

CHINA'S EMBRACE OF REGIONAL TRADE AGREEMENTS ON THE WAY TO MULTILATERALISM

Palavras-chave

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Keywords

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RESUMO

A regionalização de padrões comerciais é uma das consequências da globalização e é constantemente proliferado. Este estudo centra-se no recente desenvolvimento da China na integração comercial regional e oferece conclusões sobre suas implicações no desenvolvimento da China, novo Regionalismo do Leste Asiático, como, também, o multilateralismo. Ele é formado por quatro partes. Depois da introdução, a parte 2 analisa a performance e o envolvimento da China no multilateralismo. Na parte seguinte, nós analisamos as razões do recente desenvolvimento das políticas regionais da China e oferecemos explicações detalhadas para a consideração e a institucionalização de diferentes acordos comerciais regionais. Finalmente, a parte 4 oferece algumas conclusões.

ABSTRACT

Regionalization of trading patterns is one of the consequences of globalization and is constantly proliferated. This paper focuses upon the recent development of China in regional trade integration and provides insights into the implications for China's development, new East Asian regionalism as well as the multilateralism. It consists of four parts. After the introduction at the outset, part 2 analyses the performance and involvement of China in the multilateralism. In the following part, we examine the reasons of recent development of China's regional policies and provide detailed explanations for the consideration and the institutionalization of different regional trade agreements. Finally, part 4 offers some conclusions.

1. INTRODUCTION

The number of bilateral and regional trade agreements notified to GATT is over 120 by 1994 and according to statistics of the WTO, has exceeded 380 by now and nearly all of the WTO members have notified participation in regional trade agreements¹. Regionalization of trading patterns is one of the consequences of globalization and is constantly proliferated. As for the pros and cons of regional trade agreements, in the early 1990s, the dominant view on preferential trade arrangements was that they would be a complement to multilateral trade liberalization and accelerate the course of worldwide free trade. Today, the answers still remain controversial and international literatures address concerns and attention if the multilateralism will be diluted by regional trade arrangements².

Any assessment about the advantages or disadvantages of regional trade agreements must be done case by case, analysing the impacts brought by a given regional trading arrangement both on the intra-trade among the participating members and on the multilateral trade as a whole.

This paper focuses upon the recent development of China in regional trade integration and provides insights into the implications for China's development, new East Asian regionalism as well as the multilateralism.

In 1978, China launched economic reform and open-door-policies. Together with closer diplomatic relations with industrialized countries, China entered some leading international organizations and reached out integration closely with the globe. During the past thirty years, Chinese economy has achieved continuous and fast growth. Recently, China is deemed as the engine of growth or a new force for economic development in East Asian region. Until the Asian financial crisis in 1997, the East Asian economies pursued a multilateral approach to trade and China, in particular, was one of the very few economies (such as Japan and South Korea) that had yet to conclude a free trade agreement. But, since the last a few years, China has embraced actively and creatively regional trade agreements in different patterns and became an important role in the new East Asian regionalism.

The paper consists of four parts. After the introduction, part 2 analyses the performance and involvement of China in the multilateralism. In the following part, we examine the reasons of recent development of China's regional policies and provide detailed explanations for the consideration and the institutionalization of different regional trade agreements. Finally, part 4 offers some conclusions.

1 Source from WTO official webpage.

2 See, for example, DIJK, Meine Pieter Van and SIDERI, Sandro, eds. (1996), *Multilateralism versus Regionalism: Trade Issues after the Uruguay Round*, Frank Cass, London, Portland, OR, in association with the European Association of Development Research and Training Institute (EADI), Geneva, pp. 20-39.

2. CHINA'S PURSUIT FOR MULTILATERALISM AND HER INVOLVEMENTS

Since the second half of 1980s, the world economy has undergone substantial and complex changes due to the new wave of globalization. Some essential factors, namely, the emergence of multinational corporations, multilateral organizations and the individual empowerment, and technological progresses and information revolution, changed and will continue to change the formation of new international order.

China, as a late-comer, like other developing countries, has been pushed into the defensive in the context of present stage of globalization. In international affairs, the multilateral approach has been considered by Chinese leadership a good means for addressing global problems based on the cooperation of multiple countries and multilateralism enjoys an increasingly profile in Chinese foreign policy. Recently, on 16 May 2008, China together with Russia, India and Brazil, the so-called BRICs, in the meeting of their foreign ministers in Yekaterinburg, stressed multilateral cooperation and diplomacy in dealing with global affairs and appealed establishment of a more democratic international system based on the rule of law and multilateralism.

China's engagement in multilateralism can be observed in all spheres of international relations. As for the economics and trade realm, China holds membership in every significant global institution, including the World Trade Organization, International Monetary Fund and World Bank. In particular, the negotiation process for the accession into the WTO highlighted China's pursuit of multilateralism.

In 1986, Chinese government applied to resume its membership of GATT and hence started the long march of accession negotiations of the WTO. The joining into the WTO and participation in the multilateral trading system in 2001 was a strategic decision by the Chinese leadership. China can benefit from a non-discriminated treatment and a dispute settlement mechanism in the multilateral system. Chinese reformers have used consciously international rules, its international commitments and obligations to shape domestic policies, accelerate industrialization and urbanization and deepen domestic reforms, especially, to dislodge domestic monopolies that curb growth, because openness can introduce advanced ideas, technologies and competition.

China's WTO commitments are by far the strongest of any developing country in the WTO. The simple average tariff has come down from 42% in 1992 to 9.7% after WTO accession and the classic non-tariff barriers has been reduced

to less than 5%. Its levels of trade protection are rather low by developing country standards and it has acquired a strong stake in a rules-based multilateral trading system³.

