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CHINA AND GLOBAL MEGA TRADE DEALS

CHUNDING LI, JING WANG AND JOHN WHALLEY

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Chunding Li, Jing Wang and John Whalley

57 Erb Street West
Waterloo, Ontario N2L 6C2
Canada
tel +1 519 885 2444 fax +1 519 885 5450
www.cigionline.org

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ABOUT THE AUTHORS

Chunding Li is a research fellow at the Institute of World Economics and Politics, Chinese Academy of Social Sciences. His main research fields are international trade, regional trade agreements, and policy modelling and simulation.

Jing Wang is currently a post-doctoral associate in the Department of Economics at the University of Western Ontario. She holds a B.Sc. in applied mathematics from China's Renmin University, an M.E. in software engineering from Renmin University and a Ph.D. from the Graduate School of Chinese Academy of Social Sciences.

CIGI Distinguished Fellow **John Whalley** is a Fellow of the Royal Society of Canada and is one of Canada's pre-eminent experts in the field of global economics. Currently, he holds a number of academic positions, including the William G. Davies Professor of International Trade and co-director of the Centre for the Study of International Economic Relations, Department of Economics, at the University of Western Ontario. He is also a research associate at the National Bureau of Economic Research in Cambridge, MA; coordinator, Global Economy Group, CESifo, University of Munich; and a former visiting fellow at the Peter G. Peterson Institute for International Economics in Washington, DC. He has written and co-authored dozens of scholarly articles on a variety of subjects, including international trade and development, public finance, general equilibrium theory and computation, Soviet and transition economies, environmental issues, the economy and Canadian trade policy. He holds a B.A. in economics from Essex University, and an M.A., M.Phil. and a Ph.D. from Yale University.

ACRONYMS

ASEAN	Association of Southeast Asian Nations
FDI	foreign direct investment
FTA	free trade agreement
G20	Group of Twenty
GATT	General Agreement on Tariffs and Trade
MFN	most favoured nation
NAFTA	North American Free Trade Agreement
OECD	Organisation for Economic Co-operation and Development
RCEP	Regional Comprehensive Economic Partnership
SED	strategic economic dialogue
TTIP	Transatlantic Trade and Investment Partnership
TTP	Trans-Pacific Partnership
RTAs	regional trade agreements
WDI	World Development Indicators (World Bank)
WTO	World Trade Organization
UN Comtrade	UN Commodity Trade Statistics Database

EXECUTIVE SUMMARY

The term "mega deal" has been widely used in relation to two large prospective trade deals between the United States and Europe — the Transatlantic Trade and Investment Partnership (TTIP) — and in Asia and the Pacific — the Trans-Pacific Partnership (TPP). This paper starts by exploring a possible description of trade mega deals by making an inventory of mega deals in place, under discussion or negotiation, and deals yet to be considered under different criteria. This paper also calculates the trade volume coverage and trade barrier coverage for potential mega deals, and the results show the potential impact of mega deals on trade and growth performance is large.

This paper then explores China's situation regarding deals under current negotiation or discussion — deals that may include China as well as deals that exclude China. Descriptive analysis along with summarized general equilibrium modelling calculations on the potential impact of China's mega deals on its trade and welfare consistently show that the access benefits from mega deal negotiations may be essential for China's security in market access. This paper argues that were mega deals to be concluded, the pressures on those countries or blocs who were not parties to conclude their own deals will grow. A series of bilateral or plurilateral mega deals driven by large countries may also effectively replace the trade momentum multilaterally in the World Trade Organization (WTO) in the future.

INTRODUCTION

The term "mega deal" has been widely used in relation to two large prospective trade deals between the United States and Europe — the TTIP — and in Asia and the Pacific — the TPP (Felbermayr, Heid and Lehwald 2013; Plummer 2013; Stoler 2013; Van den Hengel 2013). This paper argues that the phenomenon of the mega deal is broader than just these two (admittedly large) prospective deals and discusses the implications for China of the potential changes in the global trade regime that these spreading mega deals could imply. Both of these deals, from which China is excluded at present, are included in the discussion as well as the mega deals that China could become involved with over the next decade. The paper stresses that negotiation on these deals may be slow and could possibly not be concluded, but if pressure for these deals to be concluded accelerates, which may occur, then the global trading system will be significantly changed.

Following the bilateral negotiation of the Canada-US Free Trade Agreement in 1987, which led to the North American Free Trade Agreement (NAFTA) in 1994, the global economy has witnessed a sharp acceleration in both the number and form of regional trade agreements (RTAs). As of January 2014, the WTO committee on regional trade agreements had been notified of 583 RTAs (counting goods, services and accession agreements separately) and 377 were in force (Whalley 2008; Crawford and Fiorentino 2005; Fiorentino, Verdeja and Toqueboeuf 2007). Heavily motivated by security of access for smaller countries more than by improved access to markets, the vast majority of these agreements have been either between small countries or between larger and smaller countries, with a few notable exceptions, such as the China-Association of Southeast Asian Nations (ASEAN) agreement or NAFTA itself. Given the focus of large countries to rely primarily on the WTO as a forum for substantive negotiations with other larger countries, relatively few agreements have occurred pairwise or bloc-wise between larger economies. However, in the last two years, sparked in part by low expectations of future negotiations within the WTO and also by the perceived need to reinvigorate growth in the Organisation for Economic Co-operation and Development (OECD) through export growth, various possibilities for a series of large–large trade negotiations — including most members of the Group of Twenty (G20) — have emerged.

First, this paper will explore the potential for mega deals globally and discuss how China might be involved in the medium term. In reality, many of the deals discussed are in the early stages of discussion or negotiation and may not be concluded. Different criteria are used for the inclusion of agreements in the potential mega deal category, including economies with a GDP greater than US$1 trillion, the top 10 economies by GDP size, the top 10 by trade size and the G20. This paper examines the classification of deals in place, prospective deals under negotiation or in initial discussion and deals yet to be initiated. The picture emerging is that the trade room for such deals is large. Uninitiated deals are the largest category, underscoring the significance of all potential mega deals in the medium term.

China, it is argued, has a lot at stake in all of these deals. Arrangements between (and among) large countries, such as the TTIP between the United States and the European Union, have already been the subject of substantial WTO negotiation and dispute settlement, unlike US-China or EU-China issues. Moreover, China needs to improve access to other markets to repair its slowing (and even receding)[1] export growth.[2] China also needs to broaden negotiations relative to its earlier largely tariff-based RTAs to address restraints it faces on movement of capital abroad and security of access issues related to trade remedy measures

1 In February 2014, export growth in China was -18.1 percent year to year, and the trade balance showed a US$22.98 billion deficit (Suya 2014).

2 China's GDP growth was 7.4 percent in the first quarter of 2014. According to Sheng Laiyun, the spokesperson of China's National Bureau of Statistics, the reason of the slowdown in GDP growth lays mainly in the slowed growth in the industrial sector and a fall in trade growth (National Bureau of Statistics of People's Republic of China 2013). Although China's export and imports all experienced negative growth in the first quarter of 2014 (-6.1 percent and -1.2 percent respectively), a spokesman from the Ministry of Commerce said they predict a 7.5 percent growth for China's foreign trade in 2014 (Zhongren 2014).

against it, for example, anti-dumping. In the tariff-cutting component of such deals China has a significantly higher initial tariff than either the United States or the European Union, giving China more negotiating leverage. The present trade coverage of non-WTO trade deals in the Chinese case is more limited than for the European Union or the United States; therefore, broadening Chinese involvement into new areas is both an opportunity and of more relative significance than for the United States and the European Union. Finally, the higher Chinese growth rate of GDP implies relatively more importance for Chinese trade deals in terms of future trade and growth performance.

