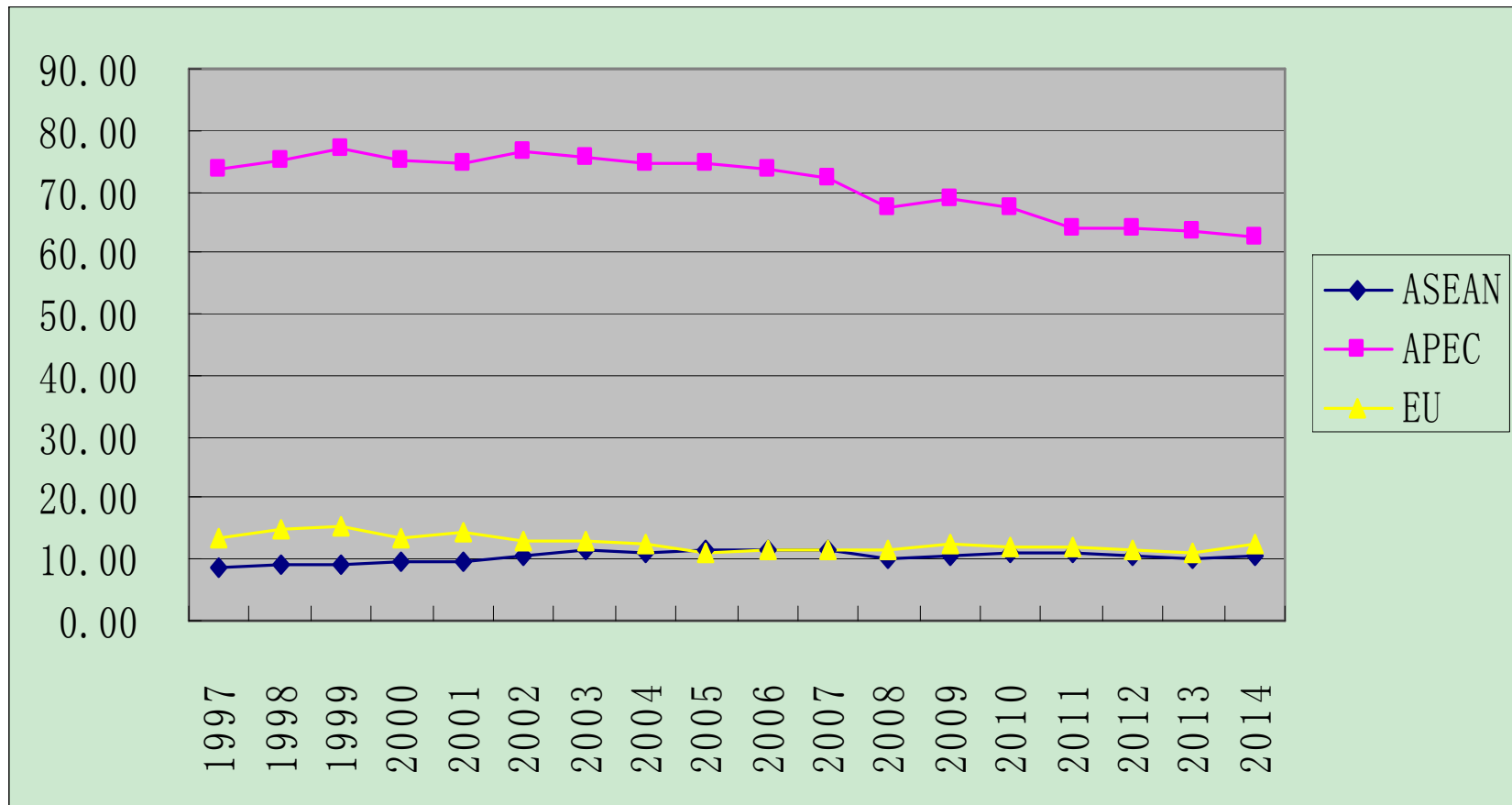
share of region, 2014, export



Export markets: APEC, ASEAN and TPP



Import sources: APEC, ASEAN and EU



II. The reasons behind...

- The market-oriented reform, and the opening up to the outside world;**
- On the one hand, we dramatically reform our economic regime, and on the other hand, integrated into the regionally, and global economic system.**