China has continued to attach high priority to the multilateral trading system and has been participating in the Doha Round. China grants at least MFN treatment to all WTO Members except El Salvador and some territories of EC member states. In Doha Development Agenda negotiations, China stands together with the developing countries and provides active cooperation in the G20 (although in a quite and behind-the-scenes manner) to call on a fair, balanced and equitable order, in which developing countries will be able to flexibly assess and adopt various policy models, approaches, and policy mixes in support of their development goals.

There are some notable reasons why multilateralism appears of sustained importance in China's engagement in the global trading system⁴.

First, joining the WTO enables China to conduct international trade and economic cooperation under the multilateral, stable and unconditional Most Favored Nation principle provided by WTO members, thus cultivating a favorable international environment for the development of China's national economy and foreign economic and trade relations. The WTO membership has given China a new international status and the multilateralism strategy corresponds to China's immediate and longer-term economic interest.

Second, as world's third largest economy and the third largest trader, China hopes to have broad participation in international regime making and can undertake more and more responsibilities in international issues. After entry into the WTO, China wishes to play a constructive role in the formulation and perfecting the multilateral rules, which is a very important content of China's involvement in the economic globalization.

Third, multilateralism in which all membership of the WTO engages in a sustained process of mutual trade liberalization remains the ultimate goal for global trade reform and accords with international morality and good governance. China believes the multilateralism is beneficial to its international image and is consistent with the new concepts of a strong and globally engaged China, such as the ideas of peaceful rise and harmonious world.

3 SALLY, Razeen, (2005), "Trade Policy in Asia", *The World Trade Brief 2005*, WTO, The Sixth WTO Ministerial Conference, Hong Kong, 13-18 December, 2005, pp.68-70. See also LARDY, Nicholas R., (2002), *Integrating China into the Global Economy*, Brookings Institution Press, Washington, D. C., Chapter 3, pp. 63-80.

4 WEI, Dan, (2001), *A China e a Organização Mundial do Comércio*, Almedina, Coimbra, p.177-93.

3. RECENT DEVELOPMENT OF CHINA'S REGIONAL POLICIES

3.1 INTERPRETATION ON CHINA'S EMBRACE OF REGIONAL TRADE AGREEMENTS

At the same time of strengthening multilateral trading system, China has also been intensifying its pursuit of bilateral and regional trade agreements with some of its trading partners.

China joined in Asia Pacific Economic Cooperation Forum (APEC) in 1991 and had been known as an advocate of open and non-discrimination regionalism. Although APEC is very geographically comprehensive, economically heterogeneous and has a limited role in promoting trade liberalization⁵, China unilaterally reduced tariff rates and lifted numerous non-tariff barriers in its individual action plan (IAP) of membership⁶. On the basis of open regionalism, China's liberalization commitments were also applicable to non-APEC members. The Study Report on China's IAP reviewed by APEC Member Economy representatives recognizes China's great efforts in lowering trade barriers and improving accessibility to goods and services imported from the rest of the world⁷.

After acceding to the WTO, enter regional trade arrangements with preferential treatments has become a new form of China's open-door policy. At the 17th Chinese Communist Party (CCP) National Congress in 2007, it was announced that China would implement a strategy of "free trade area". Many international law scholars view this phenomenon as an institutional starting point of regionalism for China⁸.

Chinese active attitude toward institutional regional arrangements started in April 2000 when China joined the Bangkok Agreement (renamed as Asia-Pacific Trade Agreement on 2 December, 2005), which is a preferential trading arrangement between developing countries in the Asia-Pacific region and also is the first regional trade agreement for China. The Framework Agreement on Comprehensive Economic Cooperation between China and ASEAN entered into force on 1 July

5 The APEC approach is featured by open regionalism, mutual respect, equality and mutual benefit among all members, consensus and voluntarism, combination of unilateralism and collectivism, gradualism of institutionalization.

6 For details, see TAKOH, Daisuke, (1997), *China's APEC Policy and the Accession to the WTO*, IDE APEC Study Center, Working Paper Series 96/97 – No.6.

7 APEC E-Newsletter, "Review Notes China's Progress in Achieving Free Trade and Investment Goals", Vol.14, August 2007, available at <http://www.apec.org/apec/enewsletter>, retrieved on June 5, 2008.

8 LONG, Guoqiang and ZHANG, Liping, "China's Approach to an Institutional Regional Arrangement", in AHN, Choong Yong, BALDWIN, Richard E., CHEONG, Inkyo, (2005), *East Asian Economic Regionalism: Feasibilities and Challenges*, Springer, Netherlands, pp. 1-19.

2003, in which both parties agreed to negotiate the establishment of an ASEAN–China Free Trade Area (ACFTA) within ten years. In June and October 2003, under the framework of the WTO, Mainland China signed respectively with Hong Kong Special Administrative Region and Macau Special Administrative Region Closer Economic Partnership Agreements (CEPAs). Still in 2003, the leaders of Shanghai Cooperation Organization (SCO)⁹ approved the program of multilateral trade and economic cooperation for a direction of free movement of goods, capital, services and technology inside the region. Up to date, China has established bilateral FRAs with Chile, Pakistan and New Zealand and has commenced negotiations of FTAs with more than 29 countries or territories in five continents.

The main causes for China to pursue more actively regional trade agreements are manifold and diverse. They arise in legal, economic, political and international relations realms.

From legal perspective, the foundations of more favorable trade arrangements are set out by GATT Article XXIV (updated by an Understanding on its Interpretation) through the formation of a customs union or a free trade area; by GATS Article V through the conclusion of economic integration agreements (EIA) and by the “Enabling Clause” in preferential trade arrangements on goods between developing country members (i.e., the Decision on Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries in 1979). The GATT/WTO has received notifications of 360 regional trade agreements as of now. As a result, propelled by European Union and North America Free Trade Area, regional economic integration began to lead the development trend across the world.