Also explored is China's situation regarding deals under current negotiation or discussion — including deals that may include or exclude China. Currently, China has ongoing negotiations with India, Japan, Korea and the ASEAN+6 on a Regional Comprehensive Economic Partnership (RCEP), as well as possible future involvement in the TPP negotiation and even a possible US-China deal. For the United States, there are the TPP negotiations and negotiations with the European Union on a TTIP, to which China is not a party. The European Union has negotiations under way with the United States on a TTIP, a negotiation with India and with ASEAN. Again, China is not party to any of these. If all of China's agreements that are listed as being "under consideration" were to be completed, the calculations shown in this paper suggest that China would have a larger increment (in percent terms) in the range of trade covered by RTAs than the European Union, but smaller than the United States. China would also see the range of trade increase largely (in percent terms) by moving to complete coverage of all pairwise possibilities in large–large RTAs (mega deals). China is impacted negatively by exclusion from other deals, such as the US-EU TTIP, but in many cases tariff reductions in these deals are small, as WTO negotiations have already reduced partner tariffs.

With regard to the potential impacts of mega deals on the trade and growth performance of China, it is now targeting policy primarily to prevent falls in GDP growth in order to keep growth at a minimum of 7.5 percent.[3] The recent stimulus package[4] is a central element in this policy strategy, but equally key is preventing further falls in export growth. Before the financial crisis, export growth rates of 25 percent a year prevailed. These are now sharply reduced. Improved market access and more security of access under mega deals are key contributions that mega deals involving China can make to the policy strategy. Other mega deals, from which China is excluded, can hurt the strategy. If these mega deals turn out to be predominantly tariff-based deals, then China would have the higher initial tariffs in several cases. This suggests China would have more bargaining power. Although the EU-US TTIP has by far the largest trade coverage of any individual mega deal, many trade issues between the European Union and the United States have been dealt with in the WTO, reducing the impact of a EU-US deal. As broader, more substantive negotiations beyond tariffs seem likely to occur, then higher initial barriers and estimates in the form of trade costs (Anderson and Wincoop 2003; Li and Whalley 2013) for China suggest larger possible impacts on China. Also, China's higher GDP growth rate than that of the European Union or the United States suggests relatively higher medium- to longer-term impacts.

Some general equilibrium modelling calculations from Li, Wang and Whalley (2014b) on the potential impact of China's mega deals on China's trade and welfare are also summarized. In the model there are different treatments of tariffs and trade cost barriers, with the latter modelled as *ad valorem*[5] equivalents, but with real resources in contrast to the revenue effects of a tariff. Results show that tariff effects of potential mega deals are small and frequently negative for China due to adverse terms of trade effects, while much larger effects occur from trade cost targeted liberalization.

The paper concludes with remarks on mega deals and China's growth prospects. More so than for the European Union and the United States, foreign trade continues to

3 China set the 7.5 percent GDP growth target from the Eleventh National People's Congress (Jiabao 2012). Chinese Premier Li Keqiang mentioned in a press conference held at the Second Session of the Twelfth National People's Congress on March 13, 2014, that there is some flexibility around the nation's target of 7.5 percent growth this year, without specifying how much of a slowdown leaders would tolerate (Sanderson 2014).

4 China's State Council unveiled, on April 2, 2014, a combination of spending moves to rev up China's economic engine. These include additional spending on railways, upgraded housing for low-income households and tax relief for struggling small businesses. China had previously included these measures in its economic work plan for 2014, but had no before put them together in a package aimed at boosting gross domestic product. This stimulus package was portrayed as a "mini-stimulus package" or a "targeted stimulus program" in Western and Chinese media.

5 *Ad valorem* is Latin for "according to value." An *ad valorem* tariff is duty or other charges levied on an item on the basis of its value and not on the basis of its quantity, size, weight or other factor.

have a big role in China's growth strategy[6] and, hence, the access benefits from mega deal negotiations may be essential in China's strategy. Having said that, China's trade growth currently lies more with large-population developing countries with more rapid growth rates (for example, Brazil, India, Turkey and Mexico) than it does with the OECD (the United States and European Union), which would, along with China, be the focus of mega deals. As such, mega deals as currently cast could be seen as an important part of a bridging strategy for China's trade performance, while higher Southern growth performance comes further on stream over the next decade.

MEGA DEALS AND THE GLOBAL ECONOMY

The description of a trade deal as "mega" refers to RTAs between large countries or groups of countries. There are relatively few of these in the global economy (European Union, China-ASEAN and Japan-ASEAN). The commitment to multilateral WTO negotiation, now weakened by the experience in the Doha Round, has thus far largely precluded large-large bilateral or regional negotiations. Combined with a focus on restoring growth in the OECD, this picture is changed by the TPP negotiations, the EU-US TTIP, China's emerging mega trade deals (including RCEP) and other deals under discussion, including Japan and ASEAN.

Although one could simply label all deals (promised or planned) between countries above a certain size as a mega deal, in reality, there are the "large" mega deals directly involving the European Union, the United States, China and ASEAN, and deals involving the mid-size economies (for example, Japan, Canada, Brazil and Turkey). Mega deals are discussed in this paper as a single category, while examining more fully the impacts of large mega deals such as the EU-US TTIP. Large mega deals can also arise through the involvement of clusters of countries (such as the ASEAN+6 [RCEP] negotiation involving China). For expositional purposes, subsets of mega deals are not explicitly discussed, but they are referred to as a single phenomenon that has the potential to collectively change trade arrangements globally.

The mega deal category of trade deals can, therefore, be based on the size of the economies involved, with the presumption that, in some sense, they are large relative to others. Defining which economies are included in the mega grouping is somewhat arbitrary. The criteria used to classify deals as mega in the discussion below includes the following: first is to take all economies with a GDP above US$1 trillion; second is the top 10 economies by size of GDP among all global economies; third is to take the G20, but treating the European Union as a single entity effectively bringing down the total to 16; and fourth is to take the top 10 countries by size of trade (exports being chosen rather than imports), with the European Union and ASEAN treated as single entities.[7] Table 1 reports the trade coverage of mega deals in place, and under discussion or negotiation. We group others as mega deals yet to be considered.

With respect to the broader country coverage of mega deals globally, Table 1 reports the pairwise cases of agreements in place (P), or under negotiation or discussion (U) for the G20 (16).[8] Given that EU trade negotiating authority rests with the EU Commission, the European Union is treated as a single entity in all these classifications and member states such as Germany, the United Kingdom, France and Italy are not considered separately. The similar pairwise cases of agreements in place for the alternative classifications of the 10 largest economies and 10 largest trading entities are reported in Appendix Table A-1 and Table A-2.