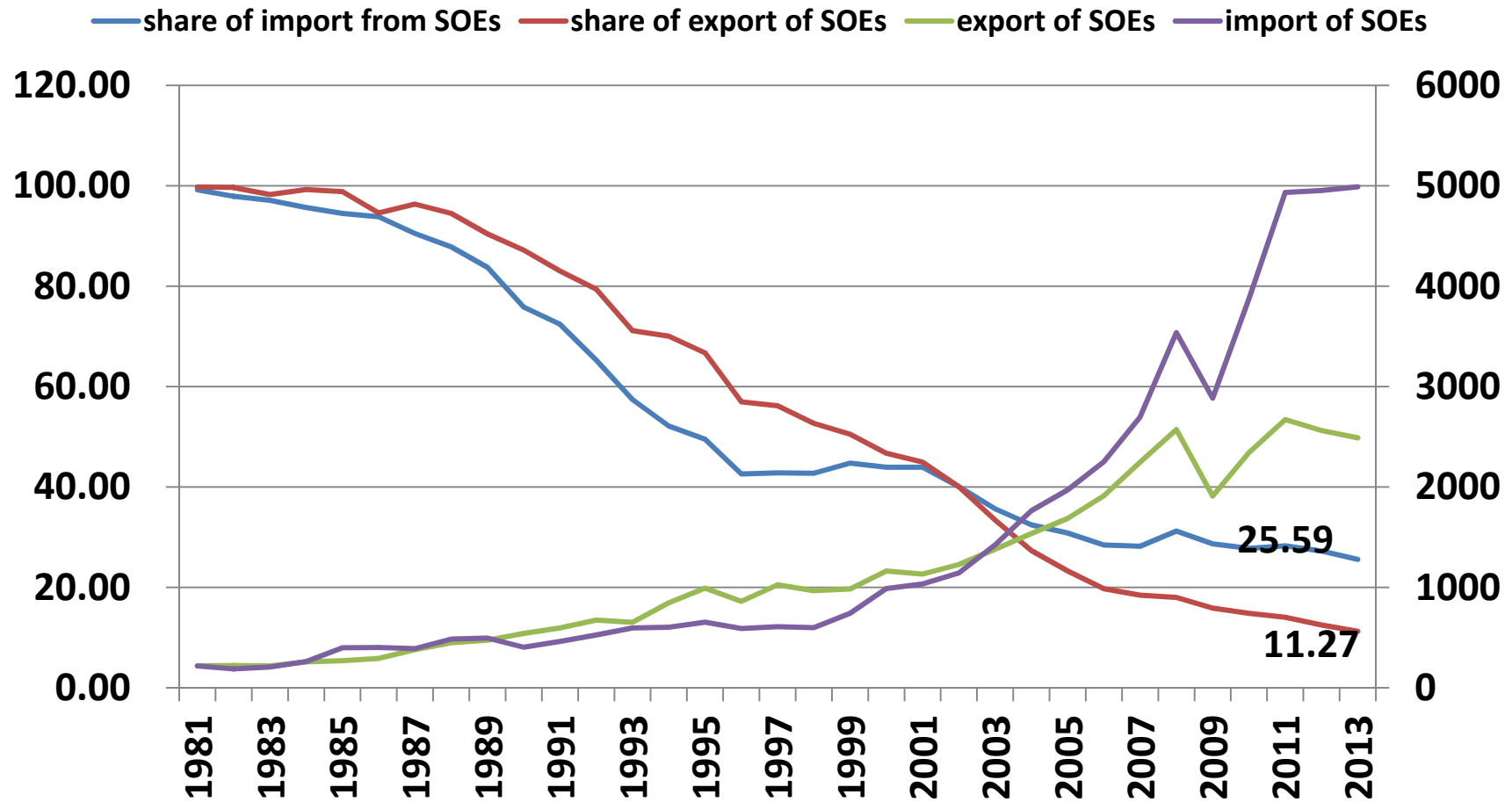
The nexus of reform and integration

- **1) The SOEs and Collective firms reform and inward FDI in the early stage;**
- **SOEs: workers, factories without orders;**
- **Inward FDI, or processing trade, with orders, sometimes even with inputs and components, and marketing opportunities;**
- **2) the middle of 1980s: domestic reform and Plaza accord 1985**

Internal policy and external changes

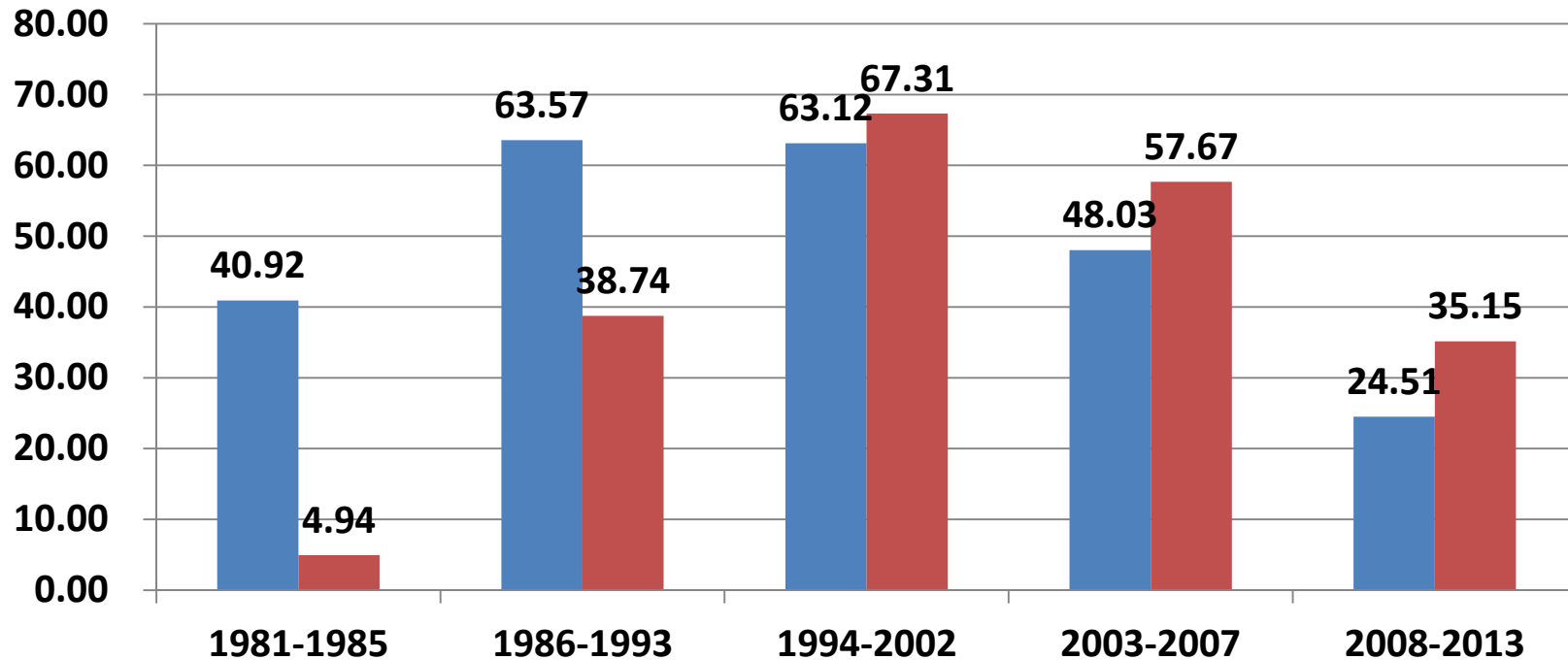
	Economic determinants	Macroeconomic environment	FDI policy	International environment
1979 – 1991	1980-91: GDP growth rate annually (in constant price) , 9.18%	Reform and opening up to the outside world policy in 1978	1986: more incentives provided to FDI; Actively integrating with Asian NIEs strategy since 1987.	After Plaza Agreement in the mid of 1980s, Japanese Yen and NIEs currencies appreciated to US dollar, which contributes to the transfer of labor intensive industries to other economies.
1992 – 2000	GDP growth rate annually 10.35%	In early 1992, Deng Xiaoping made his South Tour speech--to build socialist market economy	More liberalization in China's trade regime and FDI regime	The end of cold war, and collapse of Soviet Union in 1989-1990, Asian NIEs, especially Taiwan and South Korea, began to transfer machinery and electrical industries to China during this period.
2001 – 2007	GDP growth rate annually 10.36%	China joined into WTO.	Much more open to FDI, for example, in service sector, and signed TRIMs and TRIPs agreements.	High technology and capital intensive industries, for example, IT and car industries began to be transferred to China.
After 2008		scientific development model	National treatment for foreign and domestic firms, the incentives provided to FDI in the past ended	There are external constraints from financial crisis and traditional export oriented strategy.

