

# China's Free Trade Agreement Diplomacy

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November 2014



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## **Abstract**

This thesis examines China's bilateral Free Trade Agreement (FTA) diplomacy. I adopt international regime theories to wrestle with how Beijing pursues diplomatic objectives through institutionalized economic relationships. It employs an eclectic approach encompassing three main research paradigms – realism, liberal institutionalism and constructivism - to test how China uses FTAs as a diplomatic means to achieve political ends.

Six of ten FTAs that China has signed are investigated: ASEAN, New Zealand, Pakistan, Chile, Peru and Costa Rica. The China-Singapore FTA (CSFTA) is omitted as it replicates the China-ASEAN FTA (CAFTA) model. Thus, the CSFTA is treated as part of the CAFTA. The China-Iceland FTA and China-Swiss FTA are also left out because both of them came into force in July 2014 and are outside the research period. For the same reason, the China-South Korea FTA and the China-Australia FTA are not included as independent case studies. But all recently concluded FTAs are mentioned from time to time since they are not mutually exclusive, but together constitute a unique network.

A key aspect of this thesis is that it demonstrates that no one international regime theory can fully explain the various dimensions and complexities of China's FTA diplomacy. Instead, it verifies the utility and necessity of eclecticism as a formal analytical tool. As FTAs are institutional mechanisms established to foster economic cooperation, liberal institutionalism remains the leitmotif in FTA studies. However, it cannot fully account for China's security-oriented FTAs, a dimension in which realism has major influence. In addition, FTAs are not purely material mechanisms but are affected by constructivist variables, such as state identities and norms. Strict formulations of institutionalism, realism and constructivism are therefore less convincing than eclectically incorporating all three research paradigms. This eclecticism helps highlight the uniqueness of each case and allows more nuanced understandings of the varying strengths and weaknesses of the FTAs in the case studies.

This thesis finds that China's FTA diplomacy is half-successful in achieving political goals. On the one hand, its mega-economy, huge foreign exchange reserves, large domestic market, and the CCP government's ability to allocate resources, have allowed Beijing to achieve some of its desired outcomes. On the other hand, the PRC is

constrained by its peripheral and international environment, its level of economic development, emerging state capitalism, and big power relations. As a result, in some respects the FTA diplomacy has resulted in either half-wins or failures.



## **Thesis Declaration**

**Name: Yang Li**

**Program: Doctor of Philosophy**

This work contains no material which has been accepted for the award of any other degree of diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due references have been made in the text.

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## **Acknowledgement**

At the outset, I owe a debt to the Chinese government and Adelaide University for awarding me a China Scholarship Council scholarship that made my life in Australia pleasant through the generous funding. And also I should like to thank the Chinese government for pursuing the FTA diplomacy, which provided me a fantastic opportunity to write on this topic.

I would like to express my deep appreciation to Professor Purnendra Jain for his thoughtful advice and guidance during my doctoral research endeavour for the past four years. His in-depth knowledge on a broad spectrum of IR topics and comments on my thesis along the way were of great help. His objective view on things and strict attitude to research always reminded me what makes an eligible IR student. Thank you boss, for always making time in your very busy agenda to talk about new ideas, to take a quick look at something or, at times, to listen to my puzzles or frustrations in studying and writing.

I'd also like to give a heartfelt thanks to Dr Gerry Groot, my co-supervisor, who was my primary resource for getting all types of questions answered though the past four years. He was also the loyal reader of all my manuscripts to help me quickly proofread (unpaid) and give invaluable suggestions and continuous encouragements. I would never forget his calm and relaxed nature, and the way he asked "YES MY DEAR! How can I help you?" whenever I knocked on his office door. Thank you, dear boss. I could not have been so lucky for such a fantastic supervisor accompanying me all the way.

My special thanks to Professor Mobo C.F. Gao, who was my principal supervisor at the early stage of this research project. He was the first to see a potential PhD-student in me, he was the one issued a PhD offer to me and helped me to start my doctoral research in Australia. The good advice, valuable feedback, and encouragement of Prof. Gao has been invaluable on both an academic and a personal level, for which I am extremely grateful.