Since most existing RTAs are small-to-small or large-to-small deals, the coverage of existing large-to-large trading relationships in the category in place is thus quite limited; therefore, the potential for global mega deals is large. Table 2 reports the trade coverage under alternative classifications of mega deals. No matter which classification of mega deals is used, the picture emerging is much the same — potential coverage for agreements yet to be concluded is large, with significant coverage of agreements under negotiation and discussion.

The results in Table 2 also indicate that there is little variation regardless of which classification is used in the following analysis, given that the global trading system is dominated by large economies. This is, in part, a natural outcome of over 60 years of General Agreement on Tariffs and Trade (GATT)/WTO negotiations in which large countries have been able to pursue their trade negotiation issues with other large countries under the WTO framework and without recourse to separate RTAs, while small countries have not. As Perroni and Whalley (2000) argue, the upsurge of regional agreements following the negotiation of NAFTA has, in part, been driven by the insurance objectives of smaller countries seeking more secure access to larger foreign markets. Now, 20 years after the WTO was established and with the apparent post-Doha demise of WTO negotiations, these same large countries are turning to RTAs as the mechanism for negotiating

6 China pursued outward trade-oriented growth in past decades and its growth strategy is arguably much more nuanced now. In particular, increasing the share of consumption in GDP is arguably the prime objective of the Communist Party of China. However, given the economic structure, foreign trade remains more important for China than for the European Union and the United States in achieving the targeted GDP growth.

7 The intra-ASEAN and intra-EU trade has been excluded from the measurement.

8 This information is as of April 2014.

Table 1: Mega Deals in Place / Under Negotiation or Discussion Pairwise for G20 Members

	EU	USA	CHN	IND	JPN	RUS	BRA	MEX	KOR	CAN	ARG	AUS	IDN	SAU	TUR	ZAF
EU	-	U		U	U			P	P	U			U		P	P
USA	U	-	U		U			P	P	P		P	U			
CHN		U	-	U	U				U			U	P			
IND	U		U	-	P		P		P	U	P		P			U
JPN	U	U	U	P	-			P	U	U		U	P	U		
RUS						-										
BRA				P			-	P			P					
MEX	P	P			P		P	-	U	P		U				
KOR	P	P	U	P	U			U	-	U		U	P		P	
CAN	U	P		U	U			P	U	-		U				
ARG				P			P				-					
AUS		P	U		U			U	U	U		-	P	U		
IDN	U	U	P	P	P				P			P	-			
SAU					U							U		-		
TUR	P								P						-	
ZAF	P			U												-

Source: Authors' compilation based on Coy (2013), Greenberg (2012), Jianguo (2012) and WTO (2014).

Key: U — under negotiation or discussion; P — in place

Table 2: Trade Coverage of Potential Mega Deals

	Total exports by country covered by agreements in place pairwise or regional (in %)	Total exports by country covered by agreements either under negotiation or discussion (in %)	Total exports by country covered by agreements among group members yet to be considered (in %)
The 10 largest economies globally by GDP	16.4	26.4	57.2
Member of the G20	19.1	26.7	54.2
The 10 largest trading entities in WTO trade data	22.7	27.9	49.4
Economies with GDP of over US$1 trillion	22.1	28.6	49.3

Source: Authors' calculations using the UN Commodity Trade Statistics Database (UN Comtrade) data (UN 2014).

Notes: 1. 2012 GDP (current international purchasing power parity) data from the World Bank World Development Indicators (WDI) and European Union individual members (Germany, France, the UK and Italy) were excluded, to get the largest 10 economies in GDP terms, which are the European Union, the United States, China, India, Japan, Russia, Brazil, Mexico, Korea and Canada.

2. For G20 countries, the European Union is treated as one member and EU members of the G20 (France, Germany, UK, and Italy) were not counted in pairwise calculations.

3. For the 10 largest traders, the European Union and ASEAN were treated as blocs and individual members were not included. Also, Hong Kong was excluded. Using 2011 trade data, the 10 largest traders are the European Union, the United States, China, ASEAN, Japan, Korea, Canada, Russia, India and Mexico.

4. Due to the availability of bilateral data in the UN Comtrade database, the data related to ASEAN is the aggregation along Brunei Darussalam, Cambodia, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

5. According to the WDI GDP statistics (in current USD), the countries (blocs) with GDP over US$1 trillion in 2012 are the European Union (Germany, France, the UK, Italy and Spain), the United States, ASEAN, China, Japan, Brazil, Russia, India, Canada, Australia, Mexico and Korea.

directly with other large trade partners on key bilateral issues that impact both their trade access and their trade growth.

The focus is now turned on the involvement of China, the European Union and the United States, and the possible features and impacts of mega deals. The presumption is that mega deal agreements — if concluded — will, like existing smaller country agreements, cover goods, services and investment with separate agreements for a range of matters such as intellectual property, agriculture, competition rules and so on. In some cases, separate agreements for services could occur and investment provisions might complement pre-existing content in bilateral investment treaties, and there are more of these now than RTAs. If these agreements were in separate parts, the presumption is that these could be integrated into a single package. It is also presumed that the trade segment of a mega deal will be the most significant part, with the opening of trade in services having a broader scope and investment provisions aimed to deepen the competition regime in partners.

Some of the larger mega deals (TPP, RCEP) have advanced to the working group stage where more concrete topics are discussed. In some cases, these include regulatory and other issues that go well beyond the topics covered by WTO agreements — for example, the issue of the movement of persons across national borders has also been covered in some discussions. A more major departure might occur if issues raised by the United States, such as regulatory coherence and state-owned enterprises, are covered by mega deals negotiations such as TPP.[9] Equally, China's incentive could be to raise trade remedy issues and specifically anti-dumping concerns, where it would welcome new regulations, despite OECD opposition, as well as, potentially, restrictions on the movement of capital and asset ownership abroad.

To gain a sense of the change for the global economy over the next several years through a package of possible mega deals, we focus on the trade component of mega deals and explore their potential coverage from two different perspectives. First is the portion of a country's (or global) trade that might be covered by prospective deals or those that could be undertaken but are not yet in discussion. The fraction of trade that remains to be covered later can be calculated if mega deals were to be limited to only those under current discussion. The second coverage dimension of mega deals is the trade barrier coverage of these potential agreements. The issue here is whether these agreements are effectively restricted to largely tariff-based agreements in which tariffs are substantially reduced, or whether they are broader and deal with procurement, rules of origin, comparability of regulation, trade remedy measures and other barriers that are not currently covered by existing WTO rules. There are substantial differences in the estimated size of trade barriers between tariffs on industrial products and so-called "trade costs," which capture price differences between suppliers and end-users across countries, for a range of factors including transportation, culture, language, policy in regulation form and others (Anderson and Wincoop 2003; 2004). The term "trade costs" targeted negotiation would be more far-reaching than tariff dominated negotiations. The approach would be to focus on such issues as regulatory consistency across countries to sharply reduce barriers affecting trade.