The changing role of SOEs

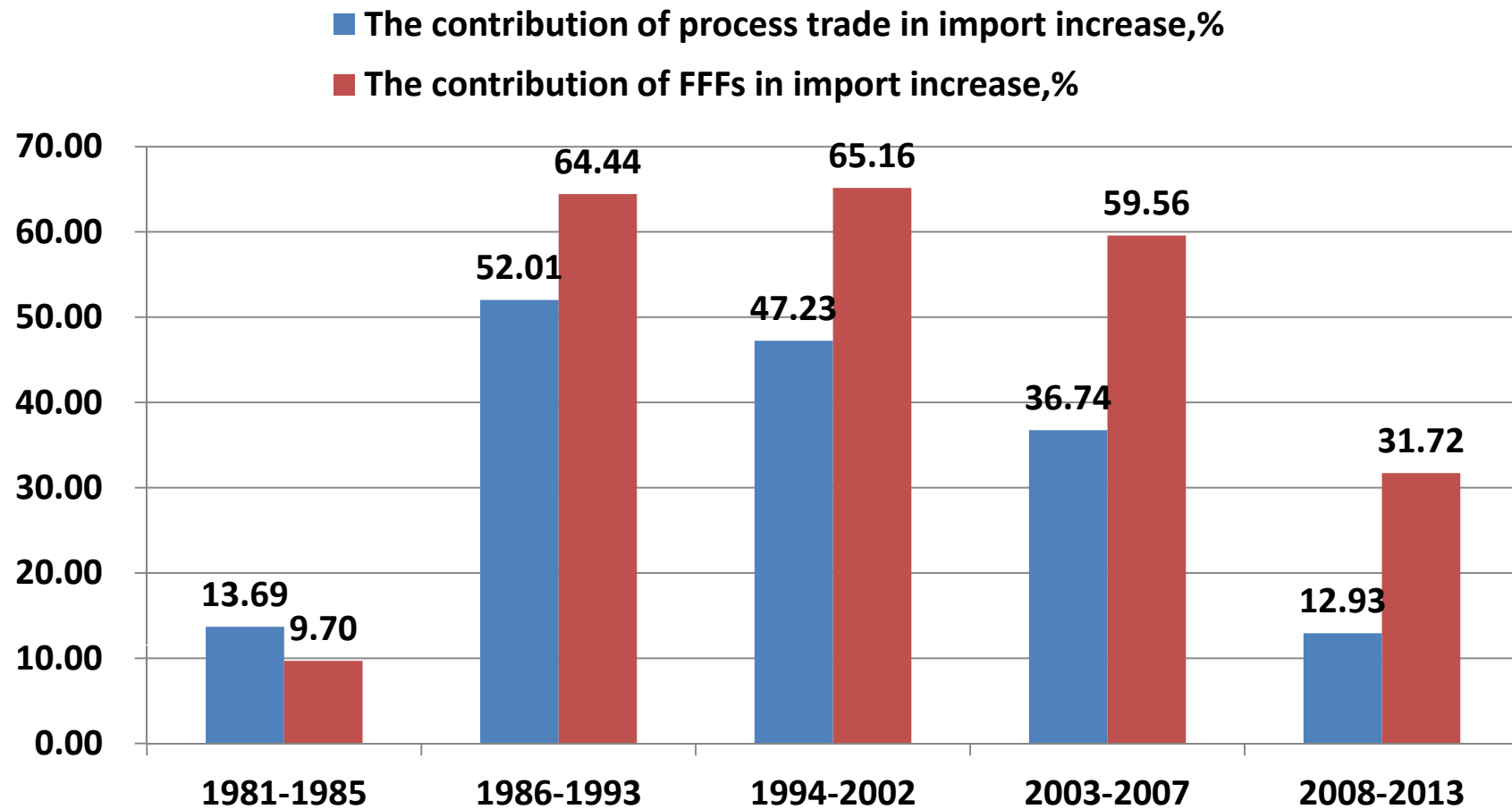


The contribution of process trade and FFFs in export increase,%

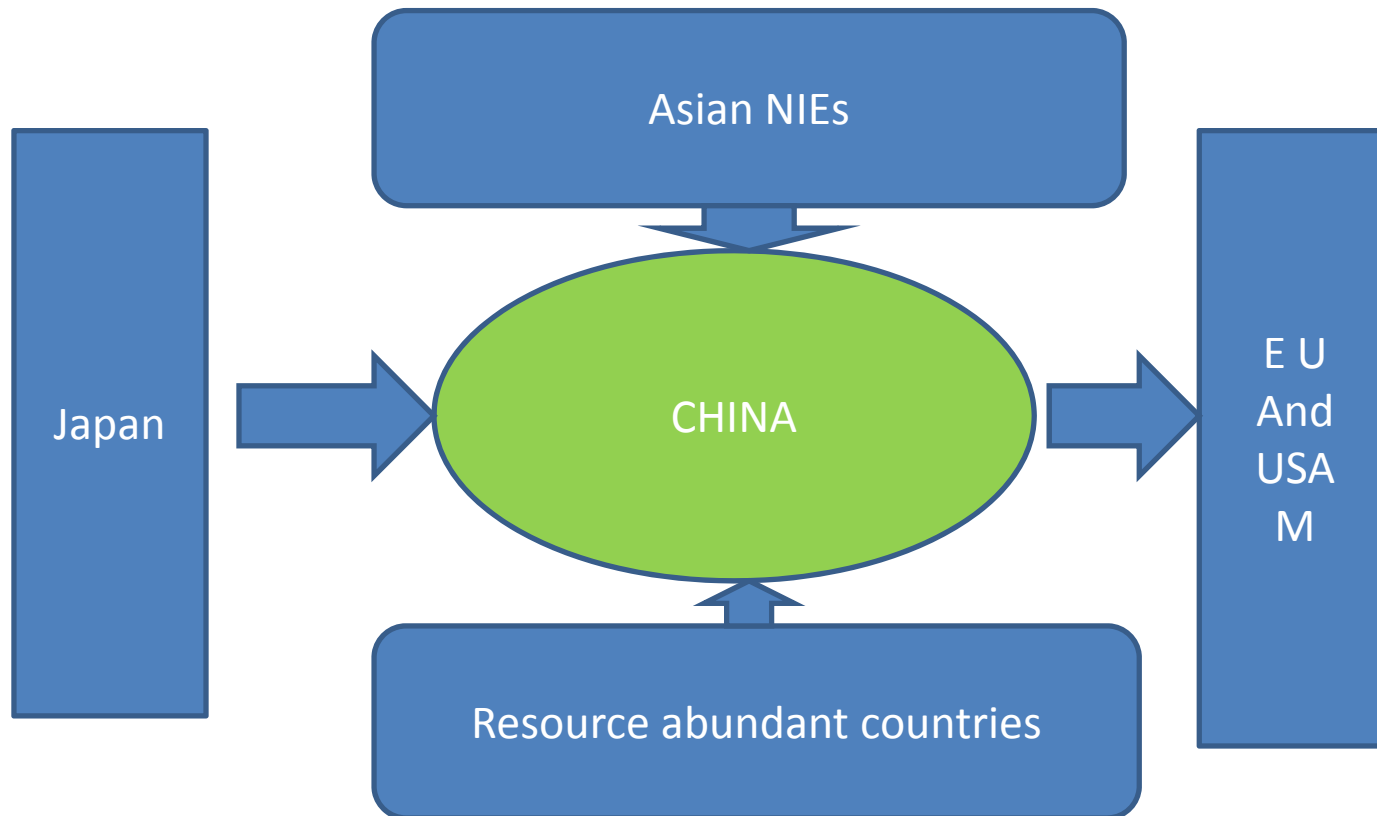
- The contribution of process trade in export increase,%
- The contribution of FFFs in export increase,%



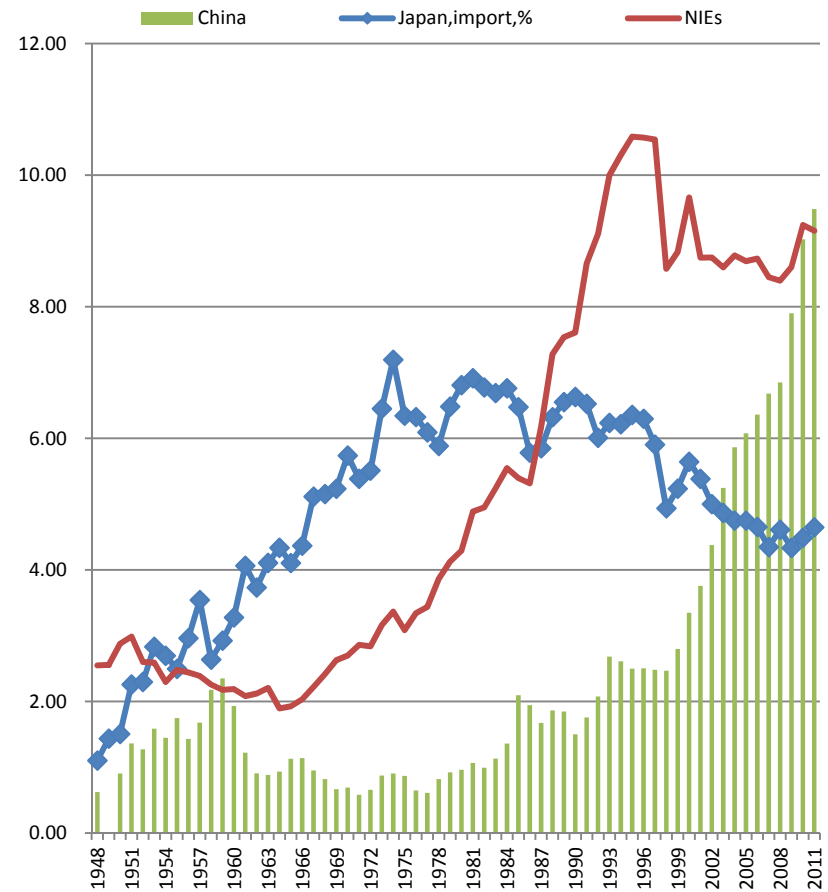
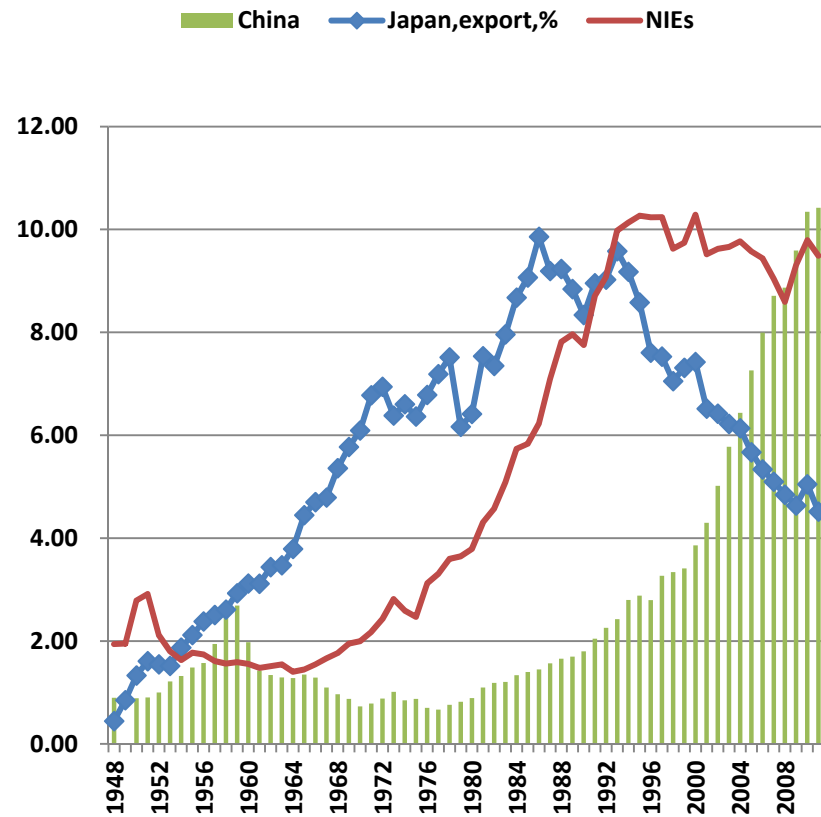
The contribution of process trade and FFFs in import increase,%