About the general economic assessment on regional trade agreements and its relationship with multilateral trading system, there are mainly two schools of thought worldwide. One school represented by Bhagwati, *e.g.* believes that regionalism is a threat to the multilateral system and creates protectionist and discriminated trade blocs, the other school represented by Krugman, *e.g.* holds that regionalism can enhance global economic welfare in the long run and accelerate trade liberalization. In economic analysis, the controversy consists in the net effect on global welfare between trade creation and trade diversion¹⁰. It seems clearly that Chinese leadership and foreign policy makers endorse the arguments of the proponents of regionalism and this can be observed through many official declarations and statements. Chinese authorities believe that the degree of openness of regional agreements is deeper than multilateral trading system and in plausible

9 SCO is composed of the Republic of Kazakhstan, the People’s Republic of China, the Kyrgyz Republic, the Russian Federation, the Republic of Tajikistan and the Republic of Uzbekistan.

10 YEUNG, May T., PERDIKIS, Nicholas and KERR, William A., (1999), *Regional Trading Blocs in the Global Economy: The EU and ASEAN*, Edward Elgar, Cheltenham, UK, p.23.

regional arrangements trade-creating effects is likely to exceed trade-diverting effects. In China's view, regionalism does not exclude multilateral trade agreements and regional trade arrangements serve as new platforms and complement to the multilateral system. On the other hand, the multilateral negotiations are too slow and modest to be an important driving force for China's fast growth track.

In international relations, regionalism is a strategy to achieve comprehensive reforms with key trade partners. It is estimated that more than 50% of world trade take place intra-regionally on preferential conditions. Regional trade agreements, such as Free Trade Areas, are viewed as an indispensable means for strategic cooperation and competition, by which members have sought to implement deep economic and institutional integration and common position in other trade negotiation venues¹¹.

According to specific situations of China, the rise in regional trade agreements can be attributed to the diverse perceptions. Under regional trade agreements, China is provided with institutional guarantee to the development of bilateral and regional trade and economic relations. Preferential trade agreements help to expand trade and settle disputes, achieve market diversification, reduce consumer prices, lower producer costs, drive economic growth, create new job opportunities, and ensure supply of strategic resources in the long run. Furthermore, regional trade agreements are often established for reasons that go beyond strictly economic criteria. These include Chinese foreign policy objectives and national security concerns.

The primary target of this essay is to analyze case-by-case some highlights, focusing mainly Chinese strategic considerations and institutional features of the relevant arrangements.

3.2 DIFFERENT PATTERNS OF REGIONAL TRADE AGREEMENTS ADOPTED BY CHINA

3.2.1 Successful implementation of the principle of "One Country, Two Systems": CEPAs

On 29 June and 17 October 2003, Mainland China concluded respectively the Closer Economic Partnership Arrangement (CEPA) with the Special Administrative Regions (SARs) of Hong Kong and Macau. The contents of two CEPAs are almost the same. On 1 January 2004, Mainland China began to implement a staged elimination of tariffs on imports originating in two SARs and a progressive reduction or elimination of restrictive measures against service suppliers

11 KERREMANS, Bart and SWITKY, Bob, eds., (2000), *The Political Importance of Regional Trading Blocs*, Ashgate, Aldershot, England, pp. pp. 13-53.

of the two regions.

When Hong Kong and Macau returned to motherland respectively in 1997 and 1999, the Sino-British and Sino-Portuguese Joint Declarations, the Constitution of China and the Basic Laws of the two SARs provide a “One Country, Two Systems” formula, endowing the two regions with a high degree of autonomy for internal matters, except in defense affairs and some foreign affairs to be in charged by the Central Government.

Since the transfer of sovereignty of Hong Kong and Macau to China, the economies of two regions have developed soundly and recovered from the economic crisis. Both Mainland and the two SARs have strong incentives to promote deep integration, especially after China’s entry to the WTO in late 2001. However, the process was far from smooth. In addition to some concerns of social elites in Hong Kong about the possible adverse impacts on SARs autonomy and international image, some small and medium enterprises in Hong Kong and Macau worried about more competitive pressure and challenges of rapid structural change, *i.e.*, as Sung observed, “in the production chain of processed exports, the Mainland will increasingly source producer services locally rather than from Hong Kong and Hong Kong’s rate of re-export margin may decline further...Hong Kong will lose out in low-end entrepot services”¹², etc.

The objectives of establishing CEPA between Mainland and the two SARs are to implement successfully the principle of “one country, two systems”. China wants to keep the SARs’ economy healthy to demonstrate the viability of “one country, four regions” formula (the four regions being Mainland China, Hong Kong, Macau and Chinese Taiwan). Under the essential prerequisite of unified and inalienable national sovereignty, China, Hong Kong and Macau, all being WTO members as separate customs territories but each empowered with autonomy of its trade policy, manage to accelerate the pace of liberalization, coordinate each other in a closely knit group as the party to a regional trade arrangements and improve jointly the economic performance.

Judging from the WTO provisions, the two CEPAs (China – Hong Kong, China and China – Macau, China) take the form of free trade area (FTA) and are also within the scope of economic integration agreements (EIA). The most notable innovation of CEPAs is the creation of FTA composed by two separate customs territories within the same sovereign country. The conclusion of CEPA symbolizes the unification of Hong Kong and Macau to their motherland and holds a special attraction for Taiwan. Despite of the asymmetry in economic size, openness and level of development, both parties of arrangement benefit from deep integration

12 SUNG, Yung-Wing, (2005), *The Emergence of Greater China: The Economic Integration of Mainland China, Taiwan and Hong Kong*, Palgrave Macmillan, New York, p.202.

that goes ahead of China's WTO timetable or even goes beyond China's WTO commitments.

