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ROLE ZÓN VOLNÉHO OBCHODU V ČÍNSKÉ INICIATIVĚ NOVÉ HEDVÁBNÉ STEZKY: PODPORA REGIONÁLNÍ EKONOMICKÉ INTEGRACE?

THE ROLE OF FREE TRADE AGREEMENTS IN CHINA'S BELT AND ROAD INITIATIVE: PROMOTING REGIONAL ECONOMIC INTEGRATION?

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Text se zabývá tématem čínské vládní iniciativy Nové Hedvábné stezky. Článek tuto iniciativu analyzuje pouze v kontextu jedné z priorit, kterou je obchodní spolupráce s důrazem na současný stav ekonomických regionálních integrací z pohledu Čínské lidové republiky. Text se zaměřuje zejména na zóny volného obchodu, které byly vyjednávány a uzavřeny čínskou vládou po iniciování Nové Hedvábné stezky roku 2013. Navzdory tomu, že hodnoty obchodu mezi Čínou a zeměmi podlé této iniciativy silně roste, čínský network přes zóny volného obchodu se rozvíjí pomaleji po roce 2013.⁵

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Klíčová slova: Čína, Nová Hedvábná stezka, mezinárodní obchod, regionální ekonomické integrace, zóna volného obchodu

The paper focuses on free trade agreements in the Belt and Road Initiative (BRI) that has been implemented by the Chinese government. The article deals only with one of the officially declared priorities of the Initiative – trade cooperation, with an emphasis on the current state of regional economic integration from a Chinese point of view. Attention is paid mainly to new free trade agreements that have been negotiated and concluded by the Chinese government after the BRI launch in 2013. Despite the value of China's trade with BRI's countries has been growing gradually, China's FTA network has been expanding rather slowly after 2013.

Key words: China, Belt and Road Initiative, international trade, regional economic integration, free trade agreement

JEL: O18, O53, R11

1 INTRODUCTION

In 2013, Chinese President Xi announced its vision of the New Silk Road (Belt and Road; BRI) during his visits to Kazakhstan and Indonesia. He said that China would like to open a new initiative reviving old trading routes along the Silk Road. In March 2015, an official document called “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road” (hereinafter referred to as “Vision and Actions”) was issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, with State Council authorization (NDRC, 2015), introducing the BRI's framework, main areas of cooperation, priorities and measures.

Considerable media and academic attention has been paid to this initiative, even though the precise content has not been clear for a long time. Even now, it is rather vague and broad. Nevertheless, the BRI seems to be very important for the Chinese government, which has also been manifested in including the initiative into main priorities of the 13th Five-Year Plan and new foreign policy strategy. It was also added to the Communist Party Constitution in 2017. The BRI is often mentioned in both Chinese official texts and partner countries' documents.

The paper's aim is to elaborate on just one of BRI's priorities, i.e. trade cooperation and facilitation between China and BRI-countries. It focuses on new free trade areas (FTAs) along the BRI that have been negotiated and concluded by the Chinese government after the official BRI launch. The goal of the paper is to introduce new FTAs within the Initiative, analyse the importance and development of these trade agreements after 2013 and find out if there is any major change in general Chinese approach towards regional economic integration related to the main priorities of the Belt and Road Initiative.

There are several studies devoted to rigorous econometric assessment and empirical research of the Belt and Road Initiative's macroeconomic impacts and

consequences, its potential to boost trade, investment, and jobs, to create new industries, boost productivity, and economic growth in both BRI countries and the world economy. Especially new reports and studies by World Bank (2019), Baniya et al. (2019), OECD (2018), Zhai (2018) should be mentioned. For instance, recent research by Baniya et al. (2019) demonstrated that new or upgraded land and maritime transport routes and infrastructure projects may substantially improve the connectivity, reduce trade times along the existing transport links, therefore increase trade flows in BRI countries by up to 4.1%. World Bank (2019) argued that trade along the BRI will increase both sharply and unevenly for BRI corridor economies. Trade is projected to grow between 2.8 and 9.7% for corridor economies and between 1.7 and 6.2% for the world. Contrary to this, García-Herrero and Xu (2016) estimated that trade gains should be 6% for Europe and 3% for Asia, while the rest of the world suffers a 0.04% reduction in trade due to the BRI.

Other scholars analyse general motives, impacts and risks related to the BRI (e.g. Garlick 2019, Baltensperger and Dadush 2019, Kratz et al. 2019, CSIS 2018, Lee and Kim 2017, Lu 2016, Tsui et al. 2017). Major concerns and risks related to the Belt and Road Initiative are shortly listed and analysed in the following section of this article. Since we focus on free trade agreements related to the BRI, we do not analyse general features and risks of the BRI in detail.

Regarding the main motives and development of new Chinese free trade agreements concluded within the BRI, which is a key issue of this article, Casas and Serrano (2018, p. 78) argued that “Chinese FTAs could constitute the foundation of a Eurasian multilateral trade system anchored by China’s gravitational pull and vast open market. This system could be the BRI’s most enduring legacy.” These authors also (2018, p. 79) claimed that trade agreements are components of China’s long-term approach and have “the potential to be included in the institutional infrastructure of the BRI”. Contrary to this, Tu (2018, p. 2002) stated that both China’s FTA strategy and the BRI are “more for strategic purposes than economic goals”. Tu also noted (2018, p. 2002) that “with or without BRI, China will still implement its FTA strategy to negotiate FTAs” with diverse countries all over the world. This is why a more detailed analysis of China’s approach towards regional integration within the Belt and Road Initiative seems to be legitimate. Albeit BRI countries are emphasized, the necessary broader perspective of China’s FTAs is taken into consideration as well.

The paper is organized as follows. The first section shortly analyses the main features of the Belt and Road Initiative, with a special focus on its member countries and priorities of the BRI, primarily the regional trade cooperation and liberalization, which is the central issue of the paper. Both general benefits and multiple concerns about the Initiative are mentioned. The second section of the paper provides an analysis of China’s general approach to regional economic integration, which is considered to be an important platform to further opening up of the Chinese economy.