A final issue for the purposes of this paper is what would count as a mega deal under negotiation or discussion since there has been speculation of many conceivable groupings in trade or RTA deals. The first that is included are negotiations that have had an official announcement by all parties formally joining in the negotiations. In some cases, progress beyond the start of negotiation may have been made in the form of an interim feasibility study. In other cases, there may be no formal initiation of negotiation, only informal discussion, such as in the research community and media,[10] which could signal that there may be an eventual negotiation. A prospective US-China bilateral negotiation is included in the "under discussion" category, based on the following: negotiations thus far have produced few or no public documents on the specifics of mega deals, and this is unlikely to happen until the negotiations are considered, therefore, the details of issues under negotiation and the positions of partners remain unclear. The calculations below rest heavily on press coverage and speculation.

Table 3 presents a list of existing and prospective mega deals for China, the United States and the European Union using the criterion that to qualify as a deal with the "mega" label both partners should have GDP above US$1 trillion. A two-way classification of deals — both in place or concluded and under negotiation or discussion — are included. There are 12 countries or blocs that meet the US$1 trillion criteria. China has an existing agreement with only one of them — ASEAN. Prospective trade deals would extend coverage to another five large partners. The European Union has two mega deals in place (admittedly with smaller members of the group, Mexico and Korea) and prospective deals apply with five other partners. The

9 Fergusson et al. (2013), in a study of potential TPP negotiating issues for the Congressional Research Service, itemize negotiating issues from a US perspective: market access for goods and services; agriculture; core negotiating issues including intellectual property rights, rules of origin, technical barriers to trade, foreign investment, competition policies, trade remedies, labour and environment; and new and cross-cutting issues such as regulatory coherence, state-owned enterprises, e-commerce, competitiveness and supply chains, and small- and medium-sized enterprises.

10 For example, a possible US-China free trade agreement (FTA) was discussed by Coy (2013), Greenberg (2012), Jianguo (2012) and Morrison (2014).

Table 3: Existing and Prospective Mega Trade Deals for China, the European Union and the United States (All Partners Have GDP above US$1 Trillion)

China	EU	US
In Place		
ASEAN-China	EU-Mexico EU-Korea	US-Canada-Mexico NAFTA US-Australia US-Korea
Under Negotiation or Discussion		
Australia-China (RCEP) China-Japan-Korea China-India China-US (not officially started, but has been discussed in media or research papers)	EU-ASEAN EU-US TTIP EU-India EU-Japan EU-Canada	US-EU TTIP US-Japan (under TPP) US-ASEAN (effectively under TPP) US-China

Source: World Bank (2013).

Note: According to the WDI GDP statistics (in current USD), the countries (blocs) with GDP over US$1 trillion in 2012 were: the European Union (Germany, France, UK, Italy, Spain), the United States, ASEAN, China, Japan, Brazil, Russia, India, Canada, Australia, Mexico and Korea (World Bank 2012).

Table 4: Trade Coverage of Mega Deals (as of 2012)

	China	EU	US
Value of Imports (US$ billion)	1818.2	2301.1	2333.8
Value of Exports (US$ billion)	2048.8	2166.4	1545.6
% of Imports Covered by Trade Agreements in Place	21.1	25.7	34.1
% of Exports Covered by Trade Agreements in Place	31.3	29.5	46.0
% of Imports Covered by Possible Mega Deals plus Agreements in Place	53.2	51.0	81.9
% of Exports Covered by Possible Mega Deals plus Agreements in Place	64.3	59.6	80.2
Incremental Coverage of Imports by Possible Mega Deals (%)	32.1	25.3	47.8
Incremental Coverage of Exports by Possible Mega Deals (%)	33.1	30.1	34.2

Source: Authors' calculations using bilateral trade data from UN Comtrade database (UN 2014).

Note: The coverage of trade agreements in place includes all existing FTAs that involved China, the European Union or the United States (except the WTO), instead of only mega deals in place in Table 1.

United States has deals in place with four partners, with another four appearing in the perspective deals category.

Table 4 reports on the trade coverage of these deals. Incremental trade coverage ratios for the possible mega deal category are in the one-third range. Incremental trade coverage for China, on both export and import sides, exceeds the coverage of existing agreements (ASEAN plus non mega deals in place), which is not the case for the United States or the European Union, suggesting the added significance of potential mega deals for China.

Next, the coverage of mega deals by trade barrier is discussed. As significant deals will inevitably vary in terms of potential barrier reductions that go beyond what has already been achieved in WTO negotiating rounds, a critical issue here will be how far deals are able to go beyond bilateral or regional tariff elimination. At the launch of negotiations on deals, high-sounding pronouncements are made by partners of planned major new reductions in areas previously uncovered by the WTO, such as regulatory barriers, only to finally arrive at agreements that are largely tariff based. Anecdotal information suggests progress in such areas as governmental procurement and rules of origin. Research literature in recent years (Anderson and Wincoop 2003) attaches great significance to high bilateral trade costs as indicative of higher trade barriers than are tariffs between countries (some bilaterally in the region of 50 percent). The issue evolves into how negotiation might impact these high trade costs, especially if much of what is involved are transportation cost and language barriers. Many of the elements of high trade costs, such as language and distance, seem immutable to negotiation, but others, including regulatory barriers, may be more easily lowered.

Table 5 presents 2011 most-favoured-nation (MFN) tariff rates for China, the European Union and the United States from WTO sources, both as trade weighted and simple average tariff rates. These can be used to gauge the potential tariff component of global liberalization that mega deal negotiations could yield. Tariff rates for China on both bases are higher than for the United States and the European Union, indicating both proportionately larger potential tariff impacts for China from mega trade deals it is involved with and proportionately smaller impacts for

Table 5: 2011 MFN Tariff Rates for China, the European Union and the United States (%)

	Trade Weighted Average Tariff Import	Simple Average MFN Applied Tariff	Exports to Major Partners and Tariffs Faced (Weighted Average for 2011)
China	4.1 (2011)	9.6 (2011)	European Union: 3.5 Japan: 3.0 United States: 2.9 Hong Kong: 0 Korea: 7.5
European Union	2.7 (2011)	5.5(2012)	United States: 1.2 Russia: 10.0 Switzerland: 2.3 China: 7.9
United States	2.1(2011)	3.4 (2012)	China: 5.5 Mexico: 9.6 Canada: 3.0 Japan: 4.1 European Union: 1.6

Source: WTO (2013). The weighted average tariffs of exports to major trading partners were calculated by the authors using data of bilateral export volumes and weighted average tariffs for agricultural products and non-agricultural products in *World Tariff Profiles 2013.*

deals it is excluded from. The relatively low trade weighted average tariff for all of these countries (and especially the United States and the European Union at 2.1 percent and 2.7 percent) suggest small incremental impacts from the tariff component of China-excluded mega deals, relative to the tariff reductions already achieved in the WTO and the importance of striving for something significant beyond tariffs.

Table 6 reports pairwise *ad valorem* tariff-equivalent trade cost estimates between large global trading entities produced by Li and Whalley (2013) using methods described in Chaney (2008) and Novy (2013). These studies use data on pairwise trade flows between countries along with a gravity model to infer price differences between domestic and partners' goods in trade between countries. The implicit assumption is that trade costs are fully borne by the importing country; estimates are in proportional terms for 2011.