The two CEPAs composed respectively by an original protocol and four supplementary agreements so far cover mainly three areas: trade in goods, trade in services and trade and investment facilitation¹³. More arrangements for major economic and trading cooperation systems will be established through supplementary agreements in the future.

For trade in goods, Mainland China agreed to apply a zero import tariff for the SARs manufacturers. Since 1 January 2006, tariffs on merchandise imports originating in Hong Kong and Macao have been fully removed. The provisions on rules of origin set by the CEPAs are almost identical to the RPC Rules of Origin¹⁴ and are consistent with the WTO Agreement.

With regard to trade in services, CEPAs gave preferential market access to 18 areas in 2004 and further relaxed the market access conditions on 28 areas in 2008 for Hong Kong and Macau's companies and professionals¹⁵. Compared with many existing economic integration agreements, CEPAs provide more substantial coverage of service sectors.

In the scope of trade and investment facilitation, both parties of CEPA will promote cooperation in trade and investment promotion, customs clearance facilitation, commodity inspection and quarantine, food safety, quality and standardization, e-business, transparency in laws and regulations, cooperation of small and medium enterprises and cooperation in Chinese medicine industry. In addition, protection of intellectual property rights and conventions and exhibitions were added to the scope of trade facilitation under the two CEPAs.

The two CEPAs have clearly had some positive effects. On one hand, the arrangements would provide preferential opening of the huge mainland market to the small economies of Hong Kong and Macau and help the SARs to rise to challenge of structural changes as a consequence of China's entry to the WTO. On the other hand, the Mainland is also likely to gain from an increase in investment from Hong Kong and Macau, meanwhile, the Mainland's services industries would be able to adjust and adapt to intensive world competition. These and other measures to further integration are wide-ranging and will have positive impacts on regional economy in the long run.

13 See SUNG, (2005), pp. 200-2, GAO, Herry, (2003), "Legal Issues under WTO Rules on the Closer Economic Partnership Agreement (CEPA) between Mainland China and Hong Kong", *Chinese Journal of International Law*, pp. 629-48.

14 China reformed its regulatory regime on rules of origin through a promulgation of the RPC Rules of Origin for Imported and Exported Goods on 18 August 2004.

15 Trade Policy Review Body of WTO, (2008), *Trade Policy Review of China*, WT/TPR/S/199, 16 April 2008.

With respect of institutional building, particularly, the dispute settlement mechanism has yet to be improved. Although the two CEPA's excluded the use of anti-dumping measures and countervailing measures by the parties, with the continuous expansion of trade and investment, it is natural to arise more disputes due to different economic interests. As of now, the existing provisions are too general to be enforced effectively and coercively. The article 19 of both CEPAs provides that "the two sides will set up a Joint Steering Committee. The Steering Committee will comprise senior representatives or officials designated by the two sides... The two sides will consult to resolve any problems arising from the interpretation or implementation of CEPA in the spirit of friendship and cooperation. The Steering Committee will make its decisions by consensus."

In view of peculiarities of CEPAs, it is unsuitable to apply directly to WTO to resolve domestic trade disputes between Mainland China and the two special administrative regions. However, a unique dispute settlement mechanism based on legal rules shall be constructed in addition to political consultations.

3.2.2 National security concerns towards neighboring countries: SCO and China – Pakistan Free Trade Area Agreement

Among regional trade agreements concluded by China, some have special considerations of national security of the borders, such as the cases of Shanghai Cooperation Organization (SCO) and China – Pakistan Free Trade Area.

3.2.2.1 SCO

SCO was created originally on the basis of the Shanghai five (China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan) on building military confidence and mutual reduction of military forces in border areas. It is the first regional security organization in which China has played a leading role¹⁶. China is employing this regional integration and enhancing constantly its legal and organizational framework to dilute U.S. strategic dominance in Central Asia. Different from the development of other regional blocs (*i.e.* the European Union) which started with economic integration and then spilled over to the political and security issues, SCO was just opposite, by entering first security area and spreading gradually to economic cooperation and other areas.

16 WANG, Jianwei, "China and SCO: towards a new type of interstate relations", in *China Turns to Multilateralism: Foreign Policy and Regional Security*, edited by WU, Guoguang and LANSLOWNE, Helen, (2008), Routledge, London and New York, pp.104-26.

As a matter of fact, promoting economic integration constitutes a new growth for the coherence and institutional building of SCO. After the conclusion of framework agreement “Program of Multilateral Trade and Economic Cooperation of SCO Member States” in September 2003, China proposed to establish a free trade area among SCO members by 2015. In an area with more than 30 million square kilometers that corresponds to three-fifths of Eurasia, and with almost a quarter of the world’s population, China is willing to take a lead in promoting trade relations in its “strategic backyard”. So far, more than 100 projects about trade and economic cooperation have been approved, the SCO Business Council and Interbank Association have been established and SCO Development Fund is being formed¹⁷.

The regional economic integration and the regional security have become the two pillars of SCO. Although the long-term goal is to create a FTA, political and security significance will never be ignored and China’s strategy in SCO is to make sincere friends with its friendly neighbors¹⁸, because sound economic relations and deep economic integration with neighboring countries are beneficial to national security and regional stability.

3.2.2.2 China – Pakistan Free Trade Area Agreement

Another similar case is the regional trade arrangements with Pakistan. Periphery security and geo-political strategy are the most important motivations for institutionalization of bilateral trade relations, taking into consideration of total bilateral trade volume so far. China and Pakistan have witnessed smooth development of friendly and neighborly relations as well as mutually beneficial cooperation. The “Boundary Agreement on Xinjiang China and the Adjacent Areas whose Defense is under Actual Control of Pakistan” signed by the two governments in 1963 marked the end of cool relations. In 2006, the Treaty of Good-Neighborliness and Friendly Cooperation between China and Pakistan further indicated that “all-weather friendship between China and Pakistan enters a new stage of development”, according to Chinese Vice-Foreign Minister Wu Dawei¹⁹.

