Introduction

The science of international relations features different theoretical approaches to the problem of the impact of commercial exchange on the internal and international relations of partners. The differences arise from the adopted level of analysis which is a derivative of recognising different entities as principal actors in international relations. Liberalism centres on entities and the state, for realists the state is the leading actor in international relations. The application of these two different theoretical approaches based on various levels of analysis enables a comprehensive analysis of international trade and its impact on relations between states. In addition, the application of different theoretical perspectives and different levels of analysis for the purpose of clarification of the development of trade is worthwhile as the effects of the exchange are different for different entities; they are different for entities, states, classes or from the point of view of the global perspective. Examination at different analysis levels enables one to understand the mutual correlations between these entities which arise in parallel with the commercial exchange.

The analysis of trade policies of states from the point of view of theory of international relations should not be limited to one school of thought about international relations. Just like in the case of other dimensions of international cooperation in the context of their historical evolution and qualitative changes, the explanatory power of particular theories about international relations changes depending on the conditions defined by the international environment.

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The paper aims to analyse China’s trade policy from the point of view of two research perspectives: liberalism and realism. It includes an analysis of the explanatory power of the paradigms in the midst of dynamic changes that take place in the global trade system, associated with the progressive marginalisation of the World Trade Organization (WTO), as a forum for efficient trade negotiation, and the associated increase in the significance of discriminatory liberalization of trade. The article is divided into three sections. The first section looks at China’s involvement in multilateral trade system: GATT/WTO. The second section identifies the reasons for creating free trade areas by the PRC. This section also contains an analysis of agreements signed by China and a description of the process of evolution of China’s strategy in respect of preferential trade agreements (PTAs). The third section centres on verification of the fundamental assumptions of liberalism and realism in the context of the previously analysed trade policy of China.

1. China’s trade policy: the global dimension

The history of China’s involvement in the GATT/WTO multilateral system is closely tied to the internal political situation. While China participated in the work on the establishment of the World Trade Organization and was one of the 23 initial parties to the General Agreement on Tariffs and Trade (GATT), after the civil war of 1946–1949 and Mao Zedong’s takeover the country withdrew from further work under the GATT system. This was largely due to the changes in the economic policy, choosing the self-sufficiency model and isolation from the markets of capitalist countries as a result of the actions of the United States.

The change in the United States’ policy towards China that took place in the early 1970s as well as reforms launched within the framework of the Four Modernisations programme led China to reorient its position towards the GATT system. In October 1984, the Chinese authorities applied for observer status and for permission to have their representatives participate in the workings of the GATT Council and its subordinate bodies. Following that, in 1986, China expressed the willingness to resume negotiations with the GATT contracting parties. In a document filed in July of that year it applied for resumption of its status as a GATT contracting party. In February 1987, China presented a memorandum on its economic

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3 GATT, General Agreement on Tariffs and Trade.
system and economic foreign policy, the Memorandum on China’s Foreign Trade Regime, which discussed, among other things, the tariff system, the rules of goods control, export and import licensing and the system of shaping prices in Chinese exports and imports. Furthermore, it characterised the rules of functioning of the Chinese special economic zones and open coastal cities. The GATT Council decision of 4 March 1987 established the Working Party on China’s Status as a GATT 1947 Contracting Party. Its main tasks were to examine the trade rules presented by the PRC in the Memorandum, to prepare a draft protocol specifying China’s rights and obligations, to prepare negotiations on a Chinese list of liberalisation-related commitments.

Despite the efforts of the Chinese leaders, the procedure of granting China the GATT contracting party status was not concluded before the end of the Uruguay Round (1986–1994), which meant that China was unable to obtain the status of the original member of the newly established World Trade Organization, and negotiations with China were continued after the establishment of the WTO but with some adjustments that were necessary because of the institutional changes that took place with transition from GATT to WTO. In June 1995, China applied for WTO observer status and for permission to participate in the workings of the WTO General Council and its auxiliary bodies. The application for accession was presented on 7 December 1995. As a result, the Working Party on China’s Status as a GATT Contracting Party was transformed into the WTO Accession Working Party. Between March 1996 and September 2001, the Working Party met 21 times, and 63 WTO members participated in its workings, including the European Community and its member states as well as Hong Kong and Macau. Its work resulted in the Report of the Working Party on the Accession of China adopted in October 2001. Two of the document’s most important elements were the Draft Decision and the Draft Protocol on the Accession of the People’s Republic of China to the WTO. In November 2001, the WTO Ministerial Conference decided to allow China to join the Agreement Establishing the World Trade Organization (the Marrakech Agreement) under conditions set forth in the Protocol.

China’s becoming a member of the World Trade Organization in 2001 was undeniably an important event in the history of the multilateral trade system. It had been stressed already at the stage of accession negotiations that leaving an economy of such significance for world trade outside the multilateral trade system undermined the very purpose of the WTO’s existence as a global forum for setting trade rules. On the other hand, however, there were many concerns regarding the accession, and they proved at least partially justified as it can be assumed that after 2001 China had a largely destabilising influence on global trade exchange.
China took full advantage of the membership in the WTO to strengthen its economic position. The analysis of China’s post-2001 trade expansion has led us to the conclusion that it was actually a mistake for highly developed countries to allow the PRC to join the WTO with no conditions concerning exchange rates. Because of China’s accession, the other members of the grouping reduced tariffs on Chinese products, which created favourable conditions for dynamic growth of Chinese exports. Applying aggressive monetary protectionism by excessively lowering the exchange rate of its own currency, China won a considerable advantage in the international market. Due to this exchange rate policy China’s economic partners did not achieve comparable benefits from the liberalisation of trade resulting from China’s membership in the WTO.