China's FTA network and important goals and motives for concluding FTAs are introduced. The third section explores major trends in China's foreign trade within the framework defined by the 13th Five-Year Plan (2016-2020). Special attention is paid to China's foreign trade covered by the free trade agreements and trade with BRI countries. The last section concentrates on FTAs negotiated and concluded with BRI countries after 2013. It analyses main features, development and importance of these FTAs for China. Other FTAs within the BRI that have been negotiated and concluded by the Chinese government before 2013 are also included in the last section.

2 BELT AND ROAD INITIATIVE: MEMBERS, MAIN PRIORITIES AND CONCERNS

Vision and Actions (NDRC, 2015) aims to build the Silk Road Economic Belt and the 21st Century Maritime Silk Road; connecting China plus 64 economies mentioned in the 2015 Official Action Plan (State Council, 2015c). Today, the list of BRI countries includes more than 72 enormously heterogeneous Asian, European and African countries, with over half of the world's population and one-third of global GDP (OECD 2018, p. 9). They also control more than 75% of world energy resources (EP 2016, p. 4). Nevertheless, the total number of BRI countries has been increasing and may differ in various studies or sources. By July 2019, the Chinese government officially concluded 195 cooperation agreements with 136 countries and 30 international organizations building the Belt and Road (State Information Center, 2019a). According to the Vision and Actions (Section II), Belt and Road Initiative is "open to all countries and international and regional organizations for engagement". This is why statistics mentioned in this paper may vary substantially and therefore are only indicative. For instance, New Zealand, South Korea or South Africa (i.e. countries participating in the 21st Century Maritime Silk Road) were not listed in the first action plan – see Table 1. Moreover, new forms of cooperation have also been initiated with Latin American countries and the South Pacific. In 2019, even Italy, the first major European economy, signed a memorandum of understanding with China on the BRI, despite the disapproval of some EU countries and the United States (BBC, 2019).

The main initiative and broadly defined priorities of the Belt and Road Initiative include (Vision and Actions, Section IV): 1) enhanced policy coordination in many areas, especially economic development strategies, regional cooperation, etc.; 2) infrastructure facilities connectivity; 3) investment and trade cooperation and facilitation; 4) deepening of financial integration; 5) and people-to-people, i.e. cultural, academic, media and other cooperation (NDRC, 2015). These goals of the cooperation are supposed to be key building blocks of projects along the BRI. Typical projects covered by the BRI include facilitation of visa policy among the partner countries, new air and train connections, construction of new ports, roads, railways, airports or power lines in partner countries etc. In addition, now it also includes projects related to disaster prevention, innovation, etc. Estimates of the BRI projects scale range from 1 to

8 trillion USD. By region, Asian BRI countries (mainly Southeast Asia) attract the majority of investment and construction projects, followed by Africa and the Middle East (for more details see e.g. Kong et al. 2019, pp. 2-3).

Table 1: BRI-participating countries in 2015

<i>Region</i>	<i>Country</i>
East Asia	China, Mongolia
Southeast Asia	Brunei, Cambodia, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste, Viet Nam
South Asia	Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka
Central Asia	Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan
Middle East and North Africa	Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Palestinian Authority, Syria, United Arab Emirates, Yemen
Europe and Central Asia	Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Former Yugoslav Republic of Macedonia, Moldova, Montenegro, Poland, Romania, Russian Federation, Serbia, Slovakia, Slovenia, Turkey, Ukraine
21 st Century Maritime Silk Road ¹	Ethiopia, Kenya, Morocco, New Zealand, Panama, South Korea, South Africa

Note: ¹ Examples of economies not listed in the 2015 Official Action Plan.

Source: OECD (2018, p. 9).

As for trade cooperation, China intends to liberalize and facilitate trade in participating countries, lower the costs of trade, i.e. “an unimpeded trade” should be an important feature of the BRI (State Information Center, 2019b). It has been noted that “the BRI emphasizes infrastructure development rather than trade agreements, however, trade agreements are not neglected. They should be “complementary and synergistic with the BRI” (Baltensperger and Dadush, 2019: 4). And, at the same time, the official objective of the 13th Five-Year Plan is to establish “a network of high-standard free trade areas” with countries along the BRI (MOFCOM 2016). The Chinese government would like to improve existing FTAs (e.g. FTAs with ASEAN and Pakistan) and sign new ones. Indeed, new FTAs after the BRI launch have been signed. However, these agreements include only those with South Korea, Georgia,

Maldives and Mauritius (as of December 2019; see below), i.e. China's FTA network has been expanding rather slowly. These new trade agreements (excluding Korea) do not represent the most important trading partners of China. On the other hand, China's combined trade with the BRI countries has been growing significantly (see Chapter 3).

Many observers have welcomed the Belt and Road Initiative. According to the Chinese government (see e.g. State Information Center, 2019b) and some major international organizations, including the International Monetary Fund (IMF 2018, p. 29), ambitious infrastructure projects and transport corridors should help many countries in Asia and other regions in filling their large and long-standing infrastructure gaps, boosting their economic and social development, improving trade and foreign investment. They should be also beneficial for developmentally weak provinces in Central and Western China. The BRI could also strengthen global supply chains and trade. The IMF (2018, p. 29) has argued that it has "great potential for both China and participating countries". Several empirical analyses have been published, focusing on potential gains for the BRI countries, especially reduction in travel times and trade costs for countries along six main economic corridors, increase in global real income, etc. (World Bank 2019, Kong et al. 2019, García-Herrero and Xu 2016).

On the other hand, many concerns over the initiative have arisen in recent years. These concerns include a lack of transparency, questionable China's trade and investment openness, increased public debt in major recipients of BRI projects (pushing the less-developed countries, e.g. Sri Lanka, Laos, and Pakistan, into a serious debt trap), high risk of corruption and governance risks in large infrastructure projects, environmental risks in partner countries (because of new coal-fired power plants, steel projects, and large transport projects), growing and unsustainable trade dependence of BRI member countries on China, etc. (OECD 2018, 2019; Baltensperger and Dadush 2019, Kratz et al. 2019). Officially, China puts a lot of stress on mutual benefits and win-win outcomes in all BRI activities. Nevertheless, critics claim that Chinese companies are favored in non-transparent BRI projects (CSIS, 2018). There are also crucial geopolitical concerns since the BRI is often seen as China's effort to significantly increase its geopolitical influence, expand soft power and broaden global economic power (The Economist, 2018).