In November 2003, China signed a preferential trade agreement with Pakistan, its first PTA. Under an Early Harvest Agreement, which entered into force on 1 January 2006, bilateral tariffs on certain products were to be eliminated gradually by 1 January 2008. The China-Pakistan Free Trade Agreement, as the first

17 More information available at <http://www.sectsc.org>, retrieved on June 9, 2008.

18 Available at <http://www.fmprc.gov.cn/eng/topics/wjacfdo/t162457.htm>, retrieved on June 9, 2008.

19 Available at <http://www.fmprc.gov.cn/eng/zxxx/t231158.htm>, retrieved on June 9, 2008.

FTA in bilateral form with a neighboring country, was signed on 24 November 2006 and entered into force on 1 July 2007. The Agreement covers trade in goods and investments²⁰. As a result, China's overall average tariff on imports from Pakistan was 7.9% in 2007, compared with the overall MFN average of 9.7%. Under China-Pakistan FTA agreement, the economic and trade relations between the two strategic partners are provided with institutional assurance and will be deepened in stages through incorporating of new contents. China has arranged tax rebates for high-volume Pakistani exports to China and it is certain that Pakistan will gain from the preferential market access to Chinese market as well as more investments from China²¹.

With regard to trade remedies, the China-Pakistan Free Trade Agreement maintains the parties' rights and obligations of anti-dumping, countervailing and global safeguard measures of WTO agreements, and sets out bilateral safeguard measures with some conditions and limitations (art. 27). In the area of investment, the agreement provides settlement procedures for the disputes between parties (art. 53) and the disputes between investors and one party (art.54). The dispute settlement mechanism in general (Chapter X, arts. 57-74) applies to the avoidance or settlement of all disputes between the parties and wherever a party considers that the other party has inconsistent measures with the obligations or has failed to carry out its obligations of the agreement. The routine process involves consultations, good offices, conciliation and mediation, arbitral panel, non-implementation – suspension of benefits and compliance review and so forth.

3.2.3 Economic rise in an ASEAN way: ASEAN–China Free Trade Agreement (ACFTA) and China's RTA for South-South cooperation

3.2.3.1 ASEAN–China Free Trade Agreement (ACFTA)

When ASEAN²² was created in 1967, the early Sino-ASEAN relations were affected to a great extent by the ideological divide because of the Cold War²³.

20 WTO document WT/REG237/N/1, 21 January 2008.

21 Source: Xinhua at People's Daily Online, available at http://english.peopledaily.com.cn/200611/25/eng20061125_325015.html, retrieved on June 11, 2008.

22 ASEAN, Association of Southeast Asian Nations, consists of Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand (ASEAN 6) and the transitional economies of Cambodia, Laos, Myanmar and Vietnam (CLMV).

23 ZHENG, Yongnian and TOK, Sow Keat, "Intentions on Trial: Peaceful Rise and Sino-ASEAN Relations", in *China Turns to Multilateralism: Foreign Policy and Regional Security*, edited by WU, Guoguang and LANSLOWNE, Helen, (2008), Routledge, London and New York, p. 185.

The Post-Cold War Asia has witnessed profound changes in Sino-ASEAN relations. China became a full Dialogue Partner of ASEAN in 1996 and a strategic partner for peace and prosperity in 2003. With regard to political and security cooperation, China and ASEAN concluded Declaration on the Conduct of Parties in the South China Sea in 2002 and China acceded to the Treaty of Amity and Cooperation in 2003²⁴.

In economic field, during the Asian Financial Crisis in 1997, China reacted by providing promptly loans to some Asian countries and keeping its promise of not to devaluate Chinese currency. China also allowed signatory states of Chiang Mai Initiative to borrow US dollars from other members' reserves to buy their own currency. The Financial Crisis made East Asian economies realize the importance of regional economic cooperation and the need for an institutional cooperation mechanism. It is believed that since then the new dynamism in East Asian regionalism has shifted from preponderantly open to links that are more closed with memberships, and China has embraced moves beyond financial regionalism towards trade based regionalism²⁵. In November 2002, China and ASEAN signed the Framework Agreement of comprehensive Economic Cooperation launching the process of establishing an ASEAN-China Free Trade Area by the year 2010. In November 2004, China and ASEAN signed an Agreement on Trade in Goods and an Agreement on Dispute Settlement Mechanism²⁶ of the referred framework under the Enabling Clause.

Enhanced trade with ASEAN will surely bring political advantage for China. China is a dominant partner and an active agenda shaper of the ASEAN-China Free Trade Area with an aim to balance the dominance of big powers (such as USA and Japan) in Asia. The ACFTA, from the security's perspective, will increase China's political leverage by offering preferential trade arrangements to smaller economies and is consistent with the policy of good neighbourliness with surrounding countries. In the strategic frame in long run, ASEAN is viewed as the "test bed to China's peaceful rise"²⁷, in other words, the ACFTA may reduce or settle down conflicts and disruptions caused by a growing big power to the world system. However, on any account, in Sino-ASEAN relations, the prime substance is still economic cooperation and the economic motivation remains a priority to establish the FTA.

24 Source: "ASEAN-China Dialogue Relations", ASEAN official webpage.

25 BRESLIN, Shaun, (2007), *China and the Global Political Economy*, Palgrave Macmillan, New York, p. 156.

26 Source from ASEAN Secretariat.

27 ZHENG, Yongnian and TOK, Sow Keat, "Intentions on Trial: Peaceful Rise and Sino-ASEAN Relations", in *China Turns to Multilateralism: Foreign Policy and Regional Security*, edited by WU, Guoguang and LANSLOWNE, Helen, (2008), Routledge, p. 184.

