



China's preferential trading schemes for developing countries

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01/08/2022

Question

China's preferential trading schemes for developing countries – what are they and what evidence exists about their impact?

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1. Summary

This literature review collates available evidence on China's preferential trading schemes for developing countries. It draws on a diverse range of sources from multiple academic disciplines and grey literature. The review focuses explicitly on that literature that discusses preferential trade agreements as a specific form of free trade agreements. The review acknowledges that impacts are multidimensional and multifaceted and will be reflected differently across sectors and countries making conclusions hard to reach.

One of the most important elements of many countries trade policy since the turn of the century has been the rapid growth of various forms of Free Trade Agreements (FTAs). There are different definitions of PTAs, some include regional trade agreements as a form of PTA i.e. where a country gives preferential trade to your regional partners - this is not always true and WTO does not define RTAs as PTA. A preferential trade area established via a preferential trade agreement is a trading bloc that gives preferential access to certain products from participating countries. This is accomplished by reducing trade tariffs and is considered a first stage of economic integration

Within the literature, the terms Free Trade Agreements (FTA) and Preferential Trade Agreements (PTA) are often used interchangeably (here it is important to note that all PTAs are FTAs, but not all FTAs are PTAs). This report focuses on literature that explicitly focuses on PTAs. Those that outline fundamental differences between a FTAs and PTAs highlight that a PTA can be unilateral. In other words, they are relaxations on trade restrictions from one country towards another, without the other country necessarily reciprocating e.g. the Generalised System of Preferences (GSP).

Preferential trade agreements have also been utilised as a means to support lower income countries. Such schemes entail exporters (typically lower income countries) paying lower (often zero) tariffs on goods imported into higher income countries in preferential trade schemes. Schemes are seen to provide an opportunity to grow free and fair trade with developing countries, boosting the economy and supporting jobs for developing countries, and drive down poverty.

Since the beginning of the 21st century, there has been a proliferation of PTAs globally,. China is considered a relative latecomer to preferential trading, however, since 2001 China has become one of the most active participants in the negotiation of PTAs globally. Whilst there exists a degree of consensus on what a PTA refers to for example between the WTO and EU, the literature included in this review suggests that China is using the term in a different way. That is, less from the perspective of development, but as a way to secure commodity flows into the country.

China, as with other countries, uses economic instruments to pursue a variety of foreign policy objectives,. Four categories of Chinese PTAs have been identified:

- those intended to facilitate Chinese production networks e.g. the economic partnership agreements signed with Hong Kong and Macau;
- proposals for agreements with neighbouring states e.g. ASEAN, India, Japan and Korea that China has made, initially at least primarily out of diplomatic considerations (although the potential for realising significant economic benefits from these agreements certainly should not be discounted);
- relationships, primarily initiated by China, with resource-rich countries/regional groupings, intended to enhance China's security of supply of raw materials (Brazil, Gulf Cooperation Council, Southern African Customs Union);

- invitations for negotiations that China has accepted, which were initiated by resource-rich industrialised economies (Australia and New Zealand) – whether this is a PTA or FTA is subject to debate.

China's PTA strategy has evolved, whilst the first PTAs were shallow agreements with small economies, the more recent agreements are with a wider set of countries and China's PTAs are now among the deepest in the world. Existing explanations of this shift have attributed it to various underlying motives:

- to obtain preferential access to key export markets (WTO would suggest PTAs are only to secure imports and for developmental reasons);
- to facilitate the development- or deepening of regional production chains;
- to address resource security concerns; and/or to leverage trade agreements for geostrategic interests and political influence.

Evidence of the impact of Chinese PTAs is challenging to identify given the evolving nature of these agreements (i.e. the phasing out of tariffs etc.). As outlined below, the impact of Chinese PTA's is often mediated by the domestic and international ambitions of China. The unequal character of the PTAs that Beijing has signed has been primarily to the advantage of China's partners:

Economic diplomacy: China's overall PTA policy is driven by economic as well as political reasons that are also reflected in the choice of partner countries e.g. to promote stable and peaceful relations with its Asian neighbours and to counter concerns about the potentially negative economic and political impacts of China's rise

Access to markets: China has sought to include provisions in its PTAs that enable its resource companies to bring in Chinese labour to staff its resource projects. The potential that such agreements may have to open markets is clearly an attraction to domestic economic interests.

Access to resources: China uses its PTAs to address resource security concerns. China's demand for natural resources and energy has increased drastically and, as a result, it has become one of the world's most import-dependent resource consumers and trade agreements could help to obtain resource imports at affordable prices and to ensure security of supply

Energy Security: China is a major energy importer, its trade deals have significant impact on international energy trade and global energy markets. The effect of PTAs on trade patterns varies across the product groups (oil, gas and coal) and agreement clauses. The dominant factor affecting trade flows of coal, crude oil and oil products is the average tariff level.

Domestic reform: Chinese Leadership increasingly emphasises the importance of PTAs in relation to domestic economic reform. The official rhetoric is that liberalisation in trade in goods (including agriculture) and services through PTAs, and the resulting foreign competition, will lead to innovation and a stronger economy .