One of the major ways of protecting oneself against such practice is to refuse to recognise China as a market economy, which makes it easier to apply protective measures in imports from this country. As a result, China is not treated the same way as the other WTO members. The differences are especially visible in the context of anti-dumping and countervailing procedures. Under the Protocol on the Accession of the People’s Republic of China, for 15 years, that is until the end of 2016 the members of the WTO may treat China as a non-market economy in their anti-dumping and anti-subsidy procedures. This approach ensures high degree of discretion in the treatment of trade partners under anti-dumping procedures, as in this case normal value is not established on the basis of actual selling prices or production costs but on the basis of the prices set and costs incurred by producers in a given third country.

Because of this the country most often accused of dumping by the EU is China. While China agreed to the aforementioned conditions of WTO accession, only two years after becoming a member it started making diplomatic efforts to obtain the market economy status. This issue is constantly on the agenda in China’s relations with the United States and with the European Union. For example, in September 2003 China asked the European Commission to grant it market economy status. Since then, the situation of the Chinese economy has been the subject of a biannual review – just as it is the case with the other non-market economies. So

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far, however, the Chinese diplomacy has not managed to sway the EU to change its position, and recently, although the nature of the issue is purely economic, it has gained a political and strategic dimension.

Not only the conditions of trading with China were affected by China’s accession to the WTO. Due to the role played by the Chinese economy in global trade it also had a considerable impact on the functioning of the organisation itself. The essential change that has been observed in the functioning of the WTO in the recent years is that developing countries have gained prominence, which is a natural consequence of the growing role this group of economies plays in global trade. Since such states as China, India, Brazil, and since recently Russia, became members of the WTO, the organisation has had to face entirely new challenges – not only those related to the negotiations under the Doha Round or the global financial crisis. Presently, the WTO is also struggling with the problem of evolution of the internal balance of power and a leadership crisis.

Reaching an agreement in the present round of negotiations is a much more difficult task than it was in the earlier GATT rounds. The reason for this is in fact not the increase in the number of members in the global trade system or the expanded scope of the trade negotiations but rather the more consolidated positions of developing countries, which are displeased with the functioning of the existing multilateral GATT/WTO trade system. Throughout the period of the functioning of GATT 1947, the process of trade liberalisation was dependent on the interests of highly developed countries. Liberalisation was applied to those sectors in which the countries of the North had a comparative advantage, primarily to trade in industrial goods. As regards those sectors in which wealthy countries were not highly competitive, the expanded market protection systems were maintained. For example, until the Uruguay Round, agriculture and the highly labour-intensive textile and clothing production essentially remained outside the mainstream trade liberalisation. The situation was to be changed by the said 8th round of trade negotiations, which in accordance with the Punta del Este Declaration was to focus on the needs of developing countries more than the previous rounds. However, the fairly mediocre achievements in the field of liberalisation of trade in agricultural goods as well as a number of regimes adopted at that time (especially the TRIPS Agreement) that were burdensome to developing countries did not change the situation of developing countries in the world trade system. Therefore in the current round of negotiations developing countries more effectively

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8 The changes in the structure of world trade in terms of its participants result from the dynamic development of emerging markets and the pro-export strategy these economies have been successfully implementing, which translates into systematic growth of exports from this group of countries.
strive to secure their own interests. To achieve this, developing countries referring to themselves as advanced consolidate their positions in the form of the G20 and are becoming a noteworthy power able to oppose the highly developed countries in the negotiations. The fiasco of the Ministerial Conference in Cancún is a good example of how effective the group is. According to the initial plans, the Development Round started in Qatar’s capital was to end in relevant commitments at the summit in Cancún, Mexico. By rejecting the liberal proposals put forward by wealthy countries, developing countries, which have joined their forces for good, managed to prevent a successful conclusion of the conference. At that time the G20 countries refused to open their markets until farmers from industrialised countries were no longer supported by their states. These countries firmly demanded that the wealthy countries change their policy regarding agricultural production and trade in agricultural raw materials. They demanded considerable reduction of agricultural subsidies, a reform of the customs policy as well as reducing the import limits for this group of commodities. According to the G20 countries, the abolishment of agricultural subsidies would allow them to integrate much quicker with the world trade system.

At this point, we should discuss the role of China in the consolidation of the positions of developing countries in the WTO. Although China joined the negotiations of the Doha Round, its initial activity was not as significant as that of Brazil or India. What is important, however, is that China supports the demands put forward by the other developing countries and participates in groups that represent the interests of the countries of the South. At the Cancún Conference, the PRC backed Brazil and India, thus contributing to blocking the proposal made by the United States and the European Union. At the subsequent WTO ministerial Conferences, China and India – both having considerable agricultural sectors – jointly opposed the fairly conservative proposals of the EU and the US. This cooperation bore fruit also at the WTO summit in Bali, held in December 2013. At that time, India was defending the right to conduct its own policy in

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9 Presently, the group has 23 members: Argentina, Bolivia, Brazil, Chile, China, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, the Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela, Zimbabwe. The group was established before the summit in Cancún and aims to restrict all forms of agricultural support, especially support that interferes with international trade (Amber Box, Blue Box categories) and support for individual products.


terms of ensuring food security, and backed by China it managed to negotiate a temporary exemption from the WTO’s general policy rules in this regard\textsuperscript{12}.