Both China and ASEAN are developing countries with high degree of dependence on foreign trade for domestic economic growth. The dependent ratio of China's foreign trade was only 9.8% in 1978 but in 2003 went beyond 60%. Over the years, the dependency of the Chinese economy on the East Asian countries has ever increased²⁸. More than half of China's total trade volume is within the East Asian region. In 2006, the ASEAN exports to and imports from China reached US\$ 52.2 billion and US\$ 61.1 billion in 2006, respectively, also, the bilateral trade between China and ASEAN was 10% of total ASEAN trade, among them the exports of ASEAN to China was 8.7% and the imports of ASEAN from China was 11.5% of total ASEAN trade²⁹. ASEAN is now China's fifth export market and fourth import source³⁰ and China is ASEAN's fourth export market and second import source³¹.

China and ASEAN compete against each other both in attracting foreign investment and in foreign trade. With regard to attracting foreign investment, China has been the major recipient of intra-regional FDI. In addition, China's export structure is quite similar in many respects to the ASEAN and they compete in the export of manufactured goods, such as apparel, textiles, footwear, machinery and electrical appliances³². However, the negative impact from the competition can be offset by the positive influence from the complementarities³³. According to the findings of Holst and Weiss (2004)³⁴, there are more complementarities than direct tradeoffs between China and ASEAN, "ASEAN may be holding its own in higher value-added exports, and that the new China market may represent a significant 'cushion' to crowding out of third-country export markets, like the US and Japan." As to China, with increasingly more production capacities, China may intend to find new market for its export, especially in developing countries where Chinese products, with competitive price and reasonable quality, may sell better than expensive ones from developed countries. In addition, China also aims at raw materials produced by ASEAN.

28 TANG Zongming and HOA Tran Van, "Some Perspectives on China's Role in the East Asian Economies", in HARVIE, Charles, KIMURA, Fukunari and LEE Hyun-Hoon, eds. (2005), *New East Asian Regionalism: Causes, Progresses and Country Perspectives*, Edward Elgar, Cheltenham and Northampton, p.225.

29 Source: ASEAN Trade Databases.

30 Source: "ASEAN-China Dialogue Relations", ASEAN official webpage.

31 Source: ASEAN Trade Databases.

32 TONGZON, Jose L., (2005), "ASEAN-China Free Trade Area: A Bane or Boon for ASEAN Countries?", *The World Economy*, Vol. 28, No.2, pp.191-210.

33 Idem.

34 HOLST, David Roland and WEISS, John, (2004), "ASEAN and China: Export Rivals or Partners in Regional Growth?", *The World Economy*, Vol.27, No.8, pp.1255-74.

With China's rise and its huge market potential, there is a growing consensus that the ACFTA is an inevitable component of ASEAN's future. China will be a primary driver for sustained regional growth. Given the reason that China will not be able to implement fully its trade liberalization commitments within the multilateral context, the removal of trade barriers between ASEAN and China will lower costs, increase intra-regional trade and increase economic efficiency. The ACFTA will lead to greater specialization in production based on comparative advantage. Trade creation occurs when some domestic production in one member is replaced by lower-cost imports from another member. It is estimated by ASEAN Secretariat that ACFTA will increase ASEAN's exports to China by 48% and China's exports to ASEAN by 55.1%³⁵.

The ACFTA will create an economic region with 1.7 billion consumers, regional GDP of about US \$ 2 trillion and total trade estimated at US \$ 1.23 trillion. It will be the biggest FTA in the world in terms of population size. It will also be the largest FTA, made up of developing countries, in terms of population, GDP and trade.

Another significance of the creation of ACFTA is that neither of the trade agreements in force in the 1990s in Asia did much to promote regional trade on a preferential basis, however, the ACFTA includes phased tariff cuts that will eventually eliminates tariffs on almost all bilateral trade in goods and progressive liberalization of trade in services³⁶, and therefore, has triggered a domino effect within the region, encouraging Japan and Korea to consider agreements with each other and with the ASEAN.

By creating a FTA composed by a big economic power and ten small economies, China has used "an ASEAN way", put it another way, a comfortable and a non-confrontational manner instead of coercive power and political influence to develop appropriate institutions and to reconcile intra-FTA disputes.

As a famous Chinese saying goes, "The spring scenery is not one tree that is particularly thriving-outshine others but a big garden filled with the beauties." China aims to grow and at the same time make Southeast Asia rich. In the framework of South-South cooperation, both sides can benefit from a deeper regional integration and can have a larger voice in international trade affairs on issues of common interest.

35 ASEAN-China Expert Group on Economic Cooperation, (2001), *Forging Closer ASEAN-China Economic Relations in the 21st Century*, ASEAN Secretariat.

36 DEE, Philippa, (2007), "East Asian Economic Integration and Its Impact on Future Growth", *The World Economy*, Vol.30, No.3, pp. 405-23. More information about the ACFTA can be found at SUCHARITKUL, Sompong, (2006), "Report on the Second China-ASEAN Expo: 18-21 October 2005, Nanning, Guangxi, China", *Chinese Journal of International Law*, Vol. 5, No. 2, pp.397-421.

3.2.3.2 China's RTA for South-South cooperation: the case of China – Chile Free Trade Area and other ongoing negotiations

On 18 November 2005, China and Chile signed an FTA that entered into force on 1 October 2006³⁷. Chile was the first Latin American country which established diplomatic relations with China, being also the first country in South America to sign a bilateral agreement on China's accession to the WTO and to grant China market economy status.