2. Preferential trading agreements

One of the most important elements of many countries trade policy since the turn of the century has been the rapid growth of various forms of Trade Agreements, more generally referred to as Free Trade Agreements (FTAs) Preferential Trade Agreements (PTAs) or Regional Trade Agreements (RTAs) (Maskus, nd). A preferential trade area established via a preferential trade agreement is a trading bloc that gives preferential access to certain products from participating

countries. This is accomplished by reducing tariffs and is considered a first stage of economic integration. The World Trade Organisation (WTO) defines PTAs as follows¹:

“This is the term used in the WTO for trade preferences, such as lower or zero tariffs, which a member may offer to a trade partner unilaterally. These include the Generalized System of Preferences schemes, under which developed countries grant preferential tariffs to imports from developing countries. They also include non-reciprocal preferential schemes granted through a waiver by the General Council, meaning the member has been exempted from applying the most favoured nation (MFN) principle.”

In its simplest form, WTO refers to a PTAs as “nonreciprocal preferential schemes and are distinct from regional trade agreements, which are covered by the Transparency Mechanism for Regional Trade Agreements”².

IGI-Global defines PTAs as³:

“a trade pact between countries that reduces tariffs and other barriers for certain products to the countries who sign the agreement. While the tariffs are not necessarily eliminated, they are lower than countries not party to the agreement”.

Within the literature, the terms Free Trade Agreements (FTA) and Preferential Trade Agreements (PTA) are often used interchangeably, this report focuses on literature that explicitly focuses on PTAs. For example it is highlighted that in 2006, the South Asian Association for Regional Cooperation members formed their PTA (referred to as the SAFTA - South Asian Free Trade Area) and the Association of Southeast Asian Nations member countries established the ASEAN Free Trade Area (AFTA) in 1992 to boost trade among member countries (Yao et al., 2021). In turn the Chinese Government identified that it has a number of trade agreements designated as twenty two FTAs and only one PTA. Table's 1, 2 and 3 (pages 7-8) provide an overview of the FTAs and PTAs that have, or are, being negotiated by the Ministry of Commerce, Peoples Republic of China (MOFCOM).

The Chinese Government defines Free Trade Agreements as⁴:

“a new platform to further opening up to the outside and speeding up domestic reforms, an effective approach to integrate into global economy and strengthen economic cooperation with other economies, as well as particularly an important supplement to the multilateral trading system. Currently, China has 24 FTAs under construction, among which 16 Agreements have been signed and implemented already”.

The fundamental difference between a free trade agreement and a preferential trade agreement is that a preferential trade agreement can be unilateral. In other words, they are relaxations on

¹ https://www.wto.org/english/thewto_e/glossary_e/preferential_trade_arrangements_ptas_e.htm

² http://ptadb.wto.org/docs/pta_user_guide_en.pdf

³ <https://www.igi-global.com/dictionary/preferential-trade-agreements/41280>

⁴ <http://fta.mofcom.gov.cn/english/index.shtml>

trade restrictions from one country towards another, without the other country necessarily reciprocating (Descartes Website⁵).

According to Maskus (nd.) there exists a range of types of PTA:

- A Partial Free Trade Agreement (PFTA) involves two or more countries offering each other lower (or zero) tariffs on a range of goods but not all goods.
- A Free Trade Agreement (FTA) involves two or more countries offering each other zero tariffs and no quotas on all goods (though there are exceptions, usually in agriculture). ◦ A key point is that in a PFTA or an FTA each country keeps its own trade policy against non-member countries.
- A Customs Union (CU) is a FTA in which members give each other zero tariffs and also agree to have the same trade policy against non-members (“common external tariff”). ◦ The EU is a customs union and tariffs are set in Brussels and shared by all countries in the EU.
- A Common Market is a CU in which labor and capital are permitted to move freely among member countries.
- An Economic Union is a Common Market in which there is also a single centralised fiscal and monetary policy. There would be just one central government permitted to set federal taxes and expenditures, one central bank, and one centralized system for regulating financial markets.

All free trade areas, customs unions, common markets, economic unions, customs and monetary unions and economic and monetary unions are thus considered by some to be forms of a PTAs. That is to suggest that a free trade area is essentially a preferential trade area with increased depth and scope of tariffs reduction (Maskus, nd.).

Preferential trade agreements have also been utilised as a means to support lower income countries. For example, in the United Kingdom, eligible developing countries can get trade preferences through the UK Generalised Scheme of Preferences (GSP). This scheme has been in place since January 2021. The current scheme means that UK importers pay lower (often zero) tariffs on goods from participating countries (Department for International Trade, 2021).

The scheme is seen to provide an opportunity for the United Kingdom to grow free and fair trade with developing countries, boosting the economy and supporting jobs in those countries, as well as domestically (Department for International Trade, 2021). Such schemes are also seen to provide a better deal for developing countries to boost growth, to raise living standards and drive down poverty (Department for International Trade, 2021).

More broadly, PTAs are considered to be discriminatory by nature as they allow preferential treatment only between member countries while allowing member countries to follow their own trade policies against non-members (Sen et al., 2015). Tariff preferences have created numerous departures from normal principles for trade relations, namely that World Trade Organisation (WTO) members should apply the same tariff to imports from other WTO members. Trade preferences reduce or remove rates of duty (tariffs) on imports from eligible countries into a given country. This trend has been particularly pronounced in Asia since the Asian financial crisis in 1997 with PTAs proliferating rapidly to include members of the Association of Southeast Asian

⁵ <https://www.descartes.com/resources/knowledge-center/what-are-free-trade-agreements>

Nations (ASEAN) as well as Australia, China, India, Japan, New Zealand and South Korea, also known as the ASEAN+6 (Sen et al., 2015).