It is important to note that, in April 2019 (during the 2nd BRI Forum in Beijing), even Chinese President Xi Jinping criticized the BRI partially, referring to complaints of partner countries. Officially, the BRI should be adjusted and reframed, it should provide more opportunities for non-Chinese companies and debt-sustainability framework for recipients of BRI projects. China should pursue "high-quality development" among participants in the initiative and encourage new areas of cooperation, including the development of digital infrastructure. President Xi also signalled that the Chinese government would exert more control over projects in BRI,

not tolerate corruption etc. The second BRI forum might be a turning point for the initiative. However, the implementation of new commitments will be very challenging.

3 CHINA'S FREE TRADE AGREEMENTS

According to the World Trade Organization (WTO), Regional Trade Agreements (RTAs; i.e. free trade agreements and customs union) are based on Article XXIV of the General Agreement on Tariffs and Trade (GATT), Enabling Clause; and Article V of the General Agreement on Trade in Services (GATS). They constitute an exemption from non-discriminatory multilateral trade rules. The WTO allows the existence of such agreements, providing that they are in compliance with the mentioned Articles, and are notified to the WTO⁶. However, there is a long-term discussion about the impacts of regional trade agreements on the multilateral trading system. Some WTO members call for higher transparency when concluding and monitoring trade agreements, which is given by a heavy increase in the number of concluded agreements (WTO, 2016). Nowadays, there are no WTO member states which have not signed any RTA. As of 1 September 2019, already 302 RTAs were in force (WTO, 2019a).

China concluded free trade agreements with 17 countries or regional blocks until December 2019, while negotiating and studying the feasibility of several more (see Table 2 and Map 1). The Chinese government considers regional economic integration to be a fundamental part of China's external opening, an important incentive for domestic reforms and also a tool for its economy's integration into the global economy (MOFCOM, 2016). In fact, the Chinese government started concluding regional agreements only after 2000; that means relatively late compared to other countries. The agreement on economic cooperation between ASEAN and China, signed in 2002⁷, was one of China's first FTAs. China has been negotiating FTAs notably with its neighbours and some remote countries (e.g. New Zealand and Iceland). Today, China does not have any free trade agreement with its major trading partners (USA, EU, and Japan; see Table 4). Its most important FTAs have been concluded with ASEAN, South Korea, and Singapore.

⁶ There is a special RTA Database, focusing on information on regional trade agreement notified to the WTO: <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>.

⁷ Not considering the Asia-Pacific Trade Agreement (APTA), formerly known as the Bangkok Agreement, which was joined by China in 2001. Being the oldest preferential trade agreement among developing countries in Asia and Pacific (signed in 1975); it has gradually reduced tariffs for selected products. However, APTA cannot be considered as an FTA for now. Its today's members are Bangladesh, China, India, Laos, South Korea and Sri Lanka. Mongolia should join APTA as well (UNESCAP, 2017).

Table 2: China's FTA network, as of December 2019

<i>Country</i>	<i>Agreement</i>	<i>Signature</i>	<i>Entered into force</i>
ASEAN	<i>China-ASEAN Comprehensive Economic Cooperation Agreement – Goods</i>	4. 11. 2002	1. 7. 2005
	<i>China-ASEAN Agreement on Trade in Services</i>	14. 1. 2007	1. 7. 2007
	<i>China-ASEAN FTA Upgrade</i>	22. 11. 2015	
Hong Kong	<i>China-Hong Kong Closer Economic Partnership Agreement</i>	29. 6. 2003	1. 1. 2004
Macau	<i>China-Macau Closer Economic Partnership Agreement</i>	17. 10. 2003	1. 1. 2004
Chile	<i>China-Chile Free Trade Agreement</i>	18. 11. 2005	1. 10. 2006
	<i>China-Chile FTA Upgrade</i>	11. 11. 2017	1. 3. 2019
Pakistan	<i>China-Pakistan Free Trade Agreement</i>	24. 11. 2006	1. 7. 2007
	<i>China-Pakistan FTA second phase</i>	28. 4. 2019	1 12. 2019
N. Zealand	<i>New Zealand-China Free Trade Agreement</i>	7. 4. 2008	1. 10. 2008
Singapore	<i>China-Singapore Free Trade Agreement</i>	23. 10. 2008	1. 1. 2009
	<i>China-Singapore FTA Upgrade</i>	12. 11. 2018	-
Peru	<i>China-Peru Free Trade Agreement</i>	2008	1. 3. 2010
Costa Rica	<i>Costa Rica-China Free Trade Agreement</i>	8. 4. 2010	1. 8. 2011
Taiwan	<i>The Cross-Straits Economic Cooperation Framework Agreement</i>	19. 6. 2010	12. 9. 2010
Iceland	<i>Iceland-China Free Trade Agreement</i>	15. 4. 2013	1. 7. 2014
Switzerland	<i>Switzerland-China Free Trade Agreement</i>	6. 7. 2013	1. 7. 2014
Australia	<i>China-Australia Free Trade Agreement</i>	17. 6. 2015	20. 12. 2015
South Korea	<i>China-Republic of Korea Free Trade Agreement</i>	1. 6. 2015	20. 12. 2015
Georgia	<i>China-Georgia Free Trade Agreement</i>	14. 5. 2017	1. 1. 2018
Maldives	<i>China-Maldives Free Trade Agreement</i>	7. 12. 2017	-
Mauritius	<i>China-Mauritius Free Trade Agreement</i>	17. 10. 2019	-
Under negotiation: Regional Comprehensive Economic Partnership (RCEP); GCC (Gulf Cooperation Council); Japan and Korea (trilateral FTA); Sri Lanka; Israel; Norway; New Zealand Upgrade FTA; Moldova; Panama; South Korea FTA second phase, China-Palestine FTA; China-Peru FTA Upgrade			
Under consideration: Columbia, Fiji, Nepal, Papua New Guinea, Canada, Bangladesh, Mongolia, Switzerland.			

Note: Shaded rows represent BRI countries (excluding Hong Kong, Macau, and Taiwan, that are special cases, not recognized as FTAs by the Chinese government).

Sources: processed by authors according to WTO (2018, 2017) and MOFCOM (2019).