The China-Chile FTA is signed by two members that are geographically far away from each other but economically very complementary. In the bilateral trade structure, Chile has comparative advantage in resource-intensive products and China has comparative advantage in labor-intensive products. Since Chile is a very dynamic actor in promoting regional trade agreements worldwide, the FTA will also be beneficial to China's interaction with other continents³⁸.

The coverage of FTA is very open and effective, 74% of Chile's tariffs were eliminated immediately, while 63% of China's tariffs were eliminated in two steps from 1 October 2006 to 1 January 2007, most other tariffs are to be eliminated within five or ten years with 97% of both countries' tariffs eliminated by 1 January 2015. China's overall average tariff on imports from Chile was 3.5% in 2007, the lowest overall average among China's FTA partners. Negotiations on trade in services and investment were launched in January 2007. On 13 April 2008, China and Chile signed the Supplementary Agreement on Trade in Services, according to which China and Chile will open further respectively 23 and 37 sectors to the other side based on the WTO commitments. This agreement is China's first agreement on trade in service for concluded with a Latin American country.

The China-Chile FTA Agreement sets out dispute settlement mechanism (which is very similar to the one of China-Pakistan FTA with slight difference on time limit for different approaches), rules of origin, technical barriers to trade, sanitary and phytosanitary measures and other rules. The chapter XIII of the Agreement addresses specifically different dimensions of development between the two parties.

37 WTO document WT/REG230/N/1, 28 June 2007. The FTA includes chapters on, *inter alia*, national treatment and market access for goods, rules of origin, trade remedies, SPS, TBT, transparency, and dispute settlement. In addition to tariff concessions on trade in goods, the FTA intends to strengthen cooperation in: economic matters, research, science and technology, education, labor, social security and environment, small and medium-sized enterprises, culture, intellectual property rights, investment promotion, mining, and industry.

38 YUE, Yunxia, (2006), "Comments on China-Chile FTA Agreement", available at <http://www.cass.net.cn/file/2006011253206.html>, retrieved on June 16, 2008.

The effects of China-Chile FTA Agreement have been very positive. The bilateral trade volume in 2007 increased 65% than the previous year³⁹. In terms of assessing the possible impacts on services, it is estimated that the growth in trade will bring about a growth in services related to supporting trade, *e.g.*, trading, financial services, transport services, and professional services related to trade in goods⁴⁰.

Currently, China is also seeking negotiations of preferential trade agreements with other developing countries, such as Peru, Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE) and Southern African Customs Union (SACU). All these efforts demonstrate China's pursuit of South-South cooperation on an equal footing in international economic order.

3.2.4 Support for rules-based orders: China–New Zealand FTA and other negotiations in progress with developed countries

New Zealand is the first country in the world to complete WTO accession negotiation with China and to recognize China as a full market economy. The mutual trust in politics creates favorable conditions for deeper economic integration. China now is New Zealand's third largest trading partner and fifth most profitable export market. After 15 rounds of negotiation, China and New Zealand signed a Free Trade Agreement on 7 April 2008⁴¹. It is the first FTA agreement reached by China with a developed country.

The FTA provides for the phasing out of tariffs on all but certain sensitive products by 2019, with tariffs on some goods being removed immediately and others being removed over a period of five-to-six years. With respect on trade in services, the FTA sets out general obligations of market access and national treatment which will enable New Zealand suppliers to access Chinese market without being subject to quotas. New Zealand, a country with 4.1 million people, is given new opportunities for engage with or grow existing links with China. China can also benefit from the commitments of New Zealand, namely, New Zealand will eliminate tariffs on products of Chinese origin (with time being allowed for adjustment by phasing out tariffs on import-sensitive manufacturing sectors) and incorporate or exceed existing WTO commitment in the areas of educational services, environmental services, computer services, photographic services and construction services and so

39 Source: www.gov.com, retrieved on June 18, 2008.

40 Chilean High Level Study Group, (2004), *Joint Feasibility Study on a Free Trade Agreement between Chile and China: Chilean Report*, available on www.direcon.cl/documentos/Estudios%20Factibilidad%20Acuerdo%20Chile-China.pdf, retrieved on June 18, 2008.

41 The full text of the agreement is available on the website of Ministry of Foreign Affairs and Trade www.chinafta.govt.nz.

forth. Other provisions include rules of origin, trade remedies, technical barriers to trade, intellectual property. The FTA contains a very detailed dispute settlement mechanism for the resolution of disputes and provides measures to facilitate close cooperation between the two countries. In brief, the China–New Zealand FTA agreement is a very comprehensive, mutually reciprocal and high-quality agreement.

The strategy of China to conclude the FTA agreement with New Zealand seems to pass on a message to other trade partners of developed economies. Up to now, China has carried out negotiations of FTA with some developed countries, *e.g.*, Australia, Iceland and Switzerland. As a matter of fact, the continued growth of Chinese exports after the entry into WTO resulted in more trade conflicts, not less. In the year of 2005, anti-dumping measures were imposed on Chinese exports, equivalent to 700% increase on the previous year⁴². Many trade frictions arose from the developed economies, such as EU⁴³ and the US. China yearns for an equitable and not discriminatory treatment in the global trading system and seeks through preferential regional trade arrangements with developed countries to build a rules-based order and to counteract the new protectionism.

3.3 OVERALL EVALUATION ON CHINA'S REGIONAL TRADE AGREEMENTS

There are several striking features of China's regional trade agreements. The first is that these regional trade agreements emerged as a consequence of China's active engagement in the multilateral trading system and open regionalism. Except Bangkok Agreement, all the FTA and preferential arrangements were formed after WTO accession. Whatever a bilateral-basis or a plurilateral-basis, more agreements seem likely to follow and prosper. The extensive list of specific commitments in the agreements made by China and its partners go beyond the WTO commitments and also go beyond simple tariff reduction by including measures that specifically aim to increase FDI and trade simultaneously.