Berger (2013: 27-28) comments that at an international level PTAs can be distinguished into three broad categories:

1. PTAs that entail only rules that establish mechanisms to promote deeper cooperation on investment protection and promotion;
2. PTAs that entail bilateral investment treaty-like provisions for the protection of investments in the post-establishment phase;
3. PTAs that additionally include commitments for the liberalisation of investment flows.

Preferential trade agreements thus are instruments that may facilitate the pursuit of multiple objectives, not necessarily as alternatives but sometimes simultaneously within a single agreement.

Although PTAs have attracted much debate and discussion, Dür and Elsig (2015) suggest that a number of questions persist:

- Why do countries sign PTAs?
- What explains variation in the design of PTAs?
- How effective are PTAs in promoting trade and changing domestic law and institutions?
- And what are the consequences of the spread of PTAs for the world trading system?

The many agreements that have been signed, or are currently under negotiation, make PTAs a prominent and important governance instrument for regulating trade and investment flows. They have become the main tool for achieving market opening and providing regulatory innovation (Galkin et al., 2017).

China's preferential trade agreements

Since the beginning of the 21st century, there has been a proliferation of PTAs globally, and in the Asia Pacific region particularly (Sen et al., 2015). China is considered a relative latecomer to preferential trading, according to Ravenhill and Jiang (2009), the Chinese government was initially reluctant to negotiate bilateral and minilateral agreements until the terms of its accession to the WTO were finalised in 2001. Since then, China has become one of the most active participants in the negotiation of PTAs globally (Ravenhill & Jiang, 2009).

China, as with other countries, uses economic instruments to pursue a variety of foreign policy objectives, some of which may be far removed from securing domestic economic benefit, narrowly conceived (Galkin et al., 2018). Pragmatism has remained a feature of China's economic diplomacy in the years since WTO accession. According to Galkin et al. (2017; 2018), Chinese PTAs are not based on a particular template; rather they are drafted individually. Generally, the approach adopted by China starts with liberalisation of trade in goods; over time, addenda covering trade in services and investments are introduced. These policy documents tend to have limited scope, primarily addressing tariff reduction and standards but leave out clauses on public procurement, competition and intellectual property protection. China's trade agreements with developed economies are usually more comprehensive than those with developing economies and result in more significant tariff cuts, which, however, can vary significantly across the product groups (Galkin et al., 2017).

The lack of a template for Chinese PTAs is a marked contrast in particular to the United States and the EU, but also Japan (Ravenhill & Jiang, 2009). Again, this is an indicator of the pragmatic approach that China has taken: its agreements negotiated to date vary substantially in their content. Some cover only trade in goods (and may have only partial coverage of this trade); some also include trade in services and articles on investment promotion (Ravenhill & Jiang, 2009).

Based on Bergers (2013) empirical analysis, it is argued that China is pursuing an adaptive and flexible PTA policy that is influenced by the models and approaches adopted by its partner countries. Berger (2013) shows that innovative treaty language diffuses from partner country PTA policies in the process of negotiations towards China's PTA policy. Accepting the partner countries' model texts as the basis for negotiations, innovative treaty language – including references to the international minimum standard, prohibition of performance requirements, transparency rules and environmental provisions, spreads to Chinese PTAs. However, there are limits to diffusion. China stops short of consenting to its partner countries' push towards the inclusion of commitments to liberalise its investment regime (Berger, 2013).

The division of International Cooperation of the Ministry of Commerce (MOFCOM) is the Chinese government agency with principal responsibility for negotiating bilateral and regional trade agreements. Writing in 2009, Ravenhill and Jiang (2009: 30) identify four categories of partnerships that MOFCOM has chosen to pursue, and their principal motivations (while acknowledging that multiple motivations are likely to underlie any specific agreement):

- those intended to facilitate Chinese production networks e.g. the economic partnership agreements signed with Hong Kong and Macau;
- proposals for agreements with neighbouring states e.g. ASEAN, India, Japan and Korea that China has made, initially at least primarily out of diplomatic considerations (although the potential for realising significant economic benefits from these agreements certainly should not be discounted);
- relationships, primarily initiated by China, with resource-rich countries/regional groupings, intended to enhance China's security of supply of raw materials (Brazil, Gulf Cooperation Council, Southern African Customs Union);
- invitations for negotiations that China has accepted, which were initiated by relatively small, resource-rich industrialised economies (Australia and New Zealand).

According to Berger (2013), China has historically shown limited concern for the compatibility of its agreements with WTO rules that permit regional trade agreement as an exception to the requirement that members should provide most-favoured-nation status to one another.

China, like other countries, uses PTAs to pursue a variety of foreign policy interests. However, unlike the PTAs of most other large economies, those involving China are diverse in their structure and coverage, reflecting the variety of diplomatic and economic objectives that Beijing is pursuing through its various partnerships (Berger, 2013). They vary substantially between the vague framework agreements signed with ASEAN and Pakistan to the comprehensive agreements with Australia and New Zealand. Berger (2013) comments that their comprehensiveness not just a matter of Beijing's choice but also reflects the preferences of trading partners.

As one of, if not the world's largest and fastest growing economies, China is an attractive PTA partner for many governments, despite the threat that its exports may pose to their domestic manufacturing (Ravenhill & Jiang, 2009). The potential demand for PTAs with China from other

countries therefore is likely to exceed China's capacity to negotiate these agreements, even before taking into consideration the burden of negotiating PTAs that China itself might want to initiate (Ravenhill & Jiang, 2009).