In the WTO, China works together with other countries establishing blocs and coalitions. One of the youngest but also most powerful blocks in the WTO of which China is a member is the aforementioned G20. Apart from that, China is a member of the G33, which focuses on the problem of special products and protective measures\textsuperscript{13}. The said groups have real influence over the course of agricultural negotiations. Next to the United States and the European Union, they are the key actors in these negotiations. The lack of agreement between the US, the EU and the G20 leads to protracted negotiations not only in this specific sector but also in the entire round. The reason for this is that according to the ‘single undertaking’ format that was adopted, nothing is settled until everything is agreed upon\textsuperscript{14}. Apart from the G20 and the G33, China is also a member of the RAMs (Recent New Members), a coalition of countries that joined the WTO after 1995 and demand less obligations in the trade negotiations due to the liberalisation commitments they undertook under accession protocols\textsuperscript{15}.

When analysing China’s activity in the Doha Round negotiations, we need to emphasise that so far China has failed to fulfil the hopes and expectations that the other developing countries had had in relation to its accession to the WTO. Despite the fact that China has supported India’s and Brazil’s initiatives on many occasions, it cannot really be called an advocate of the interests of developing countries who uses its potential in world economy and promotes WTO reforms that are beneficial to this group of states\textsuperscript{16}. It remains an open question whether China is ready to accept this role. So far it has rather focused on protecting its own interests in the WTO and has not aspired to becoming a leader of the negotiations. It needs to be stressed, however, that China’s support for the establishment of the G20 and participation in its workings alongside Brazil and India contributed to a change in the balance of power in the World Trade Organization. With this, the WTO is becoming an organisation where the

\textsuperscript{13} The G33 is composed of 46 countries: Antigua and Barbuda, Barbados, Belize, Benin, Bolivia, Botswana, China, the Republic of the Congo, Ivory Coast, Cuba, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Indie, Indonesia, Jamaica, Kenya, South Korea, Madagascar, Mauritius, Mongolia, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, Peru, the Philippines, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Senegal, Sri Lanka, Surinam, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia, Zimbabwe.
distribution of power reflects the economic potential of its members much better than in other international organisations. The Quad group (the United States, the European Union, Japan, and Canada) was replaced as the leader by the so called new G5, that is the US, the EU, Brazil, India, and China. The new distribution of power in the WTO is directly reflected in the election of the Brazilian Roberto Azavedo to Director-General of the World Trade Organization.

2. Regionalism in China’s trade policy

Next to the WTO, a multilateral quasi-global institution, the architecture of the contemporary trade system also includes Regional Trade Agreements established under Article XXIV GATT. The relation between multilateralism (globalism) and regionalism evolves on the basis of internal and external factors shaping the trade policy of states. Essentially, regionalism can be treated as a solution that is either complementary to or competitive vis-à-vis the GATT/WTO global trade system. In the first case, regionalism is treated as an endogenous element of the global system, complementing the commitments taken within the WTO. In the second case, regionalism is perceived as a competitive alternative to the non-discriminatory global system.

When analysing the trade policy of major economies since the establishment of the GATT system, we should state, however, that for many years multilateral negotiations were the most important forum for pursuing trade interests, and preferential agreements complemented the GATT-based strategy. A gradual change in this approach could be observed since the start of the Uruguay Round, when an impasse in this forum led to the establishment of the North American Free Trade Agreement (NAFTA) and the Asia-Pacific Economic Co-operation (APEC). The conclusion of NAFTA at that time can be considered a competitive solution vis-à-vis the protracting negotiations in GATT, giving the United States access to important sales markets. At the same time, NAFTA and APEC became important instruments for pressuring the other participants of GATT negotiations, showing that the

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17 Sun, Zhenyu: “China’s experience of 10 years in the WTO”. In: Meléndez-Ortiz, Ricardo / Bellmann, Christophe / Cheng, Shuahua (eds.): A Decade in the WTO: Implications for China and Global Trade Governance, ICTSD: Geneva 2011, pp. 11-16.
18 Skrzypczyńska, Joanna: op. cit.
United States had an alternative forum for realising its interests besides the multilateral system, which in fact helped break the impasse in the GATT negotiations\textsuperscript{20}.

Presently, due to the lack of progress in the Doha Round negotiations, the number of preferential trade agreements negotiation by WTO members is growing. The analyses describing this phenomenon even speak of proliferation of preferential trade agreements.\textsuperscript{21} This time, however, PTAs have not become a stimulating factor in multilateral negotiation; on the contrary, the growing number of agreements of this kind escalates the crisis in the WTO negotiations. The reason for this is that PTAs are starting to become an alternative to the WTO as the forum for negotiating and establishing the rules of international trade\textsuperscript{22}. These trends are confirmed by attempts to establish new trade regimes in sectors already regulated in the WTO, as exemplified by the plurilateral negotiations leading to the conclusion of the Trade in Services Agreement (TISA). This policy may lead to fragmentation of the multilateral trade system, may cause it to break apart into individual trade blocs\textsuperscript{23}. What is an especially significant threat to the further functioning of the WTO are the agreements with the key global exporters, especially the United States and the European Union, both those already concluded and those currently negotiated. Taking into account the extent of negotiations and the possibility of new rules of trade being developed under these treaties, the process we are observing can lead to the establishment of a trade regime alternative to the WTO. What may prove to be a particularly dangerous threat to multilateral liberalisation of trade is the return to the notion of establishing a free trade agreement between the European Union and the United States. The reason for this is that due to geopolitical and geoeconomic reasons, the Transatlantic Trade and Investment Partnership (TTIP) is treated as an instrument of integrating the West in the face of growing significance of emerging markets alternative to the WTO, because TTIP negotiations can be treated as a way to maintain Western economic


\textsuperscript{21} This expression can be justified through a comparison of the number of preferential trade agreements concluded in the entire period of functioning of GATT with the number of agreements negotiated after the establishment of the WTO. Between 1948 and 1994, the GATT contracting parties notified 124 various preferential trade agreements; between 1995 and 2006, 130 notifications concerning agreements liberalising the trade exchange between their parties were filed with the World Trade Organization; in 2009 another 20 preferential agreements were notified to the WTO; in 2010, 13 such agreements were notified; and in the following years – a dozen or so agreements of this type.


dominance. With the negotiations on the Trans-Pacific Partnership (TPP), the TTIP negotiations are a way to exclude China from trade negotiations towards the liberalisation of trade exchange and an attempt to correct the earlier mistake of allowing China into the WTO without imposing requirements concerning trade exchange policy, which became an effective instrument for China to build its economic power. In this context, we should ask how China is reacting to the ongoing processes, to what extent China participates in the process of establishing free trade areas and what is special about these agreements.