Table 6 reveals several striking features. One is the higher level of trade costs on average, relative to tariffs in Table 5. This suggests larger impacts for any trade negotiation focused more broadly beyond tariffs than a narrower tariff-based negotiation. A similar point is made in Felbermayr and Larch (2013). A second feature is the large variation in trade costs bilaterally. They range from 1.194 in the India-Canada case to 0.151 in the Canada-US case. Trade cost estimates for China are not that different from those for the United States and the European Union, but are sharply reduced compared to the smaller economies of Japan, Canada and India. This suggests broadened trade cost targeted negotiations may be more significant globally, but may have only limited differential impacts on China.

Table 6: *Ad Valorem* Tariff-equivalent Trade Costs Between Large Countries in 2011 (%)

Country	US	EU	China	Japan	Canada	India
US	-	25.3	26.5	34.4	15.1	85.4
EU	25.4	-	26.8	42.3	40.8	72.8
China	26.5	26.8	-	25.2	42.7	73.3
Japan	34.4	42.3	25.2	-	51.5	102.9
Canada	15.1	40.8	42.7	51.5	-	1.194
India	85.4	72.8	73.3	102.9	119.4	-

Source: Li and Whalley (2013).

THE ACTUAL AND POTENTIAL CONTENT OF CHINA'S MEGA DEALS

It is unknown, and no more than speculation at this stage, which countries or blocs China's mega deals would likely be with, and what the deals would cover at the end of potentially lengthy negotiations. Few details have emerged from the negotiations that are already in progress, and if the TPP negotiations are any indication of a general trend with negotiated mega deals, few specifics will be made public prior to the conclusion of any of the agreements. It is important to note that, as of now, China is not a party to the TPP negotiations and has neither sought to be a party nor requested to be one. Also, the time frame for mega deals seems likely to be lengthy and, at a minimum, a number of years; the recent preliminarily concluded EU-Canada negotiation took three years. The China-ASEAN deal concluded with a framework agreement in 2002, but did not emerge in detailed form until 2010. Other larger mega deals would likely be at a higher level of both complexity and potential impact, and therefore could take even longer to conclude. This is despite the current TPP timeline of 2015. When deals do conclude, the pressures on others that are non-parties to conclude their own deals will grow and the speed of mega deals could accelerate in the medium term.

As a potential operating guide, we can turn to the ASEAN-China agreement as China's only concluded mega deal for an indication of potential content and form. This agreement entered into force and established a free trade area in 2010. This is best understood as primarily a tariff-cutting agreement with provisions added to address economic and other forms of cooperation in designated fields. There is content in services and investment, but this is limited in relation to trade in goods. When compared to potential mega deals involving the European Union and United States, the tariff-cutting component stands out as significantly more important. The bilateral agreement between China and all ASEAN countries significantly lowers tariffs between the original six ASEAN countries and China. Bilateral tariffs go to zero for around 7,000 products or 90 percent of trade (Knowledge@Wharton 2010). Tariffs on Chinese goods sold in ASEAN markets fall on average from 12.8 percent to 0.6 percent, and tariffs on ASEAN goods sold in China fall from 9.3 percent to 0.1 percent (Coates 2014). The cooperation agreements that accompanied these tariff-cutting arrangements do not deal directly with areas covered in WTO agreements, such as services, agriculture and subsidies. The expectation is that Chinese agreements with other large developing countries or groups could follow a similar pattern. Therefore, the characterization of this part of China's potential mega deals with developing countries as largely tariff-cutting agreements, but also as agreements of some consequence given higher initial tariff levels than in the European Union and the United States, seems realistic. Included among these agreements is a possible India-China agreement, where Indian tariffs significantly exceed those in China, and a RCEP agreement with ASEAN+6 (other Asian countries), which includes India.

When it comes to negotiation with developed countries, the areas outside of tariffs could potentially take on more significance. Even though China is not party to the TPP negotiations, there are indications that the US negotiating position is focusing on issues that, from a US perspective, are seen as critical for a possible eventual Chinese TPP accession. These issues include provisions related to trade secrets and currency manipulation (although potential discussion on this issue has remained ill specified), and relate to trade-related aspects of state-owned enterprise activity. These are in addition to non-tariff issues such as services, intellectual property and trade facilitation. Although no negotiations are yet scheduled for China with the European Union, an eventual EU-China negotiation like other EU agreements could touch on China's competition policy regime and China's legal structure more generally. The FTA with New Zealand stands as the only developed country agreement that China has concluded thus far, and its structure is different from the ASEAN agreement. Importantly, New Zealand has agreed bilaterally to accord China market economy status, which is potentially significant for China's wider situation with anti-dumping duties.

Table 7 lists the regional agreements in place for China that could provide the basis for background precedent in prospective mega deals with other partners. Nearly all the agreements listed are with smaller entities, and the China-ASEAN agreement is the only one that qualifies as a "mega" deal. As noted above, the agreement with New Zealand is China's first agreement with a developed country, and it has a different structure from China's agreements with developing countries.

With regard to the specifics of prospective Chinese agreements,[11] the following section summarizes the state of negotiation and discussion. Two potential mega deals have gone to substantive negotiations; the others are at various stages of discussion.

REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP

The RCEP is a proposed FTA between the 10 ASEAN member countries and their FTA partners (Australia, China, India, Japan, Korea and New Zealand), and aims to be a significant step in the evolution of trade policy frameworks in East Asia. The RCEP started as a study group for an FTA between ASEAN, China, Japan and Korea (known as ASEAN+3), with a parallel study process for an ASEAN+6 FTA, which included the ASEAN+3 partners as well as Australia, India and New Zealand. It has now formalized itself as a 16-country negotiation. The participants in the RCEP FTA negotiations have a total population of over three billion people and together contributed around 27 percent of global trade (2012 WTO figures), covering GDP of around $US21 trillion (2013 IMF figures) (New Zealand Ministry of Foreign Affairs and Trade 2014).

To date, three rounds of RCEP negotiations have taken place — in May 2013, September 2013 and January 2014 respectively. Three working groups (on goods, services and investment) were established in the first round. Among other topics discussed in the goods working group, sessions were held on customs procedures, rules of origin and initial exchanges on tariff negotiations and on non-tariff barriers to market access. During the second round of negotiation, discussions continued on a services chapter. RCEP negotiations are targeted to conclude by the end of 2015.

CHINA-JAPAN-SOUTH KOREA FTA

The China-Japan-South Korea FTA is a proposed trilateral FTA. Negotiations on the agreement were started in

11 See Li, Wang and Whalley (2014a), on which this discussion draws.

Table 7: Regional Trade Agreements in Place for China as of 2013

RTA		Date Concluded
China-Pakistan	Bilateral — with Developing Countries	November 2006
China-Chile RTA		November 2005
China-Peru FTA		April 2009
China-Costa Rica FTA		April 2010
China-New Zealand FTA	Bilateral — with Developed Countries	April 2008
China-Singapore FTA		October 2008
China-Iceland FTA		April 2013
China-Switzerland FTA		July 2013
China-ASEAN FTA	Multilateral	November 2004
CEPA	Domestic FTAs	March 2003
ECFA		June 2010
China Pilot Free-trade Zone		September 2013

Source: China FTA Network (2014).