Table 1: China Free Trade Agreements (adapted from MOFCOM Website⁶)

Regional Comprehensive Economic Partnership (RCEP)	China-Korea FTA	China-New Zealand FTA (including upgrade)	China-ASEAN FTA Upgrade
China-Cambodia FTA	China-Switzerland FTA	China-Chile FTA	China-Chile FTA Upgrade
China-Mauritius FTA	China-Iceland FTA	China-Pakistan FTA	China-Singapore FTA Upgrade
China-Maldives FTA	China-Costa Rica FTA	China-ASEAN FTA	China-Pakistan FTA second phase
China-Georgia FTA	China-Peru FTA	Mainland and Hong Kong Closer Economic and Partnership Arrangement	
China-Australia FTA	China-Singapore FTA	Mainland and Macao Closer Economic and Partnership Arrangement	

Table 2: Free Trade Agreements under Negotiation (adapted from MOFCOM Website)

China-GCC(Gulf Cooperation Council) FTA	China-Norway FTA	China-Korea FTA second phase
China-Japan-Korea FTA	China-Moldova FTA	China-Palestine FTA
China-Sri Lanka FTA	China-Panama FTA	China-Peru FTA Upgrade
China-Israel FTA	China-Korea FTA second phase	

Table 3: Free Trade Agreements under Consideration ((adapted from MOFCOM Website)

China-Colombia FTA Joint Feasibility Study	China-Canada FTA Joint Feasibility Study
China-Fiji FTA Joint Feasibility Study	China-Bangladesh FTA Joint Feasibility Study
China-NePal FTA Joint Feasibility Study	China-Mongolia FTA Joint Feasibility Study
China-Papua New Guinea FTA Joint Feasibility Study	China-Switzerland FTA Upgrade Joint Feasibility Study

⁶ <http://fta.mofcom.gov.cn/english/index.shtml>

Evolution of China's PTAs

When analysing the evolution of China's PTA approach, it is possible to identify various generations of PTA. According to Berger (2013), first generation PTAs were signed roughly between 2000-2006, with small developing or emerging economies e.g. the ASEAN member states, Pakistan and Chile. Studies on this first generation of Chinese PTAs show that these agreements were brief and shallow, focused on trade in goods and traditional trade issues rather than non-WTO matters; and did not include any formal dispute resolution mechanisms (Antkiewicz & Whalley, 2005).

The first PTA China signed was the Asia-Pacific Trade Agreement (APTA), a preferential trade agreement among developing countries of the South and South-East Asian region. This treaty,

Box 1: Asia-Pacific Trade Agreement (APTA)

The Asia-Pacific Trade Agreement (APTA) is a preferential trade arrangement formerly known as the Bangkok Agreement. The Bangkok Agreement, signed in 1975 as an initiative of the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), is a preferential trade arrangement among developing countries. Signatories to the Agreement include China, Bangladesh, India, Lao, Republic of Korea and Sri Lanka. At the First Session of the Ministerial Council of the Bangkok Agreement in Beijing on November 2, 2005, representatives from the member countries endorsed the revised text of the Agreement and decided to rename the Agreement as the Asia-Pacific Trade Agreement. Since 2006, the outcome of the third round of tariff cut talks was successfully implemented by all members of APTA. At present, the fourth round of negotiations is underway and it involves tariff concessions of trade in goods, trade in services, investment, trade facilitation, and non-tariff measures, etc.

Source: UNESCAP

formerly known as the Bangkok Agreement, entered into force in 1975, and China acceded to APTA in 2001 see box 1 (UNESCAP⁷)

According to Berger's (2013) categorisation of China's PTAs most of the early agreements fall into the first category of global PTA practice (see page 5). Here, Berger (2013) identifies treaties with the APTA countries, Hong Kong, Macao, Chile and the treaty with Taiwan which include, if at all, only generic provisions on investment cooperation. Initially, China's PTAs were shallow and aimed at building friendly relationships with developing countries.

Over time China started to negotiate deeper PTAs with developing and developed countries alike (Eckhardt & Wang, 2019). PTAs negotiated with Hong Kong and Macao (both in 2003), Chile (2005), Pakistan (2006), New Zealand (2008), Singapore (2008), Peru (2009), the ASEAN countries (2009) and Costa Rica (2010) and the crossstraits Economic Cooperation Framework Agreement (ECFA) with Taiwan. Following this initial wave of PTAs, China entered negotiations

⁷ <https://www.unescap.org/apta>

with the Gulf Cooperation Council, Australia, Iceland, Norway and the South African Customs Union. In contrast to some older Chinese PTAs, the negotiations on these agreements covered investment rules in addition to, among other things, trade in goods and services.

In 2007 China's political leadership officially declared PTAs to be an important part of its international economic strategy (Cai, 2009: 4) and in 2009, China unilaterally granted preferential treatment to some products from forty one least developed countries (LDCs) (WTO, nd.).

China's PTA strategy has evolved, whilst the first PTAs were shallow agreements with small economies, the more recent agreements are with a wider set of countries and China's PTAs are now among the deepest in the world (Eckhardt & Wang, 2019). Existing explanations of this shift have attributed it to various underlying motives:

- to obtain preferential access to key export markets;
- to facilitate the development- or deepening of regional production chains;
- to address resource security concerns; and/or to leverage trade agreements for geostrategic interests and political influence.