Map 1: China's FTA network, as of December 2019



Sources: processed by authors according to WTO (2018, 2017) and MOFCOM (2019).

The Chinese government officially emphasizes the need for reciprocal trade liberalization, balanced, win-win and inclusive trade (MOFCOM, 2016). However, its aims and motives for concluding FTAs seem to be highly pragmatic and complex. It is not only about the development of trade and investments, but also about specific political goals, goals in strategic and energy sector with regard to the national security in a broad sense. Zeng (2016) argued that “economic considerations are not predominant factors influencing China’s FTA negotiations”. Similar findings have been confirmed by Müller and Seabra (2019) and Salidjanova (2015). For instance, in the case of FTAs with Chile, Pakistan, Australia or New Zealand, a substantial role is played by an effort to secure stable power supply and supply of raw materials. However, the overall improvement in relationships with the FTA partners is pursued as well (Stuchlíková, 2010). Political, security, strategic and energy goals are often being cited when analysing China’s presence in Africa, nevertheless not in official statements released by Beijing. In the official statements, the government proclaims deepening of cooperation, e.g. within FTAs, and continuing in economic opening, reforms and peaceful development. Casas and Serrano (2018, p. 81) also argue that the motivation on both sides of FTA negotiations with China “is institutional and norm-building, and to demonstrate to global audiences that very motivation”. China has recently dealt with small economies too in order to acquire negotiation experience which can be further utilized in negotiations with larger economies (Hufbauer and Wong, 2005).

4 CHINA'S FOREIGN TRADE: SELECTED TRENDS

Within the 13th Five-Year Plan (2016-2020) and the 13th Five-Year Plan for the Development of Foreign Trade of the Ministry of Commerce (MOFCOM) there are many official goals for foreign trade and investment, mainly focusing on further opening-up, liberalization, and deregulation or “upgrading” of foreign trade structure towards goods and services with higher value-added (regarding to supply-side structural reforms in the economy). China should also “accelerate the implementation of Free-trade-zone strategy”. The construction of BRI and raising cooperation with countries along BRI belongs among the Plan’s priorities.

Indeed, many restrictions on foreign trade and investment have been reduced in recent years. However, critics claim that import tariffs remain higher than in most OECD countries (see below), non-tariff measures are being frequently used, and prohibitive measures on foreign direct investment are above the OECD average too. Moreover, China’s trade in commercial services should be liberalized further (for more details see e.g. OECD, 2019).

Table 3: China’s selected economic indicators, 2014-2020

<i>Indicator</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019*</i>	<i>2020*</i>
Real GDP (annual change, %)	7.3	6.9	6.7	6.8	6.6	6.2	6.6
Current account balance (% of GDP)	2.2	2.7	1.8	1.6	0.4	0.5	0.2
Export growth (value, percentage change)	4.4	-4.5	-7.2	11.4	9.1	3.2	3.8
Import growth (percentage change)	1.1	-13.4	-4.2	16.0	16.2	1.7	4.2
Net foreign direct investment (% of GDP)	1.4	0.6	-0.4	0.2	0.8	0.7	0.6

Note: * denote estimates.

Source: IMF (2019: pp. 50-51).

Foreign trade has been still an important source of China’s slowing GDP growth (in addition to domestic investment and consumption). On the other hand, both the contribution of net exports to the GDP growth and current account surpluses have been decreasing gradually (Table 3), mainly due to structural changes (technological upgrades in manufacturing exports, shift to products with higher added value), the economy’s rebalancing and fast-growing imports of goods and services to China. This decline in current account surplus also reflects strong investment growth, appreciation of the real effective exchange rate, a widening of the services deficit of China (mainly as a consequence of a remarkable increase in China’s outbound tourism) and other factors (IMF 2019, p. 6). In 2018, the current account surplus fell to 0.4% of GDP

(from its peak in 2008); and it is projected to further decrease. Of course, continuing trade tensions between China and the United States might change these projections.

In 2018, China remained the world's leading merchandise trader (with a share of 12.8% of global exports; i.e. USD 2.49 trillion) and the fifth-largest exporters of commercial services (4.6%; USD 265 billion). Similarly, it was a key global importer of both goods (10.8% of global imports of goods; USD 2.1 trillion; i.e. the second-largest importer after the United States) and commercial services (9.5%; USD 521 billion). Surprisingly, China's trade was growing despite global trade restrictions and tensions, but its import demand has slowed markedly (WTO 2019c, p. 100, 102).

Table 4: Top merchandise trade partners of China (% of the overall trade), 2018

<i>Imports to China</i>			<i>Exports from China</i>			<i>Total trade</i>		
	<i>Country</i>	<i>%</i>		<i>Country</i>	<i>%</i>		<i>Country</i>	<i>%</i>
1.	EU28	12.8	1.	USA	19.2	1.	EU28	14.8
2.	South Korea	9.5	2.	EU28	16.5	2.	USA	13.7
3.	Japan	8.5	3.	Hong Kong	12.1	3.	Japan	7.1
4.	Taiwan	8.3	4.	Japan	5.9	4.	South Korea	6.7
5.	USA	7.3	5.	South Korea	4.4	5.	Hong Kong	6.7
6.	Australia	4.9	6.	Vietnam	3.4	6.	Taiwan	4.9
7.	Brazil	3.6	7.	India	3.1	7.	Australia	3.3
8.	Vietnam	3.0	8.	Singapore	2.0	8.	Vietnam	3.2
9.	Malaysia	3.0	9.	Taiwan	1.9	9.	Malaysia	2.4
10.	Russia	2.7	10.	Russia	1.9	10.	Brazil	2.4

Source: EC (2019a, p. 8).

The EU was the largest trading partner (in terms of the total trade in goods) for China in 2018, followed by the United States, Japan, and South Korea (see Table 3). It is also important to note that the volume of Chinese trade covered by free trade agreements remains rather small (WTO 2018, p. 10, 34). In 2016, it amounted to 25.4% of the total foreign trade volume of China, excluding Taiwan, Hong Kong, Macao). In 2017, major China's export destinations among FTA partner countries were ASEAN, South Korea and Singapore and (see Table 5).