2012, with three rounds of talks held in 2013. The pace of the Japanese-Chinese element of the negotiations has, however, been slowed by the Diaoyu Islands dispute with Japan.[12]

In the first two rounds, all three sides discussed key issues such as ways to lower tariffs and the scope of future negotiations based on terms of reference adopted at the first round of talks. The second round of negotiations included working group meetings on goods, services and competition, along with expert dialogue on intellectual property rights and e-commerce. The three countries talked about the trilateral FTA's modality, such as how to draft liberalization for goods at the third round of negotiation. Working group meetings were held to discuss a wide range of topics such as indications of origin, customs, trade remedy, sanitary and phytosanitary, and technical barriers to trade, along with services, investment, competition, general rules and intellectual property rights. Discussions among experts were on e-commerce, the environment, government procurement and food sectors.

The following section explores the state of discussion and negotiation of Chinese FTAs under consideration.

CHINA-INDIA RTA

China and India conducted a joint study group that finalized a report on the feasibility of a China-India RTA in October 2007. In this report it is claimed that the RTA will promote economic growth, enhance welfare gains and increase bilateral trade through efficient allocation of resources. In addition, the India-China RTA would be mutually advantageous and the bilateral trade liberalization will bring welfare gains of US$1 billion to India and US$1.5 billion to China (Sharma 2008). The report also indicates that the two countries enjoy strong complementarities in their trade in services (OneIndia News 2008).

After the finalization of the joint study on an India-China FTA, there has not been any movement toward beginning negotiations on this FTA. According to Li Xiangyang, a Chinese researcher, there are three main reasons for this: competition in the industrial segments of two countries; political mutual trust and strategic consensus; and differences in geopolitical objectives. He also argues that there may be an opportunity for China and India to deepen their bilateral trade cooperation during RCEP negotiations.[13]

India and China launched the first round of strategic economic dialogue (SED) in September 2011. Five working groups covering different areas were set up to finalize the details for the high-level economic and trade dialogue between the two countries. The second round of SED was

12 Ties between China and Japan have been strained by a territorial row over a group of islands known as the Senkaku Islands in Japan and the Diaoyu Islands in China. At the heart of the dispute are eight uninhabited islands and rocks in the East China Sea. These islands matter because they are close to important shipping lanes, offer rich fishing grounds and lie near potential oil and gas reserves. They are also in a strategically significant position, amid rising competition between the United States and China for military primacy in the Asia-Pacific region. Japan claims it surveyed the islands for 10 years in the nineteenth century and determined that they were uninhabited. China claims that the islands have been part of its territory since ancient times, serving as important fishing grounds administered by Taiwan Province. This dispute was alleviated under "shelving differences and seeking joint development" principle; however, it intensified after outspoken right-wing Tokyo Governor Shintaro Ishihara said he would use public money to buy the islands from their private Japanese owner (BBC 2014).

13 As both sides did not make public the official report, we do not know how these conclusions were drawn.

held on September 26, 2011. Both sides have discussed their respective domestic macroeconomic situations and listed the challenges they faced in the course of their development process. The third round of the SED was held on March 18, 2014 (Panda 2014). Both delegations had extensive, in-depth discussions on bilateral trade, investment, economic cooperation and the regional and global economic situation to enhance macroeconomic policy coordination and to join together to address issues and challenges. Bilateral cooperation in sectors such as railway infrastructure, information technology, energy and finance were emphasized. The two sides agreed to continue deepening bilateral coordination and engagement in multilateral frameworks such as the United Nations, the G20 and BRICS (Brazil, Russia, India, China and South Africa). Both sides set up a task force under an SED to enable Chinese companies to invest in industries and industrial zones in India. Memoranda of understanding were signed at the dialogue on sustainable urbanization and on cooperation in information and communications technology. Action plans on joint studies in sustainable urbanization and energy planning were also signed, for completion before the next round of the dialogue (Embassy of India in China 2014). Meanwhile, economic relations between China and India have developed quickly.

As two of the main emerging economies, China and India are geographically close and have much to gain from an RTA (Antkiewicz and Whalley 2005). These factors suggest that China and India may undertake an RTA negotiation in the near future, but with higher tariffs in India, Indian manufacturing interests remain cautious.

CHINA-TPP FTA

The TPP is one of the most important FTAs under negotiation in the Asia-Pacific region, having received global attention in recent years. China, for now, is not involved in the TPP negotiation, but some Chinese researchers have proposed that it should take part in the negotiation (Song and Yuan 2012). There is a great deal of secrecy about the possible content of the TPP, with no official documents released to date.

Despite the secrecy, there are many lively debates about whether China should join the TPP negotiations. Not only have Chinese media expressed interest in this topic and published comments, but there have also been commentators from the United States and Europe. Newspaper commentary on one side of the debate has argued that "the unstated aim of the TPP is to create a 'high level' trade agreement that excludes the world's second-biggest economy, China" and doubt such an attempt would be successful (Pilling 2013). Other commentators in the United States, however, have expressed the opposite view that the United States never had any intention to exclude China and that it would welcome China's participation in the negotiation. A spokesman for the Chinese Commerce Ministry has claimed that China would consider any proposal inviting China to join the TPP negotiation positively (Yifang 2013).

The objective of the TPP negotiations remains to develop an FTA that will be able to adapt and incorporate current issues, concerns and interests of members. Since the initiation of the TPP in 2010, 18 formal rounds of negotiations have been held. Working groups have been established in areas of market access, technical barriers to trade, sanitary and phytosanitary measures, rules of origin, customs cooperation, investment, services, financial services, telecommunications, e-commerce, business mobility, government procurement, competition policy, intellectual property, labour, environment, capacity building, trade remedies, and legal and institutional issues. A unique departure from other FTAs is the group's additional focus on crosscutting "horizontal issues" such as regional integration, regulatory coherence, competitiveness, development, and small and medium enterprises (Fergusson et al. 2013).

TPP member countries are home to more than 500 million people; one-fifth of the population of the members of Asia-Pacific Economic Cooperation. With Japan's recent TPP entry, the 12 participating economies will account for nearly 40 percent of global GDP and about one-third of all world trade. This regional FTA could have a significant impact on the global economy and China's participation would broaden this impact.

CHINA-US FTA

So far, there are no official statements concerning, or discussions of, a China-US FTA, but at a research level, a China-US FTA has been discussed. Although many complications may arise, given the unrivalled resources of these two countries and the unique and important impact of this agreement, the realization of an FTA is conceivable. Trade and investment between the United States and China has continued to grow at a substantial rate. As with any relationship between major powers, there is friction and concern on both sides about how the trade relationship is conducted. US negotiating concerns would be focused not only on tariffs, but also on issues such as alleged currency manipulation and its effects on the trade surplus and state-owned enterprises and their trade impacts. Chinese objectives could potentially focus on security of access to US markets and restrictions on foreign ownership and investment.

If China focuses centrally on both its access and security of trade access for a strategy of maintaining current GDP growth and preventing future declines in export growth rates, then China would inevitably be drawn into more complex and protracted negotiations as part of a mega deal negotiation. As Li, Wang and Whalley (2014a) discuss, China's strategy has been one of remaining flexible, in part, targeting each RTA to the preferences of China's partner. There is no "one-size-fits-all" approach to RTAs, which has been the case with the European Union and the United States.