Eckhardt and Wang (2019) suggest that these motives are not sufficient to fully account for the new generation of Chinese PTAs and put forward an additional motive. They argue that China is engaged in a gradual but ambitious strategy of trade liberalisation through PTAs to lock in domestic economic reform. This strategy, they continue, has become self-reinforcing as initial liberalisation steps related to China's aim to join the WTO, led to the development of its regulatory capacity (building trade-related expertise and resources) and capability (to better recognise its trade interests and act upon them). Developing regulatory capacity and capability have shifted China's domestic preferences towards furthering economic reform by the means of trade liberalisation (Eckhardt & Wang, 2019). In doing so, China's PTA strategy has become part of a wider economic reform agenda, which aims to move the Chinese economy towards the production of higher value-added goods, improve the performance of the domestic services sector, and make innovation a top priority.

Commentators on China's PTA strategy broadly agree that this has changed considerably. Zheng (2016) for example identifies one of the key changes being that China has opened negotiations with a much wider set of countries, most of which are developed countries. China has signed, or is negotiating, PTAs with Australia, Iceland, Japan, New Zealand, Norway, South Korea and Switzerland, it is also updating its agreement with the ASEAN countries and initiated negotiations on a Regional Comprehensive Economic Partnership (RCEP) agreement. Zheng (2016: 277) observes that most of China's recent PTAs are "with countries on which [China] depends heavily for imports" and concludes that, as these agreements are not designed to enhance Chinese market access abroad, China's PTA strategy continues to be "driven by a desire to augment the country's geostrategic interests and political influence" (Zheng, 2016: 279).

Berger (2013) continues that Chinese PTAs concluded after 2006, with the exception of the Economic Cooperation Framework Agreement with Taiwan, entail provisions on the protection of investment flows and fall under the second category of global PTA practice. This pattern becomes most obvious in the PTA with Costa Rica and the PTAs signed with Pakistan, New Zealand, Peru and ASEAN follow this pattern and fall short of including market-access provisions. Berger (2013) concludes that:

- China's PTAs are primarily focussed on trade in goods.

- China's bilateral and regional trade policy is characterised by a great degree of flexibility,
- Chinese PTAs are negotiated on an individually tailored basis in order to address the varied demands of the participating countries.

Beyond economic motivations for China's development of PTAs, Song and Yuan (2012) argue that the Chinese PTA agenda is increasingly driven by political concerns. For example, as a counter-measure to the Trans-Pacific Partnership (TPP) initiative, which was championed by the U.S.. In response Song and Yuan (2012) suggest that China turned its attention to negotiating trade deals with major regional economies. It signed FTAs with the Republic of Korea and Australia and started negotiations with Japan.

A PTA (within the Economic Cooperation Framework Agreement) with Taiwan exemplifies another strategy. Song and Yuan (2012) suggest that by offering economic preferences, China is attempting to exert soft power and build closer political ties. The uncertainty surrounding the TPP agreement after the Trump administration pulled out of the initiative was seen to give China an opportunity to assume a leading role in shaping the AsiaPacific trade landscape (Song & Yuan, 2012).

In a similar vein, Berger (2013) suggests that it is important to note that the evolution of Chinese PTAs has not taken place in isolation, rather it is influenced by global developments. For example new approaches to investment policy that originated in the context of North American Free Trade Agreement (NAFTA)⁸ that seek a balance of the protection of foreign investors and host countries' right to regulate has influenced the development of Chinese PTA's (Berger, 2013). However, Berger (2013) argues that this NAFTA-isation of Chinese PTAs is only partial, as China is not willing to include full investment liberalisation commitments. Furthermore, this NAFTA-isation of Chinese investment agreements is not a result of a deliberate policy design, for example in the form of a new model treaty, but rather a result of flexibility to adapt to the interests of its partner countries.

3. Impact of China's preferential trading scheme

This section should be reviewed with a degree of caution – each author mobilises a definition of PTAs that may be contrary to WTO understandings of PTA and incorporates reference to FTAs. Further to this, those agreements that authors cite as PTAs are often considered FTAs by China (China only lists one PTA – the Asia-Pacific Trade Agreement). As such it is suggested that this section be reviewed with a critical eye given the definitional ambiguity, with findings reviewed as authors opinions.

Ravenhill and Jiang (2009) comments that in marked contrast to the EU and the United States, whose PTAs frequently have a mercantilist character (i.e. being designed with the intention of opening foreign markets to their exports) the unequal character of the PTAs that Beijing has signed has been primarily to the advantage of China's partners. This can be attributed both to China's pragmatic approach and to its desire to use economic instruments for diplomatic advantage. As reported by Ravenhill and Jiang (2009), opening China's market to some developing countries is considered to be 'an effective response to the China threat theory'. The unequal obligations are particularly noticeable in the 'Early Harvest' provisions of the agreements

⁸ North American Free Trade Agreement (NAFTA) was a pact eliminating most trade barriers between the U.S., Canada, and Mexico that went into effect on Jan. 1, 1994. Some of its provisions were implemented immediately, while others were staggered over the 15 years that followed.

with ASEAN and with Pakistan. In these instances, Beijing has chosen not to make use of the asymmetries in economic power between the parties to its own economic advantage, opting instead to use the PTAs as assurance mechanisms against fears by the weaker parties of Chinese economic domination (Ravenhill & Jiang (2009).