Moreover, preferential tariffs under Chinese FTAs differ substantially. According to the WTO (2018: 49), Chile and New Zealand face the lowest average tariff rates (0.4%; the share of duty-free tariff lines for these FTA partners is more than 97%), followed by Costa Rica and Iceland (0.7%; more than 93%, respectively), the ASEAN countries (0.8%; more than 94%). By comparison, the simple average applied Most Favoured Nation rate in 2018 was 9.8% for total imports, slightly higher than in 2013. In general, Chinese import tariffs are higher for agricultural products; they are higher than in most OECD countries (WTO 2019d, 2018, p. 47).

Table 5: China's FTA network and mutual trade flows (nominal values in USD thousand and % of China's total export and import), 2017

<i>Country</i>	<i>Export</i>	<i>%</i>	<i>Import</i>	<i>%</i>
ASEAN	279,502,481.54	12.35	235,950,682.46	12.80
Hong Kong	279,210,546.47	12.34	7,317,183.82	0.40
Macau	3,168,949.08	0.14	103,999.87	0.01
Chile	14,409,849.16	0.64	21,175,532.14	1.15
Pakistan	18,250,788.59	0.81	1,833,219.00	0.10
New Zealand	5,100,102.86	0.23	9,391,098.20	0.51
Singapore	45,019,300.48	1.99	34,249,623.69	1.86
Peru	6,958,865.01	0.31	13,367,374.44	0.72
Costa Rica	1,495,083.26	0.07	791,620.70	0.04
Taiwan	436,830,507.33	19.30	516,262,022.86	28.00
Iceland	111,826.41	0.00	110,089.71	0.01
Switzerland	3,206,730.09	0.14	33,019,013.52	1.79
Australia	41,438,227.66	1.83	95,009,120.93	5.15
South Korea	102,703,776.59	4.54	177,553,154.15	9.63
Georgia	912,618.66	0.04	67,590.96	0.00
Maldives	295,626.36	0.01	620.50	0.00
Mauritius	762,149.25	0.03	22,435.01	0.00

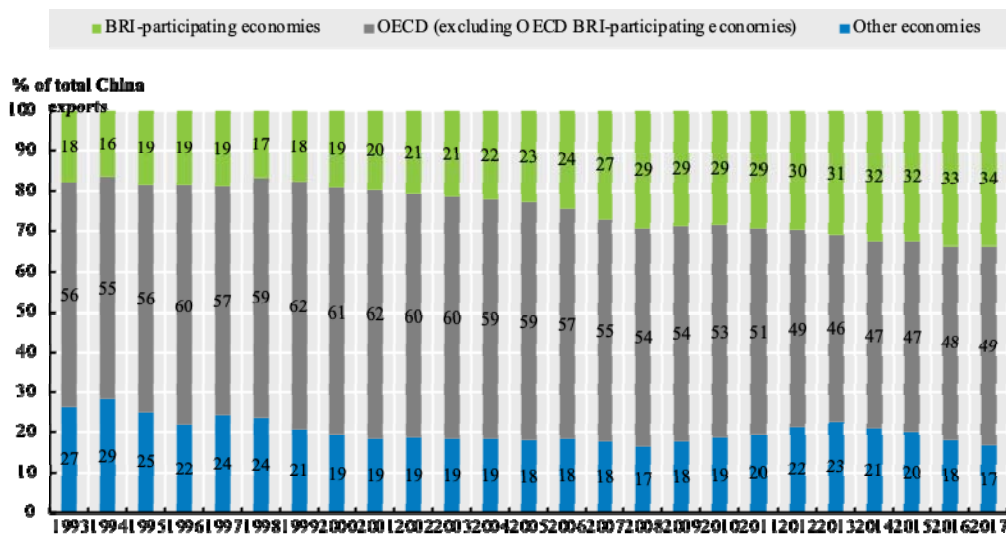
Note: Shaded rows denote BRI countries (excluding Hong Kong, Macau and Taiwan).
Sources: processed by authors according to WITS (2017).

According to official statistics, the proportion of China's total trade value with BRI countries in total China's foreign trade increased from 25% in 2013 to 27.4% in 2018 (State Information Center 2019a, 2019b), i.e. only by 2.4 percentage points. Interestingly, Moody's Analytics' estimate of the increase in this share is higher – around 5 percentage points since 2013. This number is projected to grow further, as BRI projects advance and “gradually bear fruit” (Kong et al. 2019, p. 8). It should be mentioned, that Chinese exports going to BRI countries has been growing almost continuously since 1998. The share of China's exports to BRI countries increased substantially, from 19% in 2000 to 31% in 2013 and around 34% in 2017 (OECD, 2018, pp. 30-31; see Figure 1).

In addition to these trends in China's trade, another matter merits discussion. Commercial services are an important driver of global trade, and China has become a leading services trader. According to the WTO, the BRI has further accelerated the growth of Chinese services exports through foreign-controlled affiliates, since the government has been encouraging to “go global” and the BRI helped Chinese companies to expand in local markets. Especially, Chinese construction exports (reaching USD 188 billion, i.e. more than 37.3% of global construction exports in 2017, up from 8.4% in 2005) have been growing sharply in the last decade (WTO

2019b, p. 27, 33). China's construction of transport and other infrastructure in Asian, European and African countries is expected to rise further with the BRI.

Figure 1: China's trade with BRI countries, 1993-2017



Source: OECD (2018, p. 30).

5 CHINA'S REGIONAL PARTNERSHIPS IN BELT AND ROAD INITIATIVE

The aim of this section is to analyse and shortly discuss mainly bilateral free trade agreements negotiated and concluded by the Chinese government after the official BRI launch in 2013. Surprisingly, new negotiations focus on relatively less important trade partners (Georgia, the Maldives, Mauritius) for the time being. Nevertheless, these countries have strategic geographic positions and cooperation with them could have geopolitical and other implications. An important agreement with South Korea was signed in 2015. However, negotiations on China-South Korea FTA were officially started already in May 2012, i.e. before the BRI launch. Attention is paid to several previously concluded China's FTAs (with ASEAN, Pakistan, New Zealand, Singapore; see Table 2) that have been placed under the BRI as well. Recently, the second phase or upgrades of these trade agreements have entered into effect or have been negotiated (MOFCOM, 2019).