China could also adopt a strategy of focusing more on security of access in a potential US mega deal negotiation than it does currently. As the largest recipient of anti-dumping actions worldwide, and accounting for 29 percent[14] of such actions, China has a strong interest in using mega deal negotiation to improve anti-dumping matters. This could take the form of a proposed termination of China's non-market economy status agreed to in its WTO accession negotiation (although this is set to expire in 2015), but other possibilities exist for proposals in RTA negotiation. These include bilateral agreements to forgo the use of anti-dumping, de minimis arrangements, sunset provisions to ensure removal after a specific time limit and dispute settlement procedures specifically targeted at anti-dumping (as in NAFTA). China may also raise restrictions on their foreign investment in the United States and specifically where there are claims of links to national security concerns, which has arisen in the Huawei case.[15]

To make gains in areas of security of access, China may have to make concessions to negotiating partners in other areas of interest. One such area is in government procurement and the extension of WTO procurement agreements to include state-owned enterprises. This is an issue on which the European Union has been especially active.

Thus, a broadening of RTA negotiations beyond tariffs is an issue China may be drawn into through mega deals to further strengthen access and security benefits from RTA negotiations; however, achieving these would almost certainly imply concessions from China. The form these benefits and concessions might take would vary from one mega deal to the next.

CHINA AND THE IMPACTS OF MEGA DEALS ON ECONOMIC PERFORMANCE

Both the prospect of China's involvement in the negotiation of mega deals in the form discussed above and the likely emergence of more mega deals from which China is excluded clearly have the potential to significantly impact China's economic performance.

As bilateral or regional deals are inherently exclusionary, some of the impact of mega deals on China will come from deals among other countries to which it is not a partner. China is excluded from the EU-US TTIP negotiation and, thus far, is not yet party to the TPP negotiation. One of the features of a mega deal world is the pressure on other parties to negotiate their own deals to partially compensate for being excluded from deals among others. Therefore, if the negotiation of mega deals accelerates more broadly within countries, pressure will grow for China to conclude its own trade growth-preserving mega deals.

An extensive network of mega deals negotiated by large countries should, in aggregate, represent a global movement toward freer trade, as a considerable number of deals involving large economies will lessen the trade diverting effects of individual deals. Thus, mega deals overall could liberalize trade and enhance trade growth, which would be important for China's growth and development. Whether the contribution of mega deals will be significant enough to underpin a 7.5 percent GDP growth rate will be the issue.[16]

The impacts of trade deals, stressed by traditional trade theory, include both the benefits of improved and more secure access to export markets abroad, and the benefits to both consumers and producers at home of increased specialization and improved variety and quality of products imported, reduced in price by the accompanying reduction in the Chinese tariff toward large bilateral trading partners. There is a range of views in the literature, both as to how large or modest these benefits are likely to be, and what the contribution to growth could be.

Perhaps the more significant issue, from a Chinese viewpoint, is the potential impact that these deals could have on China's growth performance. On this issue, there are also conflicting positions implied by trade literature. China's growth and development performance is, in the opinion of many (Wang and Yao 2003; Wu 2002), best understood as the consequence of China's integration into the world economy, which began in the late 1970s and accelerated quickly in the early 1990s, with large inflows of foreign direct investment (FDI) related to export platform investment rather than serving the Chinese

14 According to the WTO statistics on anti-dumping, China received around 40 percent of the world's total anti-dumping measures between 2007 and 2011, and this ratio decreased to 29 percent recently. Also, China received over 36 percent of world total anti-dumping initiations between 2006 and 2009, the ratio decreasing to the same percentage (see www.wto.org/english/tratop_e/adp_e/adp_e.htm).

15 The US House Intelligence Committee released a report titled *Investigative Report on the U.S. National Security Issues Posed by Chinese Telecommunications Companies Huawei and ZTE* in October 2012, and claimed that Chinese telecommunications giant Huawei Technologies and ZTE were threats to US national security.

16 This is a general issue, not specific to China. General equilibrium simulation models of trade policy changes consistently and show small effects of up to a few percent of GDP. As China has experienced an eight-fold increase in GDP per capita since outward-oriented reform began in the early 1990s (admittedly with other contributing factors such as urban-rural migration and large capital accumulation), policy practitioners are often skeptical of the results even though they are quoted extensively by negotiators to justify their negotiation. This stated difference is despite the claims of heterogeneous firm trade models producing somewhat larger welfare gains from trade liberalization (Arkolakis, Costinot and Rodriguez-Clare 2012; Melitz and Redding 2013).

domestic market. China, it is argued, had a large pool of low-wage labour constrained by international mobility through visa and work permit restrictions in the OECD (Athukorala 2006; Farrer 2009). The arrival of substantial amounts of FDI, combined with access to foreign export markets since the 1990s, has allowed China to transform into the manufacturing capital of the world, and having access to markets abroad for its exports has been key to this transformation. China is now the world's leading exporter with approximately 70 percent of Chinese exports consisting of manufactured goods (Turnage 2013) and, therefore, trade is central to China's future growth.[17] In recent years, export growth rates have declined and with them the GDP growth rate has fallen from the 11 percent to 12 percent range prior to the 2008 crisis to 7.4 percent in the first quarter of 2014. Trade growth in February 2014 was -18 percent, stressing the need for policy initiatives to revive trade growth and with it GDP growth.[18]

Since the late 1990s, China has been encountering difficulties with the security of market access abroad, as well as the level of access itself (Zhang and Whalley 2013; Bown 2011) and the possible truncation of access in the future would negatively impact growth. This has manifested in the growth of anti-dumping actions against China by its key trading partners. China is the only country that received over 40 percent of the anti-dumping actions worldwide (in 2007 and 2010), and in 2012 and 2013, approximately 30 percent of anti-dumping actions worldwide were against China.[19] These actions, however, are now more likely to originate in developing countries such as India and Brazil, where the penetration of Chinese exports has grown more rapidly than in OECD mega trade deal partners. A further objective of Chinese bilateral trade negotiations in preserving Chinese growth is to find added regulation over the use of trade remedy measures against China through RTAs and mega deals. China has begun this process in the New Zealand RTA. The current non-market economy designation, agreed to by China as part of its WTO accession terms, will expire in 2015, therefore, a continuation of bilateral arrangements regarding anti-dumping seems likely. China may have mega deal negotiating opportunities to push for bilateral exclusions from anti-dumping measures in some agreements, as well as sunset and de minimis provisions to help set the stage for the arrangements to follow 2015.

China's objectives in mega deal negotiations will differ from those of the United States and the European Union by focusing more on the security of market access than on access itself as well as on the growth-enhancing benefits of trade, similar to other developing countries. The size of the benefits, according to the literature on trade liberalization, is variable depending on the model and assumptions used. Tariff-based liberalization in the conventional single-period trade model, with constant return-to-scale technology, only yields relatively small benefits (Shoven and Whalley 1992), but recent literature in models with heterogeneous firms suggests the gains could be higher (Melitz and Redding 2013). In an econometric exercise, Frankel and Romer (1999) claim a one percent increase in trade-to-GDP ratios will increase incomes by 0.5–2 percent. These impacts, however, are limited to the access improvement benefits of trade liberalization, not the security dimensions.