2.1. Reasons behind China’s establishment of free trade agreements

The formal Chinese strategy concerning free trade areas was made by the authorities in 2007. At that time, agreements of this kind were an element of the country’s economic development strategy\(^\text{24}\). By reducing tariffs and non-tariff barriers to trade, free trade agreements create favourable conditions for the development of exports, which in turn – in accordance with the multiplier mechanism – may contribute to economic growth. In addition, the increased competition in the market due to the inflow of foreign goods forces economic reforms aimed at making domestic enterprises more competitive.

Free trade agreements can be treated as an instrument of ensuring energy security or, more broadly, raw material security. Taking into account China’s need for fuels and other raw materials used in production, the country’s authorities make efforts to secure their supplies. Free trade agreements establishing are one of the elements of this strategy. Guided by the need to ensure stable supplies of oil, China made efforts to establish a free trade area with the countries of the Gulf Cooperation Council (GCC)\(^\text{25}\). A good example of an agreement currently in force that serves to ensure supplies of raw materials for the Chinese industry is the agreement with Chile, which secures the supply of Chilean copper to the Chinese market, among others\(^\text{26}\).

Another reason for the intensification of the PRC’s activity leading to conclusion of bilateral trade agreements was the global economic crisis of 2008 – by stimulating trade, new free trade agreements may help mitigate the effects of recession in global economy.


\(^{25}\) In July 2004, China and the Gulf Cooperation Council (GCC) announced that they were launching negotiations leading to the conclusion of a free trade agreement. So far, five negotiation rounds were held, during which the parties reached agreement in most issues related to trade in goods. Furthermore, negotiations are held on liberalisation of the mutual trade in services.

\(^{26}\) China prefers preferential trade agreements with exporters of raw materials and agricultural products as well as significant recipients of products manufactured in the Chinese market, including importers of clothing, other textiles and electronics.
Furthermore, FTAs are also intended to mitigate the consequences of the trade diversion effect resulting from agreements concluded by China’s main economic competitors – especially the implications of agreements concluded with countries of the Asia-Pacific region by the United States. The negative impact of the trade diversion effect resulting from free trade areas established by the United States were especially felt by the Asian countries that had traditionally treated the US as the major market for their goods. In order to decrease the losses, Asian countries started working more actively towards economic integration of the region. As a direct consequence of this process, the value of intraregional trade has increased. In 2008, the share of intraregional trade in total trade in East Asia was 50 per cent, while in 2013, intraregional trade constituted 53.3 per cent of total exports and 56.7 per cent of total imports of goods in Asia\(^{27}\).

Presently, the trade strategy of China should take into consideration the consequences of negotiations that are to lead to the establishment of two large trade blocks: the negotiations of the Trans-Pacific Partnership (TPP) and the negotiations of the Transatlantic Trade and Investment Partnership (TTIP). Another factor that could influence China’s trade policy is the plurilateral negotiations of the Trade in Services Agreement (TISA) conducted by 23 economies (including the EU). These agreements could not only have negative impact on the Chinese economy by generating trade diversion but could also become the source of new rules in international trade – rules on which China will have no influence. In fear of marginalisation in the process of developing new regulations in international trade, China expressed the desire to join the TISA negotiations and has been intensifying its efforts towards the development of free trade areas. What is more, at the APEC Summit in Beijing held in November 2014, China proposed launching talks on the establishment of the Free Trade Area of the Asia-Pacific (FTAAP)\(^{28}\). This way, China transitioned from being a country that had to submit to rules established by others without its participation (e.g., the GATT/WTO system) to one able to create them. Moreover, it proposes solutions alternative to the initiatives that preclude them: the FTAAP that the country promotes is its answer to the US-backed idea of the Trans-Pacific Partnership, in which China does not take part.

At this point, it needs to be pointed out that China not only takes actions aimed at mitigating the effects of the integration agreements concluded by its key competitors in global trade (the EU and the US) but also treats free trade agreements as an instrument for building its

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sphere of influence in East Asia and in other regions. Additionally, FTAs can be perceived as a tool for competing with Japan, the main Asian competitor to the Chinese economy.

The motivation behind the negotiation of free trade agreements is not limited to solely economic issues – such as keeping or obtaining access to a market, intensifying mutual trade exchange, strengthening cooperation in sectors important to the parties or not sufficiently addressed by the world trade system. Another possibly important determinant of FTAs are political or even strategic considerations including activity towards strengthening the existing political cooperation or showing appreciation to selected partners\(^{29}\). Thus free trade agreements are not only an element of the strategy for developing the Chinese economy; they can also be perceived as an instrument for consolidating China’s position in the international arena, an element of building the country’s superpower status. Apart from that, FTAs can also be used to express gratitude for conducting a China-friendly foreign policy; for example, for severing diplomatic relations with Taiwan (as was the case with the agreement between the PRC and Costa Rica). Furthermore, analysts treat agreements concluded between China and the countries of East Asia or Southeast Asia as an attempt to alleviate the concerns of the countries of the region related to China’s rising power. With the consolidated position of the Chinese economy, there appeared opinions that the balance of power could change not only in East Asia: China could threaten the position of the current global powers and bring about changes in the international order on the global scale. An example of coexisting political and economic determinants in negotiations concerning economic cooperation is the Economic Cooperation Framework Agreement (ECFA),\(^{30}\) signed by China and Taiwan in June 2010. Although the ECFA focuses on commitments leading to the intensification of mutual economic exchange through a reduction of tariffs and non-tariff barriers, more freedom to provide services as well as protection and promotion of investments, it is also perceived as an instrument for creating the right conditions for future unification of the two parties.