Besides, cooperation with other BRI countries is under negotiation, including countries that are not officially considered as BRI partners yet. In this respect, a certain level of confusion in countries' classification stems from statements of Chinese officials saying that the Initiative is open to all countries of the world, regardless of the geographical borders of continents (State Council, 2015b). From this perspective, other agreements concluded by China may be put under the BRI. In this chapter, we shortly

mention agreements with a direct connection to the BRI as well as other selected agreements that are important to China and may be related indirectly.

5.1 New free trade agreements in the Belt and Road Initiative

Vision and Actions specify an intention to conclude new FTAs along BRI. Already in April 2015, a feasibility study on an FTA between the PRC and Georgia was launched and a memorandum on strengthening relations based on the BRI was signed to increase mutual trade, investment, economic and technological cooperation as well as infrastructure connection. FTA negotiations began in December 2015 and were concluded with the signing of the agreement in May 2017. Customs duties have been eliminated after the date of validity (2018), when more than 90% of mutual trade, with remaining duties to be removed within five years. The FTA also includes cooperation on the protection of intellectual property rights, liberalization of trade in services and e-commerce, and cooperation in competition. However, trade flows between the PRC and Georgia are negligible from China's perspective (see Table 5). In contrast, the PRC is Georgia's major import trade and investment partner.

Georgia is an attractive partner for China, given the closer relations of this Caucasian country with the EU. As Georgia's foreign policy orientation has its starting point in sensitive relations with Russia, the country has the ambition to become an EU Member State. This pro-European course persists in Georgia till up to the present time. Georgia signed an Association Agreement with the EU in 2014, which entered into force in 2016. As far as economic ties are concerned, the so-called Deep and Comprehensive Free Trade Area (DCFTA) is a part of the agreement. DCFTA doesn't only eliminate all customs duties on trade in goods, but also addresses liberalization in the movement of services, encouraging mutual investment flows and providing a framework for regulatory cooperation. This part of the agreement began to be provisionally applied in 2014 (EC, 2019b). Thus, the preferential relations of Georgia with the EU precede those of China and have greater ambitions for developing mutual relations. Thanks to its strategic position on the Black Sea coast, Georgia should be an important "transit hub for East-West trade". The Caucasus region is perceived as an area where the geopolitical strategies of the powers, especially the USA, Russia, the EU, Turkey and now China, clash with the prism of the North-South and East-West axes intersect. Martin (2019) evaluates Georgia as the key to this region because of the country's pro-Western line, relatively stable and democratic government and, finally, economic reforms that make it an attractive destination for investments and trade.

Officially, the trade agreement with Georgia is the first real outcome of economic integration within the BRI, together with the agreement with the Maldives signed in 2017. Again, the Maldives are economically insignificant for China. In 2016, Chinese imports from the Maldives amounted only to USD 0.2 million, exports to the Maldives USD 762 million (see Table 5; WITS, 2017). On the other hand, China is one

of the most important sources of imports for Maldives. At the same time, China participates in the most important infrastructure projects in the Maldives, which is a focal problem of bilateral relations today. The Maldives' debt to China due to the building of infrastructure amounts to more than USD 3 billion. Critics also claim that the Indian Ocean islands have been "caught in a battle for influence between India and China" (Reuters, 2019). For these reasons, the new Maldivian administration has threatened to withdraw from the China-Maldives FTA in 2019.

China's 17th free trade agreement was signed with Mauritius in October 2019. This agreement makes Mauritius the first African country tied to China by an FTA. It can be also understood as an outcome of Mauritius' intention to move away from Europe's influence towards Asia ("Go East Strategy"). And from China's point of view, the FTA with Mauritius might better align the BRI with Africa's economic integration. In 2018, China was already the largest source of Mauritian imports and among the three largest sources of foreign direct investment inflows (BOM, 2019). As soon as the FTA comes into effect, more than 90% of trade in goods should be subject to zero tariffs with remaining items being reduced in 5-7 years. Barriers will be relaxed in services, investment and other sectors.

As for the two previous FTAs, Kutty (2019) points out another dimension of China's approach, namely Sino-Indian rivalry in the Indian Ocean region. This gives small island countries such as the Maldives, Mauritius and the Seychelles strategic importance in terms of maritime routes and logistics facilities. The author concludes that the rivalry is most intense in the Maldives and to a lesser extent in Mauritius and Seychelles. The rivalry results from China's growing engagement in the region (see also Garlick, 2017), mainly based on investment in critical infrastructure roofed under the Maritime Silk Route.

Some sources already classify South Korea as a country participating in BRI, taking into consideration also the fact that Republic of Korea participated in the Belt and Road Forums and other events (Ministry of Foreign Affairs, 2019). Implementation of an FTA with this country was initiated by the PRC in 2015. Prior to the signing of the agreement, tariffs in trade were around 10-20%, their gradual elimination should be therefore reflected in a further increase in economic flows. South Korea is one of China's five most important trade and investment partners (see Table 4 and Table 5). As for Korea, China was its both top export destination (with a share of 27% of Korean exports going to China) and import market (20% of imports) in 2018 (HKTDC, 2019). Chinese companies have been investing both in Korean consumer and advanced industries. The Republic of Korea is one of the major innovators in the world, with high spending on science and research, and great results in many fields, which attracts the attention of the PRC. Chinese tourists are also important for South Korea; their number has been growing significantly over the past decade, up to more than 6 million per year. This is reflected, among other impacts, in the growing interest

of Chinese investors in purchases of land or tourism equipment in the country (KPMG, 2016: 29). The potential tariffs' removal within the FTA with Korea was supposed to bring more benefits to South Korea (Kim and Shikher, 2015). However, in spite of model-based predictions, Cheong (2016) remarks that KCFTA lacks some basic precondition of a high-quality FTA such as a promise of prompt tariff elimination, services liberalization, commitments for the business environment improvements or intellectual property rights protection. The slow liberalization mechanism is determined to be the main obstacle to the economic exchange boost. In this respect, the insufficiency of KCFTA is explained by Chinese efforts to achieve a compromise within a limited time period and conclude a "big" FTA within the region in response to the Japanese decision to prioritize the Trans-Pacific Partnership (TPP) over the RCEP.