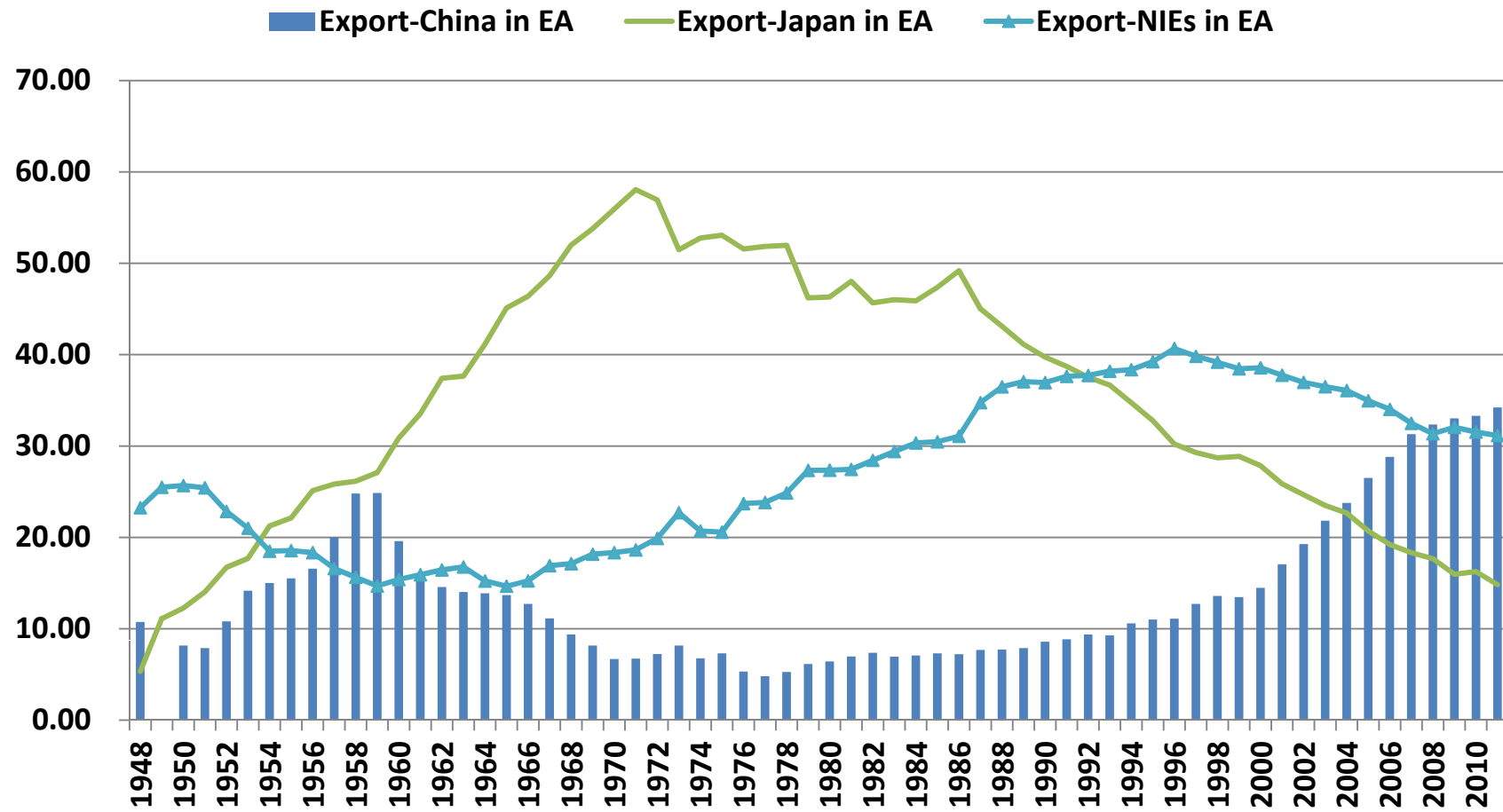
The hub and the bridge of EA



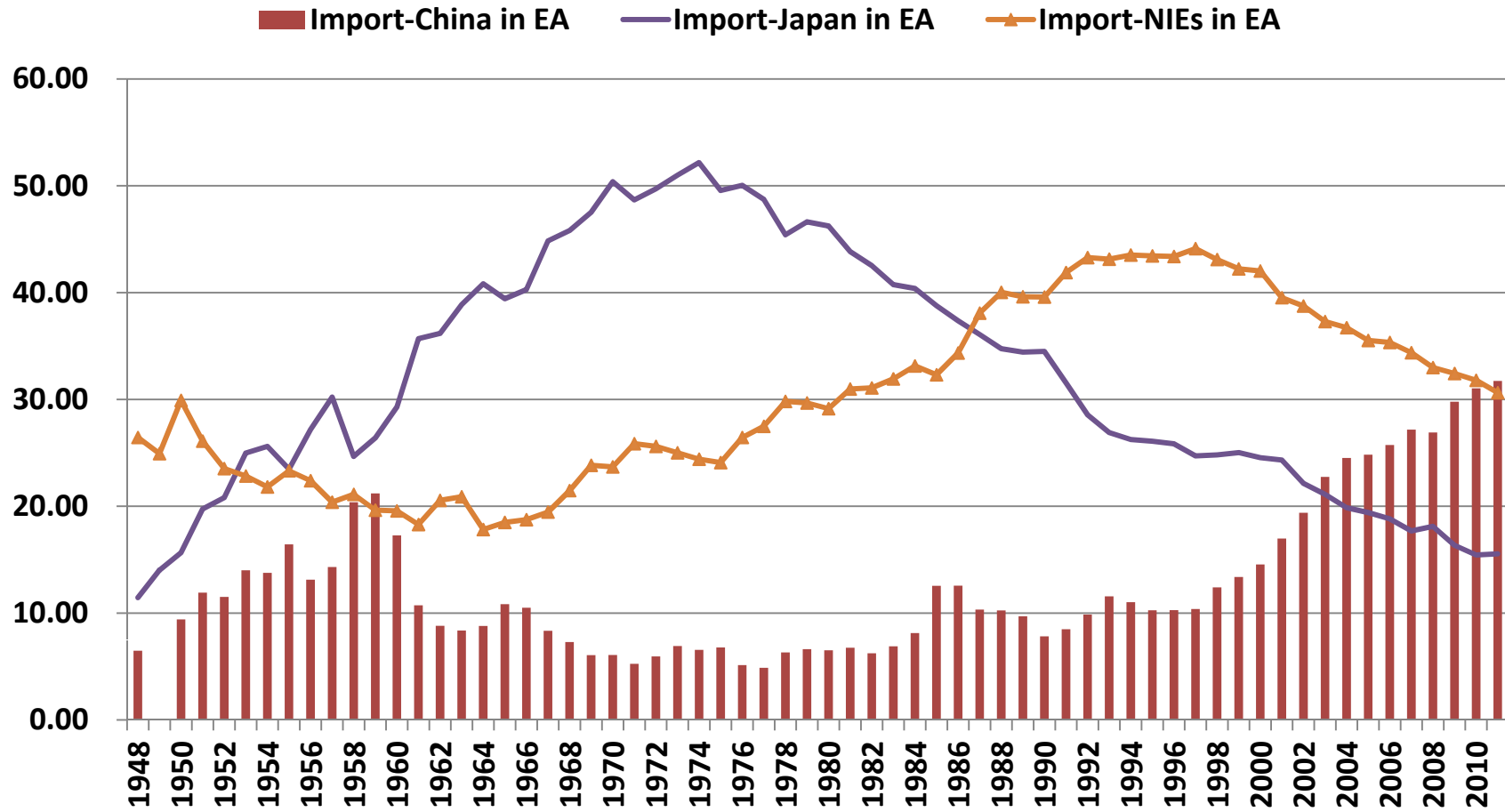
The wave of trade expansion in East Asia, 1948-2011: Japan, NIEs and China