2.2. Evolution of bilateralism in China’s trade policy

The first free trade agreement was concluded by China in 2003 with Hong Kong and Macau (the Closer Economic Partnership Arrangement, CEPA).\(^{31}\) While Hong Kong and Macau are in fact Special Administrative Regions of the People’s Republic of China, they are

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\(^{31}\) Supplements I, II, III, IV, V and VI attached to the agreements were signed in 2004, 2005, 2006, 2007, 2008 and 2009, respectively.
also members of the World Trade Organization. The agreement is a good example of implementation of the ‘One Country, Two Systems’ principle. On this basis, free trade areas were established with Hong Kong and Macau as separate customs zones.

Subsequently, China launched negotiations with Pakistan, with which it had maintained good political relations from 1950, as Pakistan had been one of the first countries to recognise the People’s Republic of China. The decades of cooperation between the two states led to a number of agreements addressing the political, economic, military, and cultural cooperation as well as technical assistance. The negotiations on the establishment of a free trade area with Pakistan started in April 2005 during a visit paid to this country by Premier Wen Jiabao. The agreement was signed in November 2006 and entered into force in July 2007. Initially, the parties only committed to reducing tariffs on goods and to facilitating the flow of investments. After several rounds of negotiations, their commitments became more comprehensive, and in February 2009 they finally signed an agreement liberalising mutual trade in services. On this basis, Pakistan freed 102 subcategories in 12 service sectors. China, in turn, liberalised 28 subcategories of services in 6 service sectors.

In the following years, the PRC concluded eight preferential trade agreements (with ASEAN, New Zealand, Chile, Singapore, Peru, Costa Rica, Iceland, and Switzerland). Negotiations were also completed with Australia and South Korea. Agreements establishing free trade areas with these countries are to be signed in 2015, and further agreements of this type are being negotiated: with the countries of the Gulf Cooperation Council, Sri Lanka as well as a trilaterial agreement with Japan and South Korea. In addition, China participates in negotiations on the establishment of the Regional Comprehensive Economic Partnership (RCEP), and is considering the possibility of launching talks on free trade areas with India, Columbia and the Maldives.

The liberalisation under preferential trade agreements concluded by the PRC differs in scope and scale. China has not developed a single model of such agreements but instead chose a

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35 Association of South-East Asian Nations.

36 From 2008, negotiations were also conducted with Norway. The FTA negotiations with this country were, however, suspended after the Chinese dissident Liu Xiaobo was given the Nobel Peace Prize in 2010.

flexible approach of adjusting to the given circumstances, like the level of economic development of its trade partners. First of all, according to the definition of this form of integration, the free trade areas developed by China focus on reducing barriers in the trade in goods. Thus the agreements regulate the following issues: national treatment and market access for goods, rules of origin, customs procedures and trade facilitations, protective measures, sanitary and phytosanitary measures, technical barriers. However, the commitments often go beyond the traditional scope of free trade areas, including also some elements of trade in services, flow of investments or protection of intellectual property. Some agreements address the issue of environmental protection (the agreements with New Zealand, Chile, Pakistan). Agreements concluded after 2005 also cover the problem of movement of workers (the agreements with Costa Rica, Peru, New Zealand, Singapore). The regulation in this area concern, among others, business trips, personnel transfers within transnational corporations, movement of independent specialists, contract workers and people performing installation and service works.38

The common element of all the FTAs concluded by China is that the parties recognise the Chinese economy as a market economy. This is directly related to the aforementioned conditions of China’s accession to the World Trade Organisation and different treatment of the Chinese economy in the global trade system because of it not being recognised as a market economy. These differences are especially visible in anti-dumping and countervailing procedures.

Two stages can be distinguished in the process of building free trade areas by China. The first one is characterised by a gradual, selective approach to liberalisation of trade. In contrast to the European Union and the United States, at this point China did not engage in comprehensive negotiations addressing a broad scope of commitments; the agreements between the EU and South Korea as well as the US and South Korea concerned not only trade in goods and services but also investments, government purchases, protection of intellectual property, and sustainable development, among others (see: Horn, Mavoroidis and Sapir 2010). In the individual negotiation rounds, China attempted to work out sectoral agreements and started new negotiations only after the agreement addressing the given issue had been signed. As a result, free trade areas were established on the basis of a number of separate agreements signed one after the other. Usually, the first thing to be regulated was the movement of goods, followed by the movement of services and investments. For example, the trade relations with ASEAN are

based on a number of individual agreements. In November 2002, the Framework Agreement on Comprehensive Economic Co-Operation\textsuperscript{39} was signed at the sixth China–ASEAN summit and entered into force in July 2005. A separate agreement establishing free trade in goods was signed in November 2004.\textsuperscript{40} Following that, in January 2007 both parties signed an agreement on trade in services,\textsuperscript{41} which entered into force in July 2007, and an agreement on investments was signed in August 2009.\textsuperscript{42} The situation was similar in the treaty relations with Chile. First, China and Chile signed an agreement on the liberalisation of the trade in goods (November 2005).\textsuperscript{43} Then, in a different agreement signed on 13 April 2008,\textsuperscript{44} the parties regulated the trade in services. Currently, the two parties are negotiating an agreement concerning investments.