5.2 Other free trade agreements in Belt and Road Initiative

Apart from relations with the EU and the US, economic ties with Asian countries represent the foundation of China's external relations. With respect to the overall turnover of trade in goods, mainly with Hong Kong, Japan, South Korea, Taiwan, Vietnam, Malaysia and Thailand should be emphasized. It is the Association of Southeast Asian Nations (ASEAN) which is welcomed by China to further strengthen already developed relations and which has been recently integrated under the BRI initiative, particularly its maritime road. After 2002, China has concluded agreements on cooperation in trade in goods and services with ASEAN countries, followed by an agreement covering investment flows signed in 2009 and China-ASEAN FTA Upgrade. The China-ASEAN FTA (CAFTA) was fully implemented in 2010 when almost 95% of the mutually traded products were liberalized from customs duties. According to Chinese sources, enhanced cooperation has been reflected, among others, on an 8-fold increase in trade turnover (from USD 54.8 billion in 2002 to 452.2 billion in 2016) and a six-fold increase in FDI (from USD 30.1 billion in 2002 to 183 billion in May 2017 (State Council 2018a). ASEAN as one entity is China's third most important trading partner; and Vietnam, Malaysia, Thailand, Singapore and Indonesia play a dominant role in trade with China. These countries represent dynamic markets as well as suppliers of raw materials; they provide Chinese companies with investment opportunities and cheap labour force. The countries are strongly interconnected in terms of production networks and supply chains as well. Southeast Asia is of great importance to China also from a geopolitical and strategic perspective (with respect to tensions in the South China Sea, etc.).

China also negotiated or has been negotiating separately with individual ASEAN countries (Singapore) and might partially disrupt the integrity of this formation. However, this approach does not differ, e.g. from Japan's approach. Therefore, a new kind of cooperation within the Lancang-Mekong Cooperation might be interesting, under this new partnership between China and five countries along the

Mekong River. China has pledged significant financial resources to support cooperation with the mentioned countries, including loans, credit lines, support for small and medium-sized projects in partner countries, as well as government scholarships, training and educational projects or the development of connectivity in the region, also with relation to BRI. Already initiated projects can be integrated into the BRI, e.g. highway construction between Kunming and Bangkok, railway China–Thailand or China–Laos, Long Giang industrial park in Vietnam.

Pakistan is a typical example of a BRI country with an existing FTA with China (Pakistan China Free Trade Agreement, PCFTA, in force since 2007). The agreement with Pakistan has liberalized not only trade in goods but also investment flows. Trade in raw materials and development of Pakistani mining (especially extraction of zinc and lead) is the main basis for the cooperation. Since Pakistan is a developing country with unique access to the main maritime routes (and therefore primary commodities such as oil or natural gas), PCFTA and its effects draw attention from several perspectives. Uzair and Nawaz (2018) empirically examine the impact of tariff reduction on trade using the example of PCFTA and highlight that the PCFTA has ended up in mutually beneficial new trade flows not only between involved parties but also with third countries in the region through a so-called trade creation effect. On the contrary, Hussain and Shah (2017), developing the outcomes of Boumellassa et al. (2006) and other authors, determine China to be the winner of this cooperation while considering also real GDP, net welfare and changes in export/import prices as a variable. They argue that the Pakistani trade deficit with China increased as a result. In this context, the China Pakistan Economic Corridor (CPEC) is assumed to be a possible game-changing element in the long run.

New Zealand was the first developed country that entered into an FTA with China (in force since 2008). Since 2017, the liberalization of other areas of mutual relations has been negotiated (FTA Upgrade), and New Zealand expressed an interest in further cooperation within BRI. As for other countries that have expressed interest in participating in the BRI, Australia and China concluded an FTA (ChAFTA) in 2015. The PRC is the most important trading partner for Australia, especially in trade in agricultural products, mineral raw materials and services, and one of the most important investors. Even prior ChAFTA entered into force, Chinese investors increased their interest in Australian agricultural production and processing capacities as well as consumer sectors and real estate. However, for instance Zhou (2017) claims, that the positive impact of ChAFTA rules on investment protection and liberalization have been overstated.

5.3 Selected FTAs under negotiation or consideration

In 2014, negotiations between China and Sri Lanka began, being focused on a general FTA covering trade in goods and services, investments, and technological

exchange. Negotiations on an agreement with Israel started in 2016, focusing on the liberalization of trade in goods and services, movement of people, technical cooperation, e-commerce, and dispute resolution. In 2017, China agreed to conduct a feasibility study on an FTA with the State of Palestine. In 2017, negotiations on an agreement with Moldova were initiated as well; at the same time, China is exploring the potential of agreements with Nepal, Mongolia, Bangladesh (MOFCOM, 2019), and the Eurasian Economic Union, which is one of the newest integration entities (in force since 2015). Its members, Russia and CIS countries (Belarus, Kazakhstan, Armenia and Kyrgyzstan) officially support the BRI as well (MOFCOM, 2017).

Trilateral negotiations on an FTA with South Korea and Japan are considered to be significant by the Chinese government, with regard to the interdependence and complementarity of these economies within supply chains in the region (MOFCOM, 2016). Japan also took part in the BRI Forums in 2017 and 2019. Prime Minister Abe also confirmed Japan's intent to extend cooperation within the Chinese BRI in June 2017 (EAF, 2017). This could be a paradigm shift in the approach to China. Japan has, so far, kept an obvious distance, being afraid of impacts on its position within the region, defined for example by the preference of the Asian Development Bank (ADB). Long-term territorial and political disputes influence economic relations between China and Japan as well. Nevertheless, China's role in solving tensions on the Korean Peninsula will be crucial for the future development of cooperation between China and South Korea, China and Japan, or trilateral cooperation.

The Regional Comprehensive Economic Partnership (RCEP) was launched by ASEAN countries, China, Japan, South Korea, Australia, New Zealand, and India in 2012. If signed in 2020, RCEP could be the world's largest free trade area (MOFCOM, 2019). However, in 2019, India decided not to join the agreement because of concerns that it would hurt Indian producers and exporters. Its participation in RCEP is considered important for economic reasons and as a counterweight to China. But the remaining countries may bring RCEP into force even without India.