The role of China as a export market for EA;



The role of China as a source of import supply for EA;



The role of China in East Asia

East Asia Economies	Top 4 Export markets	Top 4 Import sources
Japan	China, USA, Eurozone, Korea	China, USA, Eurozone, Australia
Hong Kong	China, USA, Eurozone, Japan	China, Japan, Singapore, Eurozone
Korea,	China, USA, Eurozone, Japan	China, Japan, USA, Eurozone
Singapore	Malaysia, HongKong, Indonesia, China	USA, Malaysia, China, Eurozone
Taiwan	China, USA, HongKong, Eurozone	Japan, China, USA, Eurozone
China	USA, HongKong, Eurozone, Japan	Japan, Eurozone, Korea, Taiwan
Indonesia	Japan, China, Singapore, USA	China, Singapore, Japan, Korea
Malaysia	China, Singapore, Japan, USA	Singapore, China, Japan, USA
Philippines	China, Japan, USA, Singapore	China, Japan, USA, Korea
Thailand	China, USA, Japan, HongKong	Japan, China, UAE, Eurozone
India	Eurozone, UAE, USA, China	China, Eurozone, UAE, USA
Viet Nam	USA, Eurozone, Japan, China	China, Korea, Singapore, Japan

III. The rising of big FTAs

- **The deadlock of DDA round;**
- **The reasons behind it is the change of governance structure of WTO----the rising of BRICS;**
- **The four key contracting parties----USA, EU, Canada and Japan; Now, the six key one: USA, EU, Australia, India, Brazil and China.**
- **The separate strategies of industrial countries and BRICS.**

TTP and TTIP

- **21 century trade issues----Intellectual property rights, environmental protection, labor conditions, SOEs; Investment issues.**
- **High quality----Zero tariff for all goods, neutral competition of SOEs, and so on.**
- **TTP, TTIP and EPA between EU and Japan.**

Which countries may survive?

- **Industrial countries. But, even for those countries, they also complaint about the new requirements of TPP. Ex. Australia for the IPRs rules, New Zealand for the SOEs, and so on.**
- **Small developing countries, such as Chile, Malaysia, Singapore.**
- **The most difficult countries are the large developing countries, such China and other BRICS countries.**

Leading industrial countries united

- **TPP-----USA and Japan;**
- **TTIP-----USA and EU;**
- **EU and Japan FTA;**
- **The leading industrial countries united;**
- **Which countries left?**

Challenges China faced

- **China now is at its critical point of transition from a low-value added goods producer to a high value added one;**
- **The upgrading of Chinese economy makes it very difficult for China to participate this high level FTAs;**
- **On the other hand, China is targeted as well by the USA...**

The implications of TPP&TTIP

- **The new potential conflicted issues;**
- **The head to head trade and investment conflicts between China and the major industrial countries. Ex. China's investment in USA and EU, trade disputes with USA and EU (Photovoltaic (PV)), island dispute with Japan;**
- **China would be the favorite target of industrial countries.**

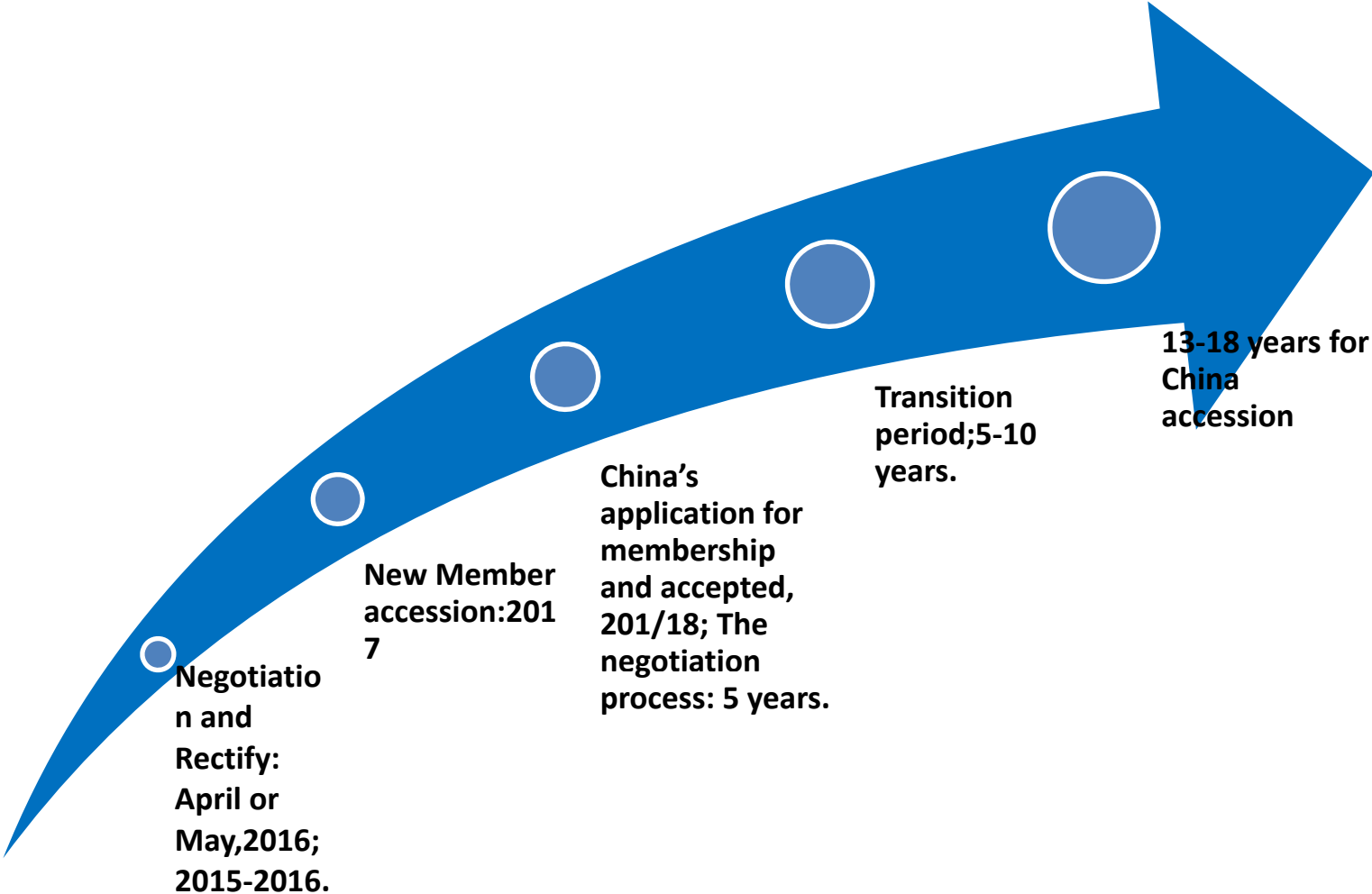
The implications for the new governance structure of WTO