Ravenhill and Jiang (2009) suggests that many less developed countries (LDCs) prefer the lack of specificity and obligation of a vague framework rather than the legalistic approach that industrialised economies (including Japan) require of PTAs, in part as agreements involving the latter are subject to the more stringent requirements of the WTO's Article XXIV. Further to this, Galkin et al. (2018) note that on average China commits to more significant tariff cuts than its partners from developing economies and less cuts compared to that undertaken by developed economies.

It has been argued that Chinese choice of PTA partners and avoidance of deep and comprehensive PTAs is because China was primarily interested in playing a leadership role in the region (Berger, 2013). That is, China tried to situate itself favorably vis-à-vis countries like Japan and the US in its relations with its neighbors to increase its regional influence.

Moreover, by signing agreements with small emerging countries like Pakistan and Chile, China has demonstrated (according to commentators at least), a desire to become the leader of a coalition of developing countries in the global economy, which in turn would increase its international bargaining position (Dieter, 2013). As such, the first PTAs signed by China were considered to be of little economic significance and if there were any positive economic effects at all they were mainly reaped by China's PTA partners, Ravenhill and Jiang (2009: 32) see this as "the classical behavior of a benevolent hegemonic power, reminiscent of the US tolerance of discrimination against its exports by its European and Northeast Asian allies in the period after 1945."

In the ASEAN agreement for example, Beijing was willing to accept ASEAN exports of agricultural products fully cognisant that these would damage domestic producers in provinces bordering ASEAN (Ravenhill & Jiang, 2009).

In contrast to discussions with lower income countries, China's negotiations with larger industrialised economies, This reluctance to capitalise on its relative power has not carried over, however, to its negotiations with Australia and New Zealand, where Beijing has been insistent on minimising damage to its vulnerable domestic sectors, particularly agriculture (Berger, 2013).

In a similar vein, negotiations with Australia for example, have proved more difficult. During the Chinese negotiations with the Australian government, the latter was insistent on a comprehensive PTA that included agricultural trade and liberalisation of the services sector (Ministry of Commerce, PRC⁹).

Economic diplomacy

China's overall PTA policy is driven by economic as well as political reasons that are also reflected in the choice of partner countries (Nakagawa & Liang, 2011). The Chinese government negotiated PTAs to promote stable and peaceful relations with its Asian neighbours and to counter concerns about the potentially negative economic and political impacts of China's rise (Gao, 2011). This rationale is rooted in the doctrine that China's economic development depends

⁹ <http://fta.mofcom.gov.cn/english/index.shtml>

on a stable and peaceful external environment. According to Nakagawa and Liang (2011: 19), “the agreements with Taiwan, Hong Kong, Macao, ASEAN and Pakistan were primarily driven by geopolitical concerns”.

Further to this, China’s choice of partners indicates the government’s priorities in using PTAs as a foreign policy instrument. As Ravenhill and Jiang (2009) argue, PTAs have been part of China’s diplomatic weapons used in its quest to enhance its resource security. China has sought to ensure that PTAs will end discrimination against its resource investments and deliver at least most-favoured-nation treatment in its partner economies.

One consideration in China’s policies has been rivalry over leadership of the East Asian region, the area to which China gives top priority in its diplomacy. Ravenhill and Jiang (2009) argue that China has attempted to position itself advantageously vis-a`-vis Japan in its dealings with smaller economies in the region. Beijing’s concessions on imports of agricultural products through the Early Harvest provisions of the ASEAN agreement placed it in a particularly favourable light compared with Tokyo’s and Seoul’s reluctance to make concessions on agricultural imports in the PTAs they have negotiated with ASEAN states (Ravenhill & Jiang, 2009).

Trade effects

When analysing the impact of PTAs as trade creating or trade-diverting overall, understanding the magnitude of these effects and why it varies across different countries is critical (Sen et al., 2015). A majority of existing studies have examined the impacts of PTAs on bilateral trade flows using a gravity model and by measuring the extent that PTAs affect trade creation or trade diversion with the results being mixed and effected by the size of the sample, time period, gravity equation specification and the particular PTAs considered (Sen et al., 2015). Lee and Park (2005 – cited in Sen et al., 2015) argue that if a PTA has stronger trade diverting than trade creating effects then it could become a stumbling block for global free trade. However, the evidence is supporting their relative strengths is mixed with some studies finding that PTAs expand intrabloc trade while contracting output and trade in non-member countries (Sen et al.,2015).

The formation of PTAs can have different effects on different country pairs with many suggesting that asymmetries are related to the relative levels of development of PTA partners, as measured by their per capita income (Helpman & Krugman, 1985 cited in Sen et al., 2015). Globerman (1992 cited in Sen et al., 2015) argued, however, that the formation of PTAs between country pairs with dissimilar per capita incomes, especially in the context of developing countries, generates powerful stimuli toward the rationalisation of production owing to increasing industrial concentration and unexploited economies of scale (Sen et al., 2015).

PTA depth index

The PTA depth index (DI) developed by by Dur et al. (2014) can be applied to compare various PTAs that have Chinese participation. The DI captures whether a trade agreement contains substantive provisions in the spheres of services trade, investments, standards, public procurement, competition and intellectual property rights, and also whether all the tariffs in the agreement are eventually planned to be reduced to zero. As outlined by Galkin et al., (2017), On average, across all signed PTAs, China’s DI is 4.8 out of 7, signaling that its approach to trade deals is not as superficial as some researchers suggest. However, these scores differ significantly by partner groups: average DI for Hong Kong, Macao and Taiwan is only 2.3; for developing economies it is 3.9 and 5.3 for developed ones (Galkin et al., 2017: 9).