China’s strategy towards negotiating free trade agreements changed in 2008, with the conclusion of the agreement with New Zealand,\textsuperscript{45} which was the first comprehensive trade agreement signed by China, a single document regulating trade in goods and services, investments and protection of intellectual property. Furthermore, the agreement includes separated rules concerning the movement of workers.\textsuperscript{46} The agreements concluded by China in the following years (e.g., with Costa Rica, Peru, Switzerland, Iceland, and Singapore) have a similar structure.

The said FTAs differ not only in scope but also in the scale of liberalisation. Analysing the bilateral agreements concluded by China, we should emphasise that they are selective and contain a number of exceptions. For example, while the agreement establishing a free trade area

\textsuperscript{43} The agreement entered into force in October 2006. According to this agreement, there would be a considerable reduction in tariffs in the mutual trade relations within 10 years, and after this period the abolition of tariffs should concern 97 per cent of trade in goods subject to the agreement. Apart from activity towards intensification of the mutual trade exchange, the parties also committed to increasing cooperation in such areas as culture, education, science and technology, and environmental protection. The Free Trade Agreement between the Government of the People’s Republic of China and the Government of the Republic of Chile, 2005, http://fta.mofcom.gov.cn/chile/xieyi/freetradexieding2.pdf (20.08.2016).
\textsuperscript{45} The signing ceremony of the free trade agreement between the PRC and New Zealand, attended by Premier Wen Jiabao and Prime Minister Helen Clark, was held in Beijing on 7 April 2008. The agreement entered into force on 1 October 2008.
\textsuperscript{46} The Free Trade Agreement Between The Government of the People’s Republic of China And The Government of New Zealand. op. cit.
with ASEAN and the agreement with New Zealand concern trade in goods and services and investment-related issues, they do not introduce liberalisation in many sensitive industry or service sectors. This, of course, reduces the significance of these documents. However, we should expect that with the conclusion of new trade agreements by the United States, the European Union and the markets of the Asia-Pacific that compete with China in the Asian market, China will in fact be forced to intensify the process of liberalisation of trade, both under the agreements that it has already concluded and the ones that are being negotiated.

3. Liberalism and realism in an analysis of China’s trade policy

The theoretical assumptions for an analysis of international trade are provided by economic science, and theory of international exchange and foreign economic policy especially, which is a component of science of international economic relations. In the context of international trade specific theoretical approaches aim to find an answer to several questions: what are the advantages of international trade and what is the impact it has on the welfare of involved partners, third countries, and, in consequence, the whole world; what factors determine the size and generic and geographical structure of exchange of goods; what determines the exchange-based relationship between exported and imported products. The theory of foreign economic policy explains why representatives of competent authorities in particular states take specific decisions on economic relations with the international environment (positive theory) and explains the consequences of such actions for, e.g. the welfare, economic status (normative theory). In the science of international relations, the reflections on trade policy appear as a part of analyses of measures / instruments that act in the national interest and the impact of economic factors on the foreign policy of states. Further, the analysis covers the connection between trade and peace or trade and conflicts between states. The reflections, depending on the adopted research perspective, often lead to conflicting conclusions regarding similar connections. It results from the differences that exist between particular theories about international relations in respect of the level of analysis and a different perception of the national interest.

Liberalism emerged as an approach identified with a human being and their freedom in the political and economic structures. In this instance, the commercial exchange has been seen from the start as an expression of economic freedom, a factor that contributes to cooperation and interdependence. According to liberalism, the stronger the economic interdependence between the states, the smaller the likelihood of a war between them. Thus, it seems reasonable to assume that various forms of economic ties, including trade, can be seen as instruments that help to keep peace. Reflections of this sort refer to the classical trade theory of Adam Smith and David Ricardo. Classical economics, which emerged from the criticism of mercantilism, treats trade like a means of building welfare. The theory holds that the source of wealth is an unobstructed commercial exchange which ensures access to a larger number of goods through specialisation and efficient use of factors of production. While it is no guarantee of equal benefits for all the parties involved, the effect will always be positive. It is acknowledged by the voluntary participation in trade. According to Smith, if two states engage in commercial exchange without being forced to, it means that they derive benefits. This is precisely why countries should care about cultivating harmonious relations.

According to the liberal school of thought, international organizations play a major role in fostering harmonious relations, being an important forum for cooperation that ensures necessary organizational structures which serve the development of cordial international relations through, e.g. action for the benefit of market economy, commercial exchange or democratic political systems. In this context, the analysis of China’s involvement in multilateral GATT/WTO trade system requires a reference to liberalism. China’s accession to the WTO meant that it joined the global trade governance system based on non-discriminatory rules, whose aim it is to provide its participants with (not always equal) advantages.

In trade policies of contemporary states the characteristic of liberalism attachment to the idea of free trade manifests itself in actions aimed at eliminating barriers to trade, which are undertaken on a quasi-global scale under the above-mentioned World Trade Organization, and on a local scale, in the form of integration agreements and bilateral agreements on free trade which have become fairly popular over the last years.

The foundations of the policy of trade liberalization, irrespective of the form or scale of action, are laid by the free market and trade theory, which says that market powers

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50 Pietraś, Marek, op. cit.
53 Wróbel, Anna: op. cit.
54 Cf. Pietraś, Marek: op. cit.
automatically ensure full exploitation of factors of production and an economic balance. The process applies to national and global economies alike. Unobstructed commercial exchange and specialisation of production enable the most rational possible use of factors of production\textsuperscript{55}. Classical international trade theories hold that free trade is the best way to increase national wealth. Barriers that obstruct international trade reduce GDP, which is equivalent to a decrease in economic welfare. Trade restrictions give rise to differences between domestic and foreign price levels generating a decrease in economic surplus. The loss is not fully compensated for with benefits arising out of protectionism, derived by domestic producers and the national budget. The net effects of restrictions on welfare levels are negative. Free trade, in turn, brings advantages in the form of consumers’ profits and increase in specialisation\textsuperscript{56}.