Within the Asian region, participation in the Shanghai Cooperation Organization (SCO) provides China also with an opportunity, since it is an Eurasian platform for political, security, manufacturing, financial and social cooperation, aiming to improve connectivity between partner countries. In 2015, Chinese Prime Minister Li proposed further development of cooperation in six areas that are in compliance with BRI (State Council, 2015a). The conclusion of an FTA is not on the agenda yet, although it was proposed by President Wen Jiabao in 2003.

Negotiations on an FTA between the EU and China are not a current issue, despite the crucial importance and scope of the EU-China economic partnership. Of course, it is impossible to conclude FTAs only with individual EU countries that are interested in joining the BRI, since they have to respect trade rules and joint negotiations on external trade agreements under the Common Commercial Policy.

Initially, the BRI was mainly focused on cooperation with countries from the Middle East, Asia, Africa and Europe. However, in 2018, Latin American and Caribbean countries were invited to join the BRI by China. China opened discussions with the Community of Latin American and Caribbean States (CELAC), having 33 member states. Already in November 2017, Panama decided to join the BRI. CELAC and China signed a broad agreement, called Santiago Declaration, in Santiago (in January 2018), with the aim to deepen the economic and financial cooperation between the regions. This agreement might be also a sign of changes in Chinese foreign policy – China wants to be more influential in Latin America while the US has been losing their influence here. Not surprisingly, China is one of the biggest trade partners for the key players in Latin America and the trade between China and Latin America has been growing over the last years. The FTA between China and Chile was signed already in 2006, and it is supposed to be strengthened and extended in the upcoming years. During the Santiago Forum, both Chile and Bolivia declared to be ready to join BRI (OBOReuropa, 2018). A new strong focus on the improvement of the trade and political ties between China and Latin America has been taken since 2016. Several countries in Latin America have launched one-China policy and the others have been intensively trying to attract Chinese investors.

6 CONCLUSIONS

The Belt and Road Initiative, announced in 2013, is an important instrument of the Chinese government in influencing the country's position in the global economy and international relations in general. It has many official priorities and broad goals, however, some of them seem to be rather vague and too general. In this article, we focused only on one of these priorities – i.e. on regional economic integration and free trade agreements concluded or negotiated between China and BRI countries. China would like to expand its FTA network, conclude new trade agreements and improve the existing ones, especially with countries included in the BRI. Overall, this objective has been consistent with the 13th Five-Year Plan and general strategic approach to trade reforms and the process of economic liberalization in China.

China's foreign trade has experienced rapid development, especially when the country joined the World Trade Organization in 2001. Trade has become an increasingly important source of China's GDP growth. However, China's trade structure continues to evolve and change, since current account surpluses have been declining substantially. The value of China's trade with Belt and Road Initiative's countries has been growing gradually, as far back as at the end of the 1990s. And logically, the proportion of China's total trade with BRI countries is supposed to grow further with new and upgraded free trade agreements, trade facilitation and improvements in connectivity and transport infrastructure along the BRI after the Initiative's official launch in 2013. Of course, changes in China's top export and

import destinations may be fastened by recent trade tensions between China and the United States as well. Overall, the BRI and China's trade conflicts with the US may create conditions for diversifying China's foreign trade. On the other hand, these developments also make the BRI countries more economically dependent on China.

In general, free trade agreements constitute an exemption from the multilateral trade rules that are set by the WTO. Since multilateral trade liberalization has been proceeding rather slowly in recent decades, many countries have been focusing on regional economic integration and cooperation with their main trading partners more and more. Nowadays, there are no WTO member states which have not signed any regional trade agreement. Similarly, the Chinese government considers regional integration (apart from the multilateral liberalization and regulation via the WTO) to be a fundamental part of its external opening, an important incentive for domestic reforms and also a tool for its economy's integration into the global economy.

China has been participating in 17 free trade agreements with very heterogeneous economies (as of December 2019). China-ASEAN Comprehensive Economic Cooperation Agreement, signed in 2002, was China's first FTA; China-Mauritius Free Trade Agreement, signed in 2019, is the last one, for the time being. Some of China's FTAs' partners belong among BRI countries today. Other countries may become members or observers of the BRI and China's FTAs soon, as the Chinese list of partner countries and regions (even Latin American countries might be included) has been widening and changing permanently. According to Vision and Actions, BRI is "open to all countries and international and regional organizations for engagement".

China's FTA network has been expanding rather slowly after 2013. Surprisingly, agreements with Georgia, the Maldives and Mauritius are the newest FTAs within the BRI. Evidently, these countries do not represent important trade and investment partners of China. However, trade agreements with them might have important geopolitical consequences. As for the free trade agreements with the Maldives archipelago and Mauritius, they are important in terms of the development of the Maritime Silk Route. Maybe the most important thing is, that China-Maldives Free Trade Agreement is considered to be a clear manifestation of Sino-Indian strategic competition and rivalry in the Indo-Pacific region. In general, China's aims and motives for concluding FTAs seem to be highly pragmatic and complex.

It should be also noted that China has started negotiating several regional trade agreements or their upgrades with BRI countries prior to the official launch of the BRI in 2013. For instance, talks on China-South Korea FTA started already in May 2012. Trade and investment relations with ASEAN countries, Pakistan, New Zealand and Singapore are evidently more significant for China and represent part of its wider and long-term endeavour to liberalize external relations. From this point of view, it seems to be clear that China will implement its existing FTA strategy to negotiate grade

agreements with selected economies even without the BRI. The BRI might be helpful to China's general FTA strategy; nevertheless, it is not that crucial.

Free trade and investment regimes are supposed to be beneficial, usually for all countries involved. China puts a lot of stress on mutual benefits and win-win outcomes in all BRI activities. Nevertheless, the pros and cons, impacts and problems of new trade agreements have to be explored more in detail; more research must be done on those consequences. However, such an assessment of China's FTAs along the BRI is beyond the scope of this paper.

In conclusion, the volume of Chinese trade covered by FTAs may rise substantially in the future. This will also depend on the ongoing negotiations of new agreements with BRI countries. On the other hand, while lowering tariff and non-tariff trade and other barriers between China and individual markets, additional bilateral deals could further complicate a web of rules of origin that firms struggle to navigate. From this perspective, a broader, multilateral trade deal would be more efficient for all involved stakeholders and countries. However, given the long and still expanding list of countries participating in the BRI, a BRI-wide free trade agreement is mostly unlikely now.

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