Access to markets

China has sought to include provisions in its PTAs that enable its resource companies to bring in Chinese labour to staff its resource projects. Beyond these specific measures, it is not clear what PTAs can deliver to China (Zheng, 2016).

Even though China has not been as aggressive as the EU and the U.S. in attempting to use PTAs to open the markets of its negotiating partners, the potential that such agreements may have to enhance exports at times when China faces growing protectionist pressures globally is clearly an attraction to domestic economic interests (Ravenhill & Jiang, 2009).

Market access for Chinese (agricultural) exports could certainly be an obvious economic driver for (certain) PTAs, yet it does not explain Zheng's (2016) observation that most recent PTAs are in with trade partners on which China depends heavily for imports.

China's willingness to accept agreements that discriminate against its interests has been considered by some to be reminiscent of the behaviour of hegemonic powers e.g. U.S. tolerance of discrimination against its exports by European and Northeast Asian allies in the period after 1945 (Jiang & Ravenhill, 2007).

Access to resources

Wilson (2012) has argued that China uses its PTAs to address resource security concerns. China's demand for natural resources and energy has increased drastically and, as a result, it has become one of the world's most import-dependent resource consumers and trade agreements could help to obtain resource imports at affordable prices and to ensure security of supply (Eckhardt & Wang, 2019).

PTAs reflect Chinese desires to enhance access to raw materials. China's economic development model during the 1990s was characterised by increasing dependence on exports as a driver of growth. Consequently, China became increasingly dependent on the input of raw materials and intermediary goods from resource-rich countries and tried to secure these inputs also through the negotiation of PTAs. China's sustained rapid economic growth has rested on enormous increases in imports of raw materials and particularly of energy. China's increasing dependence on imports has led to a dramatic expansion of the country's economic diplomacy with all parts of the global economy (Ravenhill & Jiang, 2009).

China negotiated PTAs with Peru, New Zealand, Chile and Costa Rica to secure the supply of resources and agricultural products (Nakagawa & Liang, 2011: 19). A positive side effect, from a Chinese perspective, is that these small economies have been much more dependent on China as a trading partner than the other way around. Against the background of this asymmetric trade relationship, China could be sure of its greater bargaining power because "while China could afford to ignore these economies, none of them could afford to ignore China" (Gao, 2011: 11). Furthermore, negotiating with countries that were relatively less important economically also meant that China could build up negotiating capacities without taking big risks for its long-term development (Gao 2011: 17) and without having to deal with intense lobbying from sectors negatively affected by liberalisation measures.

However, Eckhardt and Wang (2019) comment that In a world in which natural resource extraction is often controlled by global transnational corporations, often headquartered outside of the country in which the resource extraction is taking place, the capacity of inter-governmental agreements to affect the allocation and pricing of minerals is limited.

Energy security

China is a major energy importer, its trade deals have significant impact on international energy trade and global energy markets. The effect of PTAs on trade patterns varies across the product groups (oil, gas and coal) and agreement clauses. The dominant factor affecting trade flows of coal, crude oil and oil products is the average tariff level. Its impact is less significant for gas imports, which are more affected by policy arrangements represented by a PTA variable. The depth and scope of a PTA do not affect Chinese energy imports patterns (Galkin et al., 2018).

Galkin et al. (2017) explore the role of energy in China's PTAs and extend the trade gravity model to disaggregated trade flows, estimating the impact that these agreements have on Chinese energy imports. Galkin et al. (2017: 3) find that:

- Securing energy/resource imports is not the major driver of China's PTA strategy. Other considerations include: access to significant or strategically important markets, complementary economic and trade structures and extending political influence.
- The impact of PTAs on trade patterns varies across product groups. Agreement elements may include tariff reduction, scope and other specific policy arrangements.
- From China's perspective, reduced import tariff rates likely:
 - Increase the import flows of coal, crude oil and oil products – but not gas – from a partner economy to China.
 - Help an energy exporter increase its share in Chinese crude oil and oil product imports.
 - Divert a partner's exports of crude oil and oil products to China from competing importers.
- From an exporter's perspective, the presence of an operational PTA with China likely:
 - Increases the import flows of gas from a partner economy to China.
 - Helps an energy exporter increase its share of Chinese imports of coal.
 - Diverts a partner's exports of coal and gas to China from other importers.
 - Does not affect oil exports to China.
- The depth and scope of a PTA does not affect the patterns of Chinese energy imports.

Chinese domestic reform

In its official communications, the Chinese Leadership increasingly emphasises the importance of PTAs in relation to domestic economic reform. The official rhetoric is that liberalisation in trade in goods (including agriculture) and services through PTAs, and the resulting foreign competition, will lead to innovation and a stronger economy in the long run. Beijing also stresses that PTAs may help to introduce tougher Intellectual Property Rights (IPR) rules and attract more foreign investment. Eckhardt and Wang's (2019) findings show that China has chosen many PTA partners with whom the country has a severe trade deficit and is willing to accept terms that offer market access for foreign producers and investors into the Chinese market, while offering less beneficial conditions for Chinese exporters.