- **More patient each other;**
- **More flexible each other;**
- **Do not require the other to do the same things as them; otherwise, more trade and investment conflicts.**

The reaction of China

- **At the high level, China strongly urged and are urging the so-called new big powers relation with the USA and EU. But get few positive response so far.**
- **Pragmatically, firstly, China pursue automatic liberalization domestically; secondly, China may form some preferential arrangements around China.**
- **Maybe, 10 or 20 years late, China will join into TPP and TTIP, even China now apply for join into it.**

13-18 years for China to Join into TPP



China has a strong base to survive the accession

- **Almost 20 years time;**
- **Very strong industrial base;**
- **Upgrading and transforming are on the way already;**
- **Strong government and leadership;**

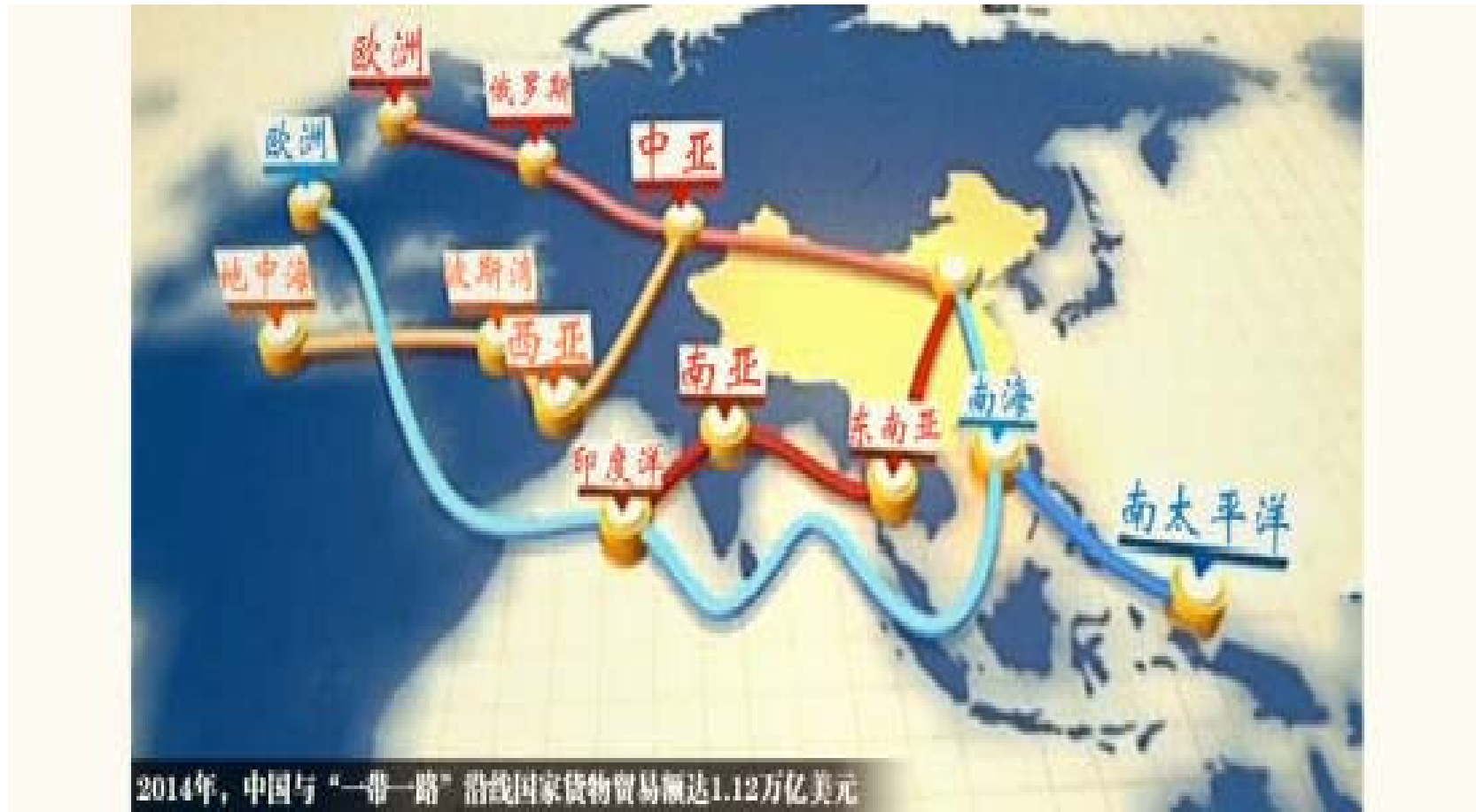
a big Jump forward?

- **To lock-in domestic reform, and further liberalization process;**
- **To integrated into the future global economic system;**
- **Not to be isolated again.**
- **To be one of the leading countries in the world economically, politically and technologically...**

What should China do?