Keeping in mind the above reasoning, in the face of the mounting crisis in negotiations over the Doha Development Round, China, like other countries, decided to take action aimed at gaining access to foreign outlets based on agreements on free trade zones concluded with specific business partners. An essential element of China’s trade policy are the above-mentioned actions aimed at integration within the Asia-Pacific region. One can assume that the economic reforms introduced in China after 1978 substantially influenced the directions and shape of the country’s trade policy. The gradual departure from the earlier policy of self-sufficiency and strict control over foreign trade and movement of capital in favour of increased openness of Chinese economy and its integration with the global economy is fairly consistent with the assumptions of liberalism. The culmination of the process was China’s accession to the World Trade Organization, which has had a significant impact on China’s contemporary position in international trade and the trade policy of the country.

At this point, it should be pointed out that in China’s trade policy there is, on one hand, room for action aimed at improvement of international cooperation based on existing organizations and international standards, characteristic of the liberal approach to international relations. On the other hand, there are many examples which evidence that China employs trade policy instruments for the purpose of competition handled according to the realistic paradigm in the spirit of mercantilism.

The fundamental principles of mercantilism formulated in the 16\textsuperscript{th} and in the 17\textsuperscript{th} century have a lot in common with realism. The doctrine advocates that business should be


subject to the principal aim, which is the creation of a powerful state. In this context, the global economy is more like a space for conflicts between opposing interests than a forum for cooperation and mutual profits. International trade is a zero-sum game. The profits of one state are equivalent to losses of the other. A trade policy based on the principles of realism is a protectionist policy oriented towards maximisation of own profits. The logic of own profits stands in opposition to collective goods such as free trade. One important truth is that particular states can multiply their wealth by following protectionist policies provided that other states will not follow in their footsteps. The escalation of protectionism on an international scale could lead to substantial limitation, or in extreme cases, discontinuation of commercial exchange, resulting in global recession and reduced economic welfare of all states.

There are two principal forms of economic competition characteristic of mercantilism. Firstly, there is the so-called defensive mercantilism. In this instance, states guard their own economic interests seeing them as guarantors of their security. The policy does not have to entail negative effects for other states. Secondly, there is aggressive mercantilism which manifests itself in pursuit of exploitation of global economy through expansionism.

A trade policy that is consistent with the assumptions of realism is based on the state’s primacy in economy, pursuit of increase in power seen in economic categories and identified with its military dimension. Mercantilism, save for the state’s primacy in economy, the subjection of economy to politics, is based on the pursuit of the greatest possible surplus in the balance of trade, and the industrial policy. In the present day and age, the doctrine is quoted when analysing the economic success of rapidly developing Asian economies, e.g. China and the Republic of Korea. In both cases, the intense development of the economy was an outcome of significant involvement on the part of the state and the introduction of the industrial policy. The countries also employed mercantilist trade policy to impact the size and

58 Kuźnar, Andżelika: op.cit.
60 One should note that the same instruments of trade policy may be used, as the case might be, for fulfilment of economic or political objectives or both of them in parallel. For instance, customs duties may protect the so-called infant industries from foreign competitors so as to let them grow and prosper in the future. In other cases excessively high customs duties may serve as retorsion in connection with negative political actions taken by business partners. Efficient export-oriented policy may improve the economic power of a state and have a positive effect on its position in international political or military relations.
61 A mercantilist trade policy is an export-oriented and import-restricting policy. The states that follow the doctrine apply systems in support of export and limit import. A sign of mercantilism is also an industrial policy pursued under the so-called educational protectionism.
structure of import and export. It is true that in 2001 China joined the World Trade Organization, which should have resulted in greater openness of the economy and fulfilment of trade policy in the spirit of liberalism based on free trade and unobstructed commercial exchange. China, however, is still closer to realism and the associated mercantilism than the free-trade policy followed in the spirit of liberalism. An evidence for this statement is offered by the analysis of effects of China’s trade expansion after 2001.

As a result of China’s accession to the WTO, its members had to reduce customs duties on Chinese products, giving the country an opportunity for rapid development of export. Further, as a consequence of application of aggressive monetary protectionism that consists in keeping the value of its currency low, China gained a substantial advantage on the international market. Taking into consideration the exchange-rate policy pursued by China, the country’s business partners did not derive comparable benefits from the liberalization of trade arising from its membership of the WTO. The following example neatly illustrates the situation: if China keeps the value of renminbi twice as low as it should be, it is as if it grants export subsidies equal to 50% of the value of exported goods and imposes a customs duty equal to 100% of their value on imported products.62

A sign of mercantilism in China’s trade policy is not only the export-oriented exchange-rate policy, but also the restricted access of foreign products and services to the Chinese market. Although at the time of China’s accession to the WTO a series of agreements restricted the use of particular instruments of trade policy and reduced customs duties, the concessions are still levelled by non-tariff barriers. European entrepreneurs who supply their products to China complain about the customs clearance procedures, requirements for import licences, certificates and product labelling standards, vague regulations, limited access to public auctions, specific quality standards (China Compulsory Certification, CCC) and the licensing system.