Case Studies

The below case studies provide an overview of different types of PTA and outline the

China-ASEAN Free Trade Agreement (CAFTA)

Ravenhill and Jiang (2009) argues that the motivation of Beijing in proposing a PTA to ASEAN was more political than economic. China wanted to allay ASEAN's worries about the repercussions of China's accession to the WTO. As part of the 'mulin youhao' [peaceful and friendly neighbourhood] policy, Chinese policymakers hoped the CAFTA would stabilise Sino-ASEAN political and economic relations, which Beijing saw as crucial in creating a peaceful strategic environment. The CAFTA initiative was regarded as a diplomatic landmark for China in taking the leading position in propelling the progress of East Asian cooperation by forging institutional arrangements and making economic concessions. It also gave China a diplomatic advantage over Japan (Ravenhill & Jiang, 2009).

In terms of economic interests, Ravenhill and Jiang (2009) suggests Beijing wished to guarantee the supply of energy and raw materials from ASEAN and to help diversify export markets offsetting trade protectionism in America and Europe, and in reducing the dependence of both parties on those markets.

China and ASEAN had previously largely been competitors in third country markets, but with the implementation of the CAFTA, ASEAN increasingly exports raw materials and components to China, where they are processed and assembled before being exported to third countries (mainly the US and Europe).

During the process of negotiating and implementing CAFTA, Beijing has learned that PTAs are a useful implement for achieving foreign policy goals, and that PTAs are most effective as an instrument when they provide substantial benefits so that the other party will increase its economic dependency on China (Ravenhill & Jiang, 2009).

Australia-China FTA (AUCFTA)

When China started to embark on PTAs in international economic cooperation, the Australian government became worried that it would lose out to ASEAN and other countries in the Chinese market. The AUCFTA is reported to have been proposed by Australia during one of the high-level visits by Australian leaders to China (Ravenhill & Jiang, 2009).

- There were two major economic motivations for China in negotiating a PTA with Australia. First, Beijing hoped the PTA would secure a 'stable' supply of resources from Australia, since energy security had become a priority in China's foreign economic policy objectives.
- Second, since Australia was the demandeur in proposing the PTA, Beijing could ask Canberra to grant China market economic status, thereby setting a precedent that it could request the EU and the US to follow.

Although some Australian industries expressed concerns regarding remnants of the planned economy in China, Australia recognised China as a market economy in April 2004 so as not to fall far behind other countries in getting preferential access into the Chinese market (Ravenhill & Jiang, 2009).

The growth in Chinese demand for Australian mineral exports is expected to slow, and Australia is therefore attempting to reposition itself as a provider of services and agricultural goods (EIU, 2014).

Australian dairy, beef and lamb producers are considered to be significant winners from the agreement, as tariff reductions are to be phased in over the decade following ratification. Dairy sales to China are seen as an important growth area for Australian exporters, with Chinese demand expected to grow rapidly in the coming years. The terms of the FTA are broadly similar

to those of China's 2008 deal with New Zealand. That agreement is credited with helping New Zealand's dairy exports to grow from NZ\$6.4bn (US\$4.7bn) in 2007 to NZ\$13.4bn (US\$11bn) in 2013 (EIU, 2014).

Australia's resources sector will also benefit from tariff reductions. Once all the tariff reductions in the agreement have been implemented, 99.9% of Australia's current resource, energy and manufacturing exports to China—including iron ore, gold, crude petroleum oils and liquefied natural gas (LNG)—will be tariff-free. The FTA will also eliminate Australia's tariffs on its imports of Chinese manufactured goods, including cars, clothing and textiles, and electronic equipment, in a move that will support the competitiveness of Chinese firms against their Japanese and South Korean rivals (EIU, 2014).

The sweeping nature of the new agreement with China suggests that the benefits flowing to Australia from the deal will exceed the figure of US\$18bn over ten years identified in an earlier government-backed feasibility study. The FTA therefore represents a political win for the Australian prime minister (EIU, 2014).

China's motivation for concluding the FTA under such terms is less immediately apparent. Clearly, China will derive some economic benefit from the deal. Its manufactured goods will be placed on the same footing in Australia as those from South Korea and Japan. However, most of the advantages of the deal would appear to flow to Australian companies, with China offering surprisingly generous concessions in a number of areas, particularly trade in services. By contrast, Australia has declined to assent to what were thought to be key Chinese demands.

China–Hong Kong Closer Economic Partnership Agreement (CEPA) 2003

The CEPA was widely considered to benefit mainland Hong Kong more than China and largely represented a one-way opening of trade by the mainland (Ravenhill & Jiang, 2009). The China Customs Administration predicted that Hong Kong services exports to the mainland would increase but the mainland would not gain many economic benefits from the agreement. The immediate objective of the CEPA was to lift Hong Kong's economy out of depression. The CEPA was also intended to give Hong Kong an advantage that would allow its products and companies duty-free access to the mainland market earlier than other countries would achieve under China's WTO commitments.

Beijing hoped that the CEPA would promote the integration of the mainland, Hong Kong, Macau and Taiwan. In 2003, officials stated that the CEPA was “an operationalization of the ‘one country, two systems’ strategy” (Ravenhill & Jiang, 2009).

The CEPA was regarded as an important step in China's domestic economic integration strategy and the starting point for constructing a ‘Greater China Economic Circle’, which would have a greater influence on neighbouring countries than the mainland alone does. Beijing hoped the CEPA would push Taiwan to join the three others both by providing an example and by the increased competition Taiwanese exports would face (Ravenhill & Jiang, 2009).

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Suggested citation

Avis, W. (2022). *China's preferential trading schemes for developing countries*. K4D Helpdesk Report No. 1192. Institute of Development Studies. DOI: [10.19088/K4D.2022.134](https://doi.org/10.19088/K4D.2022.134)

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