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Introduction to the Special Issue on China's Growing Trade and Trans-Pacific Trade Agreements

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INTRODUCTION

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In 2013 China became the largest trading country and the second largest economy (in terms of current US dollar) in the world. In 2013 China's total trade volume (i.e., exports and imports) reached US $4.16 trillion. Breaking down such a huge figure, we see that China's exports are valued at US $2.11 trillion accounting for 11.8% of world exports. The value of China's imports is US $1.95 trillion, which accounts for 10.3% of global imports. Regional trade agreements seem to be very popular with policy makers in many transpacific countries such as Canada, China, Japan, the Koreas and the United States. For example, since the U.S. joined the Trans-Pacific Strategic Economic Partnership Agreement (TPP) in 2011, many Asia—Pacific countries are showing a strong interest to engage in various regional trade agreements. Thus, it is important for both academia and policy makers to understand why China's foreign trade is growing so fast in the new century, and its impact on transpacific trade agreements.

This Special Issue tries to take up this task. There are seven papers in this issue. The first paper, by Larry D. Qiu and Ying Xue, highlights the intellectual contributions by academia on understanding China's growing trade in the 21st century. It covers topics on the general features and characteristics of China's foreign trade at both the macro-level (i.e., country level and industry level) and the micro-level (i.e., firm level). They point out that both comparative advantage and integration with the global supply chain are crucial to interpreting China's growing trade. It also surveys the impacts of China's foreign trade on economic growth and technological progress.

As mentioned by Qiu and Xue, many studies using Chinese firm-level data stress significant features of China's foreign trade. An outstanding example is the role of intermediaries in stimulating imports and exports. This is precisely the theme picked up by the second paper, by Bo Chen and Zhiyuan Li. Using a Chinese HS 8-digit product-level trade data set for the years 2000–2006, Chen and Li find five important characteristics of Chinese intermediaries. Intermediaries seem to play a more important role in ordinary exports than in processing exports, and in relatively homogeneous products such as textiles and apparel than in differentiated products such as machinery and transport equipment. However, they also observe that intermediaries became less important as China's overall exports grew in the new century.

Another crucial feature of China's foreign trade is processing trade, which is addressed by Zhonghua Liang and Miaojie Yu, the authors of the third paper. They realized that most products exported by Chinese manufacturing firms are done by processing firms which share at least two characteristics: high labor-intensity and lower markup. As such, *Renminbi* (RMB) appreciation against the US dollar (USD) seems like a nightmare for most Chinese exporters given that domestic wages are paid in RMB, whereas products sold to foreign markets are cleared in US dollars. The third paper thus explores the nexus between the profitability of exporters and RMB exchange rate movements. Liang and Yu find strong evidence that RMB appreciation significantly decreases an exporter's profitability and makes the firm's export efforts more difficult. The implication is straightforward. Since the RMB appreciation trend seems unstoppable, at least in the short run, it is a good strategy for the Chinese government to engage in regional trade agreements to lower trade barriers, such as tariff and non-tariff barriers.

Perhaps fatigued by the long, if not endless, negotiation processes of the WTO Doha Round, many Asia—Pacific countries show a strong interest in constructing regional trade agreements. The U.S. has actively promoted the TPP agreement since 2011. In China, there is a heated debate within industry, government and academia on whether China should engage in the TPP given that China is also eager to engage in regional economic integration.

This is the research question picked up by the following two papers from different perspectives. The fourth paper, by Bo Chen, seeks to understand whether or not the gains from the free trade provisions of the TPP can provide enough benefit to Asia—Pacific countries given that most of them have already joined the WTO. Chen first applies the Trade Restriction Index (TRI) initiated by Robert Feenstra to measure the actual Canadian tariff barriers facing five Asia—Pacific countries: China, Thailand, Malaysia, Philippines, and Indonesia. He then estimates the gains from free trade to Canada if the above-mentioned five countries joined the TPP. The empirical finding is encouraging: trade growth between such countries is huge.

The fifth paper, contributed by Xin Li and Yang Yao, also provides a comprehensive answer to the question: Is it good news for some countries if China joins the TPP? They rely on a global trade analysis package (GTAP) computational general equilibrium (CGE) framework to describe different scenarios for choices of the Chinese government. If China accedes to the TPP, they find that it should benefit both the U.S. and Japan, but it might be detrimental to ASEAN countries. However, trading partners that provide key materials and intermediate inputs, such as Korea and Taiwan, would benefit from China's accession to the TPP.

This is the focus of the sixth paper, by Zhuang Rui, Junjie Hong and Guangyu Bai. If the TPP applies a very high accession standard to China, it may be some time before China can join. An alternative but wise strategy for China in the short term is to form a Sino—Korean free trade agreement (FTA). Rui, Hong and Bai forcefully argue that a Sino—Korean FTA would exert great pressure on Japan, which may then push forward China—Japan—Korea FTA negotiations.

The last paper, contributed by Xiaopeng Yin and his co-author, examines the flip side of the coin. China's foreign trade grew very fast, especially after 1992 when China claimed to establish its market economy. He shows that the domestic inter-regional trade was more important to boosting regional economic growth than international trade during the first phase (1978–1992) of China's economic reform. In other words, without growth in China's domestic market, it would have been difficult for China to become the world's largest exporter. His findings thus echo Krugman's famous hypothesis of the "home-market effects." In this sense, Rome was not built in one day.

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