A second feature is the diversity of these agreements, both in coverage and in form⁴⁴. For example, the CEPAs are concrete and their coverage provides trade in goods, trade in services and trade and investment facilitation, while the ASEAN-China FTA Agreement, China-Chile FTA agreement and China-New Zealand

42 BRESLIN, Shaun, (2007), p. 102.

43 About Sino-EU trade relations and the China's market economy status issue, see ZENG, Lingliang, ZHANG, Ying, (2008), "Non-Market Economy Issues in Sino-EU Relations: A Purely Technical Matter or Beyond?", paper presented at the International Jean Monnet Conference "The European Community at 50: Assessing the Past, Looking Ahead", University of Macau, 27-28 May 2008.

44 ANTKIEWICZ, Agata and WHALLEY, John, (2004), *China's New Regional Trade Agreements*, NBER Working Paper No. 10992, available at www.nber.org/papers/w10992, retrieved on June 18 2008.

FTA agreement are general indicative statements and contain a comprehensive and broad areas. However, more attention was devoted to improve progressively the institutionalization, especially the dispute resolution procedures. Namely, in the CEPA's, a very explicit and practicable mechanism is absent but the China-New Zealand Agreement sets out a very clear procedure. Compared with China's former regional policies, the approach has shifted gradually from a political consultation model to a more legalist one.

A third feature is the China's pragmatism and its emphasis on practical results. In establishing regional trade arrangements, the economic motivation is by no means the only concern of China. Sometimes, the political consideration and regional security concern are the starting points of negotiations, and other times, economic interest is the priority for Chinese government, though mixed with other aims. China began with the easier negotiations and then extended to the more difficult ones.

A fourth feature is the existing arrangements correspond to only a small percentage of China's total foreign trade volume. So far, most of China's FTA partners are small economies and China's top trading partners have not reached any regional trade arrangement with the country. The spirit of asymmetry and complementarity can be found in some of these agreements, for example, the CEPAs benefit the two special administrative regions of Hong Kong and Macau; in the list of tariff concession commitment of China-Pakistan FTA Agreement, China's offer centralizes category IV and Pakistani offer focuses on category VI; within the Framework Agreement on Comprehensive Economic Cooperation between China and ASEAN, the newer ASEAN member states (Viet Nam, Lao PDR, Myanmar and Cambodia) are entailed with specified provisions on tariff reduction and elimination; in the China-New Zealand FTA Agreement, the parties agree to use asymmetrical approaches where appropriate.

Unlike the US and the EU's practices, according to which "bilateral initiatives on gaining unilaterally access for key services sectors in partner countries in return for accelerated bilateral tariff elimination or bilaterals on wider diplomatic linkage to trade and competition policy"⁴⁵, Chinese agreements seem to emphasize "primarily on trade access for manufactures through bilateral tariff reduction/elimination and bilaterally scheduled commitments in services"⁴⁶.

With respect to the effects of regional trade agreements, generally speaking, small economies tend to gain more from trade liberalization than China. Nevertheless, China still can benefit a lot from these agreements, on one hand, since most Asian countries were exempted from the GATT/WTO round dynamo

45 Idem.

46 Idem.

due to special and differential treatment, freer south-south trade is conformity with China's national interest; on the other hand, the subscription of FTA with New Zealand and other possible developed countries in the future can promote FDI and accelerate spillovers of technology, in addition to alleviate the bottleneck of its exports.

4. CONCLUDING REMARKS

What sort of concluding remarks are suggested by the above analysis?

In China's perspective, globalization is an irreversible trend. Neither passive interaction nor protectionist orientation will lead to development. The only effective way is to take initiatives to deepen the participation of international division of labor and global trading system. China is no longer a loser as it was, of the international system, but a beneficiary and a winner of the globalization.

Multilateralism, in which the whole membership of WTO engages in a sustained process of mutual trade liberalization, remains the ultimate goal for global trade reform. The membership of WTO has given China a new international status and an admission ticket for multilateral negotiations. During the past thirty years, the success of Chinese economy has been based on a world-wide trade strategy but not on regional bias. China wishes to be a truly global player. Nevertheless, the outcome of the round of the WTO was very modest, and "in spite of China's size and other eye-catching features, the country is not yet a major power broker inside the WTO"⁴⁷. That is to say, for a big economic power like China, the multilateral process is too slow moving to be an important vehicle for further progress.

Like other developing countries, China has not confined its trade policy to the WTO. It exploits and embraces the global trend towards regional trade arrangements as the second track of deepening the integration into the global economy to block adverse consequence of economic globalization for developing countries and to use discriminatory agreements as a way to remove the imbalances and the discrimination to which they have been subjected by something of the "law of the jungle" at the WTO⁴⁸.

China treats regionalism and multilateralism as complementary and mutually reinforcing approaches. Multilateralism alone is not enough to account

47 HOWE, Christopher, (2007), "Free Trade Areas and Economic Integration in East Asia: the View from China", in SIDDIQUE, M.A.B., ed., *Regionalism, Trade and Economic Development in the Asia-Pacific Region*, Edward Elgar, Cheltenham and Northampton, p. 94.

48 See WEI, Dan, (2006), *Globalização e Interesses Nacionais: a Perspectiva da China*, Coimbra, Livraria Almedina, p. 248-51.

for China's national interest. In the direction of eventual objective global multilateralism; China realizes its own interests are increasingly being better served by integrating itself into regional trade agreements. China's strategy of regionalism is to grow and develop together with its partners without upsetting existing regional orders. Anyway, the endeavor of China today is to establish a global network of free trade or multilateralising its regional trade agreements commitment tomorrow. China's regional trade agreements are just in the initial stage and will still face many challenges ahead.

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