To recapitulate the above reflections, one can conclude that the wealth of theories about international trade which hold that all states would be more prosperous if there were an unobstructed flow of goods and services, are not transposed into the actual policies of particular states. Although a substantial progress has been made in the process of liberalization of international trade since World War II, on the international and regional arena alike, and in numerous bilateral trade agreements signed over the last years, national governments still guard their national interest and resort to instruments of protectionism. One

example of the above is China, which follows, just like the majority of contemporary states, a hybrid (mixed) trade policy characterised by co-existence of actions aimed at trade liberalization and protectionism. Depending on internal and external conditions, China chooses to reduce tariff and non-tariff barriers in some places just to apply instruments of trade policy which restrain foreign suppliers. Today, it is extremely difficult to judge which of the two directions prevails in China’s trade policy: liberalism or realism? Is it more consistent with the assumptions of liberalism or realism? Although China is a member of a quasi-global organization whose purpose is the liberalization of global trade, it has not done much to help reach an agreement under the Doha Development Round. This might be due to China’s relatively short membership of the WTO. It has not been long since China adopted far-reaching liberalization obligations included in the protocol of accession to the WTO, as a new member, which is why it has not been as involved in the negotiations as the other members. One should note that in spite of the actions aimed at eliminating trade barriers undertaken under the protocol of accession to the WTO and the visible involvement in trade liberalization based on preferential trade agreements, China’s trade policy is still more consistent with the assumptions of realism. China takes advantage of trade liberalization to build economic power, as an element of export-oriented policy implemented in the spirit of mercantilism to maintain the surplus in the balance of trade thanks to the access to foreign markets. Further, by taking actions aimed at implementing specific liberalization projects associated with new preferential trade agreements, China goes into competition with the main competitors on the global market for outlets as well as an integration model proposed to their business partners. One example is the competition that currently takes places for domination in the Asia-Pacific region and alternative projects aimed at integration of TPP and RCEP. China’s action in this regard and the actions of other economic powers aimed at creating new PTAs lead to disintegration of the global trade system, they perpetuate the developing network system of global trade management as a result of existence of an element of a new structure of the trade system in the form of close preferential ties between the most powerful economies. From the point of view of actions characteristic of liberalism aimed at improving the welfare, trade liberalization based on PTAs is the second best solution. Naturally, discriminatory liberalization brings economic advantages to the parties involved in the trade agreement (trade creation effect) and losses to third countries that are not involved in the agreement, in the form of trade diversion. From the point of view of improving the welfare on a wider scale, not

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restricted to the selected parties, a much more effective solution is multilateral liberalization implemented via the WTO. Unfortunately, nowadays the differences in interests of the participants have become a cause of dysfunction of the organization as a negotiation forum and its role has become limited to settlement of trade disputes and supervision over fulfilment of previously accepted obligations.

4. Conclusion

The current state of China’s trade policy stems from the reforms initiated in 1978, which fundamentally transformed it. The PRC abandoned its earlier policy of self-sufficiency and tight control of foreign trade and capital flows in favour of opening up of the economy and integrating it with the global economy. The crowning achievement of this process was China’s accession to the World Trade Organization (WTO), which contributed considerably to the country’s current position in global trade. With the escalating crisis of the Doha Round negotiations, China made the same decision as other countries to take actions towards obtaining access to foreign markets through free trade agreements with selected economic partners.

To sum up, we should point out that China’s trade policy is two-dimensional, which means that it takes advantage of both the multilateral WTO trade system and regionalism in order to pursue its economic interests, just as the other major global exporters, such as the US or the EU. China, however, uses the global trade system and regionalism to achieve different goals. The negotiations in the WTO are primarily to serve China’s global economic interests. Membership of this organisation allowed China to participate in the setting of global norms. Bilateral negotiations, in turn, and the free trade agreements that followed them, allow China to achieve specific pragmatic and strategic objectives. For example, China started negotiations with ASEAN to alleviate the concerns of the countries of this grouping about the PRC’s accession to the WTO. Through negotiations with Asian countries and the resulting stronger relations with the countries of the region, China also strives to consolidate its position in the international arena and wants to be perceived as the representative of the region’s interests. Moreover, bilateral relations are an alternative to norms developed under the multilateral trade system. Apart from ensuring that Chinese products can expand to foreign markets and from differentiating trade partners, the more pragmatic free trade agreements also allow China to secure supplies of raw materials necessary for the development of the Chinese industry (Yang
Jiang 2012). Furthermore, during bilateral negotiations China attempts to change its status in the multilateral trade system by making the commencement of negotiations conditional on being recognised as a market economy by its trade partners.

China’s strategy towards FTAs evolved with time. Initially, the PRC stuck to intraregional agreements with its neighbours. Then, it decided to launch negotiations with the small and larger developed countries of the Asia-Pacific region (Singapore, New Zealand, Korea, Australia). In the recent years, it also concluded interregional agreements with highly developed countries (Iceland, Switzerland). Apart from that, China has undertaken actions towards regional integration under broader projects, which are to confirm the country’s status in the region and balance out the effects of the Trans-Pacific Partnership, which is negotiated without China’s participation.

Taking into account the role of foreign trade and foreign direct investments in the country’s economic development, we should expect that given the crisis of the multilateral negotiations of the Doha Round, FTAs will constitute an important instrument of China’s foreign economic policy serving, as it has so far, to ensure supplies of essential resources and to provide greater export opportunities for Chinese goods and services.

In spite of China’s actions aimed at trade liberalization and its accession to the WTO, the reflection on the choice of a paradigm for the analysis of China’s trade policy makes one note that the country’s policy in this regard cannot be reviewed solely with the use of liberal concepts on international relations. Since the country employs mercantilist instruments of trade policy, the analysis of its foreign economic policy requires a reference to the principles of realism.

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