Generally, the rapid growth in trade worldwide since the 1990s is viewed by trade economists (Gaulier, Lemoine and Kesenci 2007; Wacziarg and Welch 2008) as the single most important catalyst to growth worldwide, thus, it can be argued that trade growth generated by mega trade deals will likely be a key element in a future Chinese strategy to maintain growth performance in the 7-8 percent range for the next few decades. Equally, world mega deals could be viewed as a possible catalyst for a renewal of global growth, just as the GATT has often been cited for the rise in global performance in the 1960s and 1970s (Vamvakidis 1999).

It should also be noted that China's trade regional structure is changing relatively quickly with more rapid trade growth with other developing countries (for example, Brazil and India) and slower trade growth with the OECD (Ledyaeva and Whalley 2014). The mega trade deals with OECD partners are, therefore, likely to be only part of a bridging strategy, while other trade with non-OECD partners comes on stream.

Overall, the effects for China are likely to occur over a number of years with a time-limited impact on the growth rate. The precise period of higher growth is difficult to pin down, but China's trade with other large developing countries such as Brazil and India is growing quickly. Improved trade performance with mega deal partners in the OECD and Asia can play a key role in helping to maintain China's growth rates in the seven percent range, while the growing export markets of the South expand to become a larger component of China's overall trade. If all mega deals under discussion or negotiation were to be concluded over the next five years, this would extend China's trade coverage of RTAs from around 26 percent of trade coverage to around 60 percent.

17 More recently, the role of services trade has been emphasized. Services are even larger in GDP terms than in manufactures, and service trade is growing faster than goods trade (according to *China Statistical Yearbook 2013,* service contributed 45.6 percent to total GDP in 2012, while the contribution rate of manufactures was 40.6 percent. Services also contributed more than manufactures in GDP terms between 2006 and 2009).

18 In February 2014, export growth in China was -18.1 percent year-to-year and the trade balance showed a US$22.98 billion deficit (see http://finance.people.com.cn/n/2014/0310/c1004-24585749.html).

19 These numbers are calculated by the authors using data from the WTO statistics on anti-dumping (see www.wto.org/english/tratop_e/adp_e/adp_e.htm).

It is useful to conclude this discussion with the results of numerical equilibrium modelling of the possible impacts of trade mega deals. Li and Whalley (2013) analyzed the impacts of Chinese inclusion or absence from the TPP using a conventional static model with the two additions of trade costs in tariff form, but with real resource use rather than revenue generation and endogenous trade imbalances. Their results show that China suffers from being outside the TPP, but benefits from inclusion in a trade-cost targeted negotiation. The effects are small (one to two percent GDP) and much smaller (negative for China) for tariffs alone. They attribute the negative tariff impacts to terms of trade effects in the model. The pattern of welfare loss by country generally coincides with the intuition that FTA participation countries will gain but non-participation countries will lose, and smaller countries often gain more (in percentage terms) than larger countries. In a more recent piece, Li, Wang and Whalley (2014b) look at the package of mega deals discussed here and come to similar conclusions, although importantly, the RCEP dominates the TPP in terms of the size of its impacts. Also, relatively smaller countries in the TPP and RCEP (Korea, for example) are the largest proportional gainers. An earlier modelling effort by Petri, Plummer and Zhai (2011) projected Asia-wide gains from the TPP and an eight-fold rise if the TPP were expanded to a free trade area of the Asia-Pacific. China would play a significant role in such an expansion. These modelling results provide insights into the possible direction these effects would take.

CONCLUSION

Due to the importance of trade and export growth in maintaining China's 7.5 percent GDP growth, China, more than any other large country or bloc, will be driven to engage in its own mega trade deals by the need to compete in the global trade system. Bilateral or regional trade agreements are inherently exclusionary. Countries left out of mega deals will almost inevitably suffer from the trade created between regional partners. The prospect that future multilateral trade deals within the WTO will be replaced by a series of bilateral or plurilateral mega deals will drive most large countries to negotiate such deals in part by the actions of other countries.

A critical factor in determining how far and how fast China will move down the mega deal path is the speed and coverage of an EU-US TTIP, and the prospect of a successful conclusion to a TPP negotiation in which China does not participate. The latter prospect may ultimately draw China into the TPP negotiation, which in turn may force China into some degree of negotiation on non-tariff issues such as state-owned enterprises. The dynamic of the global economy as it absorbs other mega deals is therefore key. The exclusion from deals creates the incentive to join deals with others and, progressively, over decades, a blending of mega deals with enlarging coverage of global trade will result. Overall, this suggests an ever-deeper Chinese engagement and involvement in trade-based mega deals as almost inevitable.

As discussed in this paper, mega deals operate on two levels. One level includes two-way deals between the large economies worldwide (the United Sates, the European Union, China and ASEAN) and the second is between these four large economies and a number of significant middle-level partners (Japan, Korea, Brazil, India, Mexico, Canada and Australia). The previous mega deals between the four large economies seem likely to set the stage for the evolution of the global trading system. The literature based on global value chains now suggests that there are considerable gains to be made alongside a retaliatory power for countries in the global system. China can influence the future development of the trading system by its stance toward mega deals, and mega deals in turn will, if concluded, most likely shape the development of the Chinese economy.

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APPENDIX

Table A-1: Mega Deals in Place / Under Negotiation or Discussion Pairwise for the 10 Largest GDP Economies + ASEAN

	EU	USA	CHN	IND	JPN	RUS	BRA	MEX	KOR	CAN	ASEAN
EU	-	U		U	U			P	P	U	U
USA	U	-			U			P	P	P	U
CHN		U	-	U	U				U		P
IND	U		U	-	P		P		P	U	P
JPN	U	U	U	P	-			P	U	U	P
RUS						-					
BRA				P			-	P			
MEX	P	P			P		P	-	U	P	
KOR	P	P	U	P	U			U	-	U	P
CAN	U	P		U	U			P	U	-	
ASEAN	U	U	P	P	P				P		-

Source: Authors' compilation based on Coy (2013), Greenberg (2012), Jianguo (2012) and WTO (2014).

Key: U — under negotiation or discussion; P — in place.

Table A-2: Mega Deals in Place / Under Negotiation or Discussion Pairwise for 10 Largest Trading Entities

	EU	USA	CHN	IND	JPN	RUS	ASEAN	MEX	KOR	CAN
EU	-	U		U	U		U	P	P	U
USA	U	-	U		U		U	P	P	P
CHN		U	-	U	U		P		U	
IND	U		U	-	P		P		P	U
JPN	U	U	U	P	-		P	P	U	U
RUS						-				
ASEAN	U	U	P	P	P		-		P	
MEX	P	P			P			-	U	P
KOR	P	P	U	P	U		P	U	-	U
CAN	U	P		U	U			P	U	-

Source: Authors' compilation based on Coy (2013), Greenberg (2012), Jianguo (2012) and WTO (2014).

Key: U — under negotiation or discussion; P — in place.

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COMMUNICATIONS

Communications Specialist	Declan Kellly	dkelly@cigionline.org (1 519 885 2444 x 7356)
Public Affairs Coordinator	Erin Baxter	ebaxter@cigionline.org (1 519 885 2444 x 7265)

CIGI

57 Erb Street West
Waterloo, Ontario N2L 6C2, Canada
tel +1 519 885 2444 fax +1 519 885 5450
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