- **China should apply for accession to the TPP as soon as possible**
- **Even that, it will take 10-20 years for China to join into TPP**

IV. The 'One belt, one road' initiative



3+2 routes

- **The Silk Road Economic Belt focuses on bringing together China, Central Asia, Russia and Europe (the Baltic); linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia; and connecting China with Southeast Asia, South Asia and the Indian Ocean.**
- **The 21st-Century Maritime Silk Road is designed to go from China's coast to Europe through the South China Sea and the Indian Ocean in one route, and from China's coast through the South China Sea to the South Pacific in the other.**

5 cooperation priorities

- **Policy coordination;**
- **Infrastructure connectivity(transportation, energy and information);**
- **Unimpeded trade and FDI flow;**
- **Financial integration;**
- **People-to-people bond**

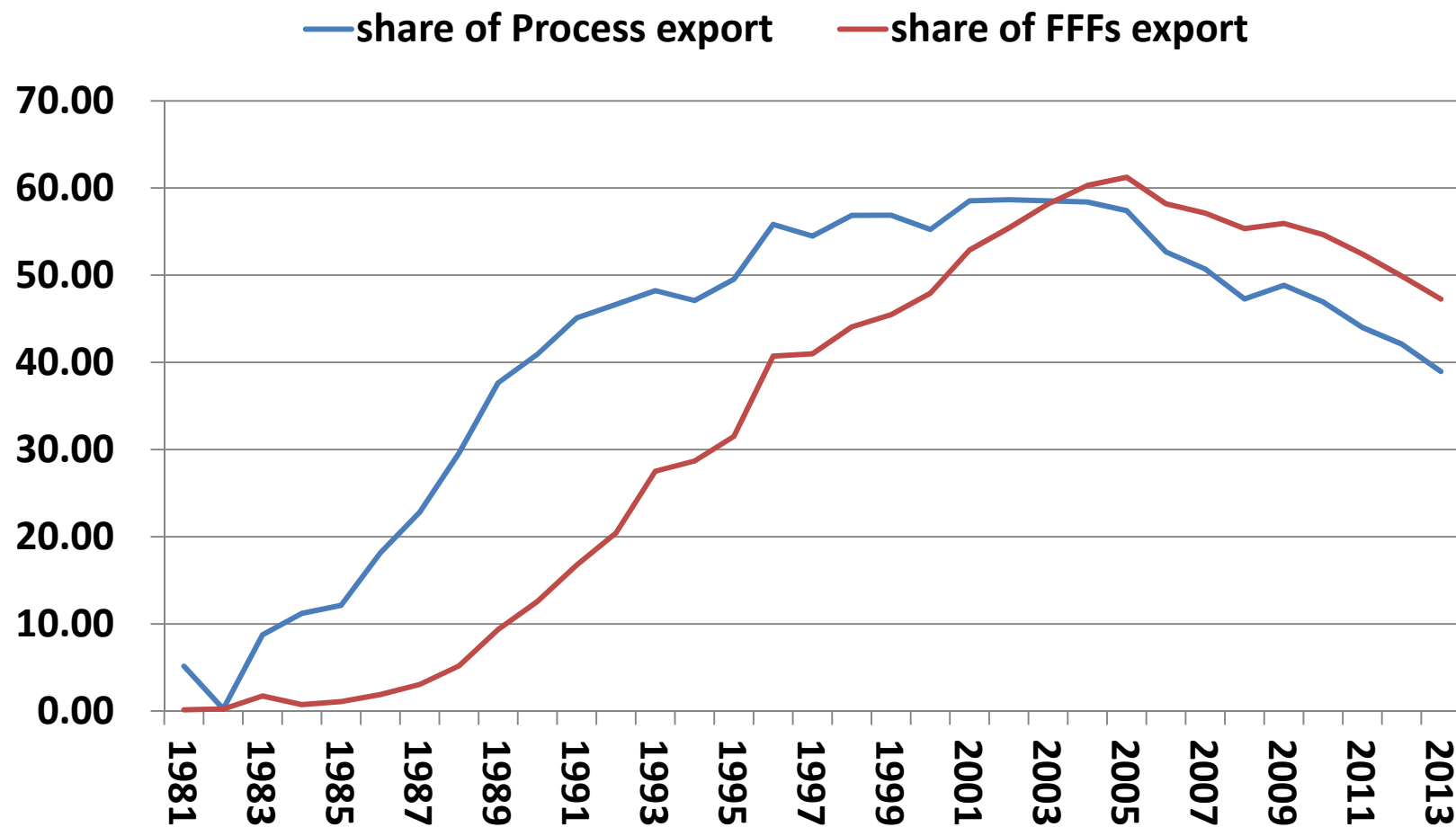
The purposes...

- **The main purposes of this initiative are to integrate Chinese economy more deeply with neighbor economies.**
- **This is win-win cooperation, since the neighbor countries badly need those projects to develop their economy, and China also want to upgrade its economy and moving out some of its industrial capacity oversea.**
 - to uphold the global free trade regime and the open world economy;
 - To promote orderly and free flow of economic factors, highly efficient allocation of resources and deep integration of markets;
 - To encourage the countries along the Belt and Road to achieve economic policy coordination and carry out broader and more in-depth regional cooperation of higher standards;
 - and jointly to create an open, inclusive and balanced regional economic cooperation architecture that benefits all.

A New bridge for China?

- **One belt, one road initiative will build up a new bridge between China and her neighbors;**
- **Most importantly, between East Asia economic circle at one end and developed European economic circle at the other...**

The shares of process export and FFFs' export, 1981-2013



What China can do?

- **Fresh experience, skills, technology and capital and so on in infrastructures development ;**
- **Can be Shared with neighbours: China just building domestic infrastructures in large scale recently, this skill, technology... is cheaper(Low wages, low cost) , otherwise, 10 years later, when local cost is very high, the price would be higher than that of today;**
- **Some of those capacity will be lost, say 10 years later**

Chinese dividend: next 10-20 years?

- **In the next 10-20 years, only China can provide this package of offer such as one belt one road initiative;**
- **If China become a high income country someday, the cost would be very high...**

China can't afford it free

- **China can provide a lot of things, such as design, technology, skill, financial support, expertise, and so on...**
- **But, China can't do it free...**
- **Every country must pay it by their own money sooner or later, except some of the aid project.**

A new model of regional cooperation?

- **1)Comprehensive cooperation;**
- **Not only in trade and FDI, but also in policy, infrastructure, financial and people;**
- **2)Open and inclusive;**
- **All the countries along the belt and road were welcome to join, and also all the other countries and international and regional organizations are very welcome to join;**

A new model of regional cooperation...

- **3) Pragmatic cooperation;**
- **Not so much binding;**
- **Not so much higher in term of commitments;**
- **Is development oriented,**
- **4) a new mega-regional cooperation;**
- **It covers Central Asia, West Asia, South Asia, South-East Asia(ASEAN), North Africa and Europe;**
- **4.4 billion population, and \$21 trillion GDP;**

The unique features of this initiative

- **1) a large scale regional cooperation programme, which integrating multi-polar world's blocs into a win-win dynamic;**
- **2) a lot of large-scale common projects, which link neighbor countries together, and create synergies, complementarities and added-value for all.**

A Sharing and cooperative economy

- **A lot of part of China's economic growth, come from foreign partners, in terms of process trade and FFFs (GVCs trade);**
- **Very successful transition from a planning economy to a marketing economy, from a close economy to an open economy, from a isolated economy to a integrated part of global economy**

Thank you very much!