Thanks also due to my friends and colleagues in Centre of Asian Studies, for providing me with support at varying stages, and I do hereby acknowledge all of them. I thank Shamira, Shoko and Sarah who made all administrative issues during my stay very easy. The three ladies were very kind and patient and always willing to lend their service whenever I approached them and I appreciate them for all their help. A special thanks goes to Dr Song Xianlin, who provided me a precious opportunity to work as a tutor. I appreciate times talking with her in the tea room and her office, and I remember all suggestions she made to me. Dr Lian Jia, your friendship (and yummy food in particular) will be my sweetest memory in Adelaide. I would also like to thank Dr David Jolley, my editor, who was recommended to me by Mrs Shamira Barr, for his meticulous work. Dr Uwe Kaufmann, thank you very much for your statistical and consistency advices on the draft of my thesis.

I dedicate this thesis to the memory of my grandmother and grandfather, whose roles in my life were, and will remain, immense.

To my parents, thank you. Dad, thank you for satisfying all my unreasonable demands in the past of my life, and I know you will continue to do so in the rest of my life. Mum, I will always remember what you told me, “your Dad and I will raise you and your brother up as high as we can; and you two, please stand upon our shoulders and clamber up as high as you can”. To my younger brother, Li Guang, who is also a PhD candidate now, thank you. Your kindness and tolerance have always been invaluable to me.

To my dragon, my best friend, soul-mate, and husband, who shares my passions and dreams, I am very happy that you have come into my life. Your unconditional love, support, and sacrifices were the major reason that this thesis was completed on time. Thank you from my heart-of-hearts.

Last, to myself, thank you through all good and bad times, never and ever give up.

## Abbreviation

<u>Term</u>	<u>Definition</u>
ADB	Asian Development Bank
ADIZ	Air Defense Identification Zone
AE	Analytical Eclecticism
AIIB	Asian Infrastructure Investment Bank
APTA	Asia-Pacific Trade Agreement
ARF	ASEAN Regional Forum
ASEAN	Association of South East Asia Nations
BCIM	Bangladesh, China, India and Myanmar Trade Corridor
BIT	Bilateral Investment Treaty
CCP	Chinese Communist Party
CELAC	Community of Latin America and Caribbean States
CEPEA	Comprehensive Economic Partnership for East Asia
CGE	Computable General Equilibrium
CICA	Conference on interaction and Confidence Building measures in Asia
CMI	Chiang Mai Initiative
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Cop
COFCO	China Oil & Foodstuffs Cooperation
CR	Costa Rica
CRTAS	Cross Regional Free Trade Agreements
DCD	Agricultural Chemical Dicyandiamide
DPP	Democratic Progressive Party (Taiwan)
EAEC	East Asian Economic Community
EAFTA	East Asia Free Trade Agreement
EAS	East Asia Summit
ECLAC	Economic Commission for Latin America and the Caribbean
EHEC	China Harbor Engineering Corp
EHP	Early Harvest Programme
ESCS	European Coal and Steel Community

EU	Europe Union
FIRB	Foreign Investment Review Board (Australia)
FTA	Free Trade Agreement
FTAA	Free trade Agreement of the Americas
FTAAP	Free Trade Area of the Asia Pacific
GAQSIQ	General Administration of Quality Supervision, Inspection and Quarantine (China)
GCC	Gulf Cooperation Council
GSM	Great Mekong Subregion
HSBC	Hongkong Shanghai Banking Corporation
HST	Hegemonic Stability Theory
ICBC	Industrial and Commercial Bank of China
IDB	Inter-American Development Bank
IMF	International Monetary Fund
IR	International Relations
KMT	Kuomintang (the Chinese National People's Party, Taiwan)
LAC	Latin American and the Caribbean
M&A	Mergers and Acquisitions
MFN	Most Favored Nation
MIIT	Ministry of Industry and Information Technology (China)
MOU	Memorandum of Understanding
MSR	Maritime Silk Road
NAFTA	North America Free Trade Agreement
ODI	Outbound Direct Investment
OIO	Overseas Investment Office (New Zealand)
PA	Pacific Alliance
PITD	Pakistan Institute of Trade and Development
PLAN	People's Liberation Army Navy (China)
PRC	People's Republic of China
PSA	Port of Singapore Authority
PSI	Proliferation Security Initiative
PTA	Preferential Trade Agreement
PTT	Power Transition Theory
RCEP	Regional Comprehensive Economic Partnership
RTA	Regional Trade Agreements

SAARC	South Asian Association of Regional Cooperation
SACU	South African Customs Union
SCS	South China Sea
SOEs	State Owned Enterprises
SSM	Special Safeguard Measures
TDAP	Trade Development Authority of Pakistan
TIG	Trade in Goods
TIS	Trade in Services
TPP	Trans Pacific Partnership Agreement
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization