Is China ready for a Free Trade Agreement with the European Union?

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ABSTRACT

In recent years, the European Union (EU), the United States (US) and Japan have been negotiating so-called mega-regional trade agreements between them. China has been the only large economy excluded from such negotiations due to the refusal of the EU to start Free Trade Agreement (FTA) negotiations. China suggested opening such talks in 2013, but the EU refused the proposal arguing that China was “not prepared”. The reason for this fact, according to European Parliament, it is due to the lack of agreement for the EU-China Partnership and Cooperation Agreement (PCA) negotiations launched in 2007. This paper examines whether this is the real reason for the EU’s refusal or an excuse that hides economic and political reasons. In order to verify whether concluding a PCA is a necessary condition before launching negotiations for a FTA, similar country cases to China has been analysed with the aim to know if they had had such a previous agreement with the EU. The results indicate that the answer is not straightforward.

Keywords: China, European Union, Free Trade Agreements, Mega-regional trade agreements, Partnership and Cooperation Agreement.

RESUMEN

En los últimos años, la Unión Europea (UE), los Estados Unidos (EE. UU.) y Japón han estado negociando los denominados tratados mega-regionales de libre comercio entre ellos. China ha sido la única gran economía excluida de tales negociaciones debido al rechazo de la UE para iniciar las negociaciones de un Tratado de Libre Comercio (TLC). China propuso la apertura de dichas negociaciones en 2013, pero la UE rechazó la propuesta argumentando que China “no estaba preparada”. La razón de este hecho, según el Parlamento Europeo, es debido a la falta de acuerdo en las negociaciones del Acuerdo de Asociación y Cooperación (PCA) entre la UE y China lanzado en 2007. Este documento examina si esta es la verdadera razón por el rechazo de la UE o es una excusa que esconde razones económicas y políticas. Con el fin de verificar si la conclusión de un PCA es una condición necesaria antes de iniciar negociaciones para un TCL, casos de países similares a China han sido analizados con el fin de saber si habían tenido un tal acuerdo previo con la UE. Los resultados indican que la respuesta no es sencilla.

Palabras clave: China, Unión Europea, Tratados de Libre Comercio, Tratados mega-regionales de libre comercio, Acuerdo de Asociación y Cooperación.
TABLE OF CONTENTS

INTRODUCTION .................................................................................................................. 5

I. INTERNATIONAL BUSINESS AND INTERNATIONAL TRADE AGREEMENTS .......... 7
   1. International Business ............................................................................................... 7
   2. Main barriers to trade ............................................................................................ 8
   3. Multilateral trade agreements ............................................................................... 9
   4. Bilateral, regional and mega-regional trade agreements ....................................... 11
   5. Conclusions ........................................................................................................... 12

II. EU-CHINA RELATIONS IN A CONTEXT OF MEGA-REGIONALS ...................... 14
   1. From the WTO towards mega-regional trade agreements ..................................... 14
   2. Mega-regionals: TPP, TTIP, RCEP and others ....................................................... 16
      2.1. The Trans-Pacific Partnership (TPP) ................................................................. 16
      2.2. The Transatlantic Trade and Investment Partnership (TTIP) ......................... 18
      2.3. Regional Comprehensive Economic Partnership (RCEP) .............................. 19
      2.4. Other mega-regionals: EU-Japan FTA and China-Japan-Korea (CJK) FTA ...... 20
   3. EU and China trade relations evolution .................................................................. 21
   4. Conclusions ........................................................................................................... 24

III. METHODOLOGY ......................................................................................................... 25
   1. Justifying the method ............................................................................................ 25
   2. The method .......................................................................................................... 27
   3. Hypothesis validity .............................................................................................. 30
   4. Conclusions ........................................................................................................... 31

IV. ANALYSIS .................................................................................................................. 32
   1. EU-Ukraine ........................................................................................................... 32
   2. EU-Moldova ......................................................................................................... 33
   3. EU-Georgia .......................................................................................................... 33
   4. EU-Canada ........................................................................................................... 34
   5. EU-US ................................................................................................................. 35
   6. EU-Japan .............................................................................................................. 36
   7. EU-Korea .............................................................................................................. 36
   8. EU-Singapore ...................................................................................................... 37
   9. Summary of the results ........................................................................................ 38

V. CONCLUSIONS ............................................................................................................ 39

BIBLIOGRAPHY .............................................................................................................. 41
LIST OF FIGURES

Figure 1. Balassa’s five stage of economic integration. ................................................................. 9
Figure 2. Trade among TPP members ($billion), 2012. ............................................................... 17
Figure 3. Important developments of EU-China relations. .......................................................... 23

LIST OF TABLES

Table 1. European union free trade agreements. ........................................................................... 29
Table 2. Results of the countries analysed..................................................................................... 38
# ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
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<tbody>
<tr>
<td>AA</td>
<td>Association Agreement</td>
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<td>AFP</td>
<td>Agence France-Presse</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>BIT</td>
<td>Bilateral Investment Treaty</td>
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<td>BIC</td>
<td>Brazil, India and China</td>
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<tr>
<td>CEPR</td>
<td>Centre for Economic Policy Research</td>
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<td>CETA</td>
<td>Comprehensive Economic and Trade Agreement</td>
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<td>CJK FTA</td>
<td>China-Japan-Korea Free Trade Agreement</td>
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<td>DCFTA</td>
<td>Deep and Comprehensive Free Trade Agreement</td>
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<td>DDA</td>
<td>Doha Development Agenda</td>
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<td>EAC</td>
<td>Eastern African Community</td>
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<td>EEA</td>
<td>European Economic Area</td>
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<td>EEAS</td>
<td>European External Action Service</td>
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<td>EEC</td>
<td>European Economic Community</td>
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<td>ESA</td>
<td>Eastern and Southern Africa</td>
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<td>EU</td>
<td>European Union</td>
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<td>EUSFTA</td>
<td>European Union and Singapore Free Trade Agreement</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FTA</td>
<td>Free Trade Agreement</td>
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<td>GATS</td>
<td>General Agreement on Trade in Services</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GSP</td>
<td>Generalised Scheme of Preferences</td>
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<td>GVCs</td>
<td>Global value chains</td>
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<td>MFN</td>
<td>Most Favoured Nation</td>
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<td>MNEs</td>
<td>Multinational Enterprises</td>
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<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<td>PCA</td>
<td>Partnership and Cooperation Agreement</td>
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<td>RCEP</td>
<td>Regional Comprehensive Economic Partnership</td>
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<td>RTAs</td>
<td>Regional Trade Agreements</td>
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<td>SADC</td>
<td>South African Development Community</td>
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<td>SMEs</td>
<td>Small and medium-sized enterprises</td>
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<td>TEP</td>
<td>Transatlantic Economic Partnership</td>
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<td>TPP</td>
<td>Trans-Pacific Partnership</td>
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<td>TRIPs</td>
<td>Trade-Related Aspects of Intellectual Property Rights</td>
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<td>TTIP</td>
<td>Transatlantic Trade and Investment Partnership</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<tr>
<td>UNESCO</td>
<td>United Nations Educational, Scientific and Cultural Organization</td>
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<tr>
<td>US</td>
<td>United States</td>
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<tr>
<td>USTR</td>
<td>United States Trade Representative</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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INTRODUCTION

In today's business world, corporations face a globalized market. Global trade is expanding and is affecting all business, even those focused exclusively on the domestic market. International business transactions are more common in our integrated and interdependent world, as the products that we purchase may no longer be made in a single country.

International trade organizations have a crucial role in international trade, as they promote and support international business by establishing global trade rules. Therefore, to be successful operating in nowadays economy, it is necessary to be aware of the importance of international trade organizations’ decisions because of their important role in the dynamic and global world by facilitating trade between countries. As one decision reached by these organizations may be a big advantage (or disadvantage) for a business operating in the local or international level.

Nowadays, international trade regime has two tracks: multilateral or bilateral. Historically, multilateral agreements have been negotiated in the framework of the General Agreement on Tariffs and Trade (GATT) or the World Trade Organization (WTO), and have been the dominant approach. However, in the last years the tendency is to deal with bilateral or regional trade agreements. Recently, mega-regional trade agreements are the new tendency among important economies worldwide, such as the Trans-Pacific Partnership (TPP) among twelve Pacific Rim countries recently signed, but not entered in force yet.

Regardless the track, a trade agreement, involves cooperation between at least two countries to reduce trade barriers, mainly quotas and tariffs as well as access norms, in order to increase trade of goods and services with each other. In the case of bilateral, the objective is usually to reach a Free Trade Agreement (FTA), that is, the removal of most tariffs and quotas. When services are included in the agreement (removal of access norms), the FTA becomes “deep”. When the FTA includes measures to reduce technical and normative barriers, it becomes “comprehensive”. Mega-regional tend to be both deep and comprehensive FTAs.

The European Union (EU) is considered an active player both in the multilateral and bilateral tracks. As to the latter, the EU tries to cover all potential business partner with a FTA, with the FTAs that are already in force and the other ones still under negotiation. In addition, the EU is involved in the negotiation of two mega-regionals: the Transatlantic Trade and Investment Partnership (TTIP) with USA and a deep and comprehensive FTA with Japan.
Nevertheless, the EU’s second trading partner – China – seems to have been disregarded. In fact, China suggested opening talks for an EU-China FTA in 2013. Despite this, the EU seems not interested and refused the proposal arguing that China was “not prepared”. However, the EU only declared that it will be a possible fact in the long term and the main objective for the EU currently is to conclude the Bilateral Investment Treaty (BIT), that is a bilateral agreement restricted to ensuring and/or facilitating investment access, rather than a much more ambitious FTA with China. According a paper issued by the European Parliament, the refusal by the EU of an FTA was due to lack of agreement for the EU-China Partnership and Cooperation Agreement (PCA) negotiations launched in 2007.

This paper questions the European Commission argument that China is not prepared for an EU-China FTA. Its hypothesis is that there are other reasons behind for the EU rejection, such as economic (fear of having less benefits than China from the FTA) and political (fear of EU losing political power in front of China) reasons. Therefore, the objective of this examines whether a lack of readiness is the real reason for the EU’s refusal or an excuse that hides other reasons.

In order to establish whether concluding a PCA is a necessary condition for engaging negotiations for a FTA, similar country cases to China are selected and analysed with the aim to know if they had had such a previous agreement with the EU. The hypothesis would make sense if none of the cases analysed had not had a PCA, or another similar agreement, before launching negotiations for a FTA. Conversely, the hypothesis would be rejected if all the cases selected had such an agreement. Nevertheless, if the result is between these two possible cases, then it would not possible either to reject or accept the hypothesis, and therefore this research question would remain for further discussion.

This paper is structured in five parts. Chapter one highlights the importance of international trade agreements for international business and explains the different types of trade agreements. Chapter two explains the shift from multilateral agreements towards bilateral, regional and especially, mega-regionals as well as illustrates the EU-China trade relations evolution in a such context. Chapter three justifies and explains the method used in this paper in order to test the hypothesis. Chapter four presents the analysis results. Finally, the conclusions are discussed in chapter five.
I. INTERNATIONAL BUSINESS AND INTERNATIONAL TRADE AGREEMENTS

Business needs to understand the nature of trade agreements as they may have an important influence on multinational enterprises (MNEs) and small and medium-sized enterprises (SMEs) strategies. Trade agreements determinate the rules that companies must operate in our globalized and interdependent world. Overall, international businesses can benefit from trade agreements by having more consistent criteria for investment and trade as well as reduced barriers to entry. They can also be negatively affected by bilateral agreements between two countries that divert their trade.

This chapter’s objective is to highlight the importance of international trade agreements for international business. After defining what is international business and which are the principal barriers to trade in the first two sections, section three is devoted to multilateral trade agreements and section four to bilateral, regional and mega-regional trade agreements.

1. International Business

International business refers to a business whose activities involve cross-border transactions between two or more countries, which means that firms operate by adding value to their activities on an international scale. These transactions include the transfer of goods, services, capital, technology, know-how and labour (Donald, 2013). The most traditional and usual forms of international business transactions are international trade and investment (Cavusgil, 2014). On the one hand, international trade refers to an exchange of both physical products and intangible services, exchange can be through exporting and importing. However, international investment means the transfer of asset or the acquisition of the asset in another country. There are two types of international investment: Portfolio Investment and Foreign Direct Investment (FDI).

Not surprisingly, the growth of international business coincides with the globalization of world markets. Globalization is a phenomenon which consists on the economic integration and the interdependency between countries around the world (Cavusgil, 2014). Globalization facilitates companies to participate beyond national border business activities and international expansion. As a result, nowadays to become an international business is much easier than ever before. A few decades ago, to be an international business was only possible for large MNEs, but currently SMEs as well play an active role in international business activities.
Nowadays an internationally active company carries out its business operations in several countries, since globalization implies the fragmentation of the supply or value chain of production between different countries. Therefore, trade is no longer merely the exchange of final products, rather companies buy and sell intermediate products across-border as well as establish factories in different countries. This is result of several factors such as new technologies but as well due to economic integration.

The latter, economic integration, consists on trade barriers reduction and has been the result both of multilateral and bilateral trade agreements between countries, although also of unilateral trade liberalization. In the multilateral track, trade integration is greatly aided by the World Trade Organization (WTO) which is a supranational organization that regulates and control the rules of international business.

2. Main barriers to trade

A barrier to trade is a government imposed restraint measure on the free flow of foreign goods or services. As a result, domestic companies receive a competitive advantage in comparison with foreign enterprises. Trade barriers can be classified in two groups: on the border barriers and behind the border barriers to trade. On the one hand, on the border barriers are restrictions that the exporter may encounter at the moment of crossing the importer country’s border. However, behind the border barriers are measures that the exporter need to take into account once inside the country of destination.

The first group is composed of access barriers established with the aim to make those imported less competitive than locally produced goods and services. This include on the border barriers for goods (tariffs, quotas and custom controls) and access norms for services (such as limits to foreign ownership). The second group are behind the border barriers (normative, fiscal and monetary). These affect both goods and services and are the result of regulatory differences (of safety requirements, taxes or currencies) between countries.

The trade of goods faces both on the border and behind the border trade barriers. For example, if there is not any trade agreement between the exporter and the importer country, when goods arrive on the border of the country of destination, the importer country may ask the foreign company to pay a price for entering the domestic market (a custom duty), limit the maximum amount that it is allowed to export and subject the product to custom inspection regarding its compliance with specific domestic technical requirements. In addition, once goods are inside the country of destination, the foreign company’s product may be subjected to random controls.
to verify if goods fulfil the norms and extra tax payments. In addition, exchange rate risks may also affect the transaction. Services and investment will also face access barriers (access norms) as well as behind the border barriers. Therefore, it is clear that those barriers hinder the development of international business and of globalization.

In order to foster and facilitate international trade, trade agreements are negotiated and established between countries by diminishing or removing some of these barriers. Any reduction in trade barriers will affect trade between countries and hence international business strategies. The more trade barriers are reduced or even removed, the more impact to trade. According to Béla Balassa, on the first studies of regional integration, there are five stages of economic integration (see Figure 1). The European Union (EU) would be reaching the final stages of economic integration while a Free Trade Agreement (FTA) would be the first stage. Efforts to at least reduce trade barriers have been done both at multilateral level and at bilateral and regional level.

**Figure 1.** Balassa’s five stage of economic integration.

![Figure 1: Balassa's five stages of economic integration](image)

*Source: own elaboration.*

### 3. Multilateral trade agreements

After World War II, countries noticed that a major component of achieving global peace is through global cooperation (politically and socially). Regarding the trade, nations intent to reduce the economic areas of disagreement by working together to promote free trade entering into multilateral agreements (Carpenter and Dunung, 2012). Multilateral trade
agreements are reached among many countries at one time. On the one hand, that makes them extremely complicated to negotiate. On the other hand, it is very powerful once all parties agree to sign. The primary benefit of multilateral agreements is that all nations get treated equally, so that is easier to obtain a level-playing field for business.

The most successful multinational organization is the World Trade Organization (WTO) which regulates international trade with the goal to reduce tariffs and other trade barriers. The WTO was created in 1995 with 123 countries at that time, absorbing the General Agreement on Tariffs and Trade (GATT) created in 1947 by 23 countries. The WTO currently is formed by 162 member countries. When the WTO was created, it absorbed all of GATT’s standing agreements as well as included an Agreement on Trade in Services (GATS) and an Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Each of these agreements is responsible to reduce barriers to trade for a determined area, the GATT for goods, the GATS for services and TRIPS for intellectual property rights. As stated in the WTO website (2016), the WTO was designed to be an institution with the mission of promoting free and fair trade between member countries.

The WTO follows the basic principle of Most Favoured Nation (MFN) applied to tariffs (GATT) and access norms (GATS). It requires that once a benefit is agreed between two or more countries, it applies automatically to all other member countries, which means that it removes the discrimination between member states. In addition, MFN rule forbids member states to offer a non-member state better access (through lower tariff or less stringent access norms) that currently applies to WTO countries. The biggest change from GATT to the WTO is perhaps the reinforcement of its provision for the settlement of disputes, a mechanism used by member countries when they have a conflict. It consists on an arbitration process utilized when a country finds another country’s trade practices unfair or discriminatory. The result provided by this body is compulsory to comply or satisfy.

The WTO is considered the only global international organization dealing with the rules of trade between nations. The WTO’s primary purpose is to serve as a negotiating forum for member nations to dispute, discuss, and debate trade-related matters. The global focus on multilateral trade agreements and cooperation has expanded trade exponentially. In the past 50 years have seen an exceptional growth in world trade, exports grew on average by 6% annually and the total trade in 2000 was 22 times more compared to 1950 (WTO, 2016). Therefore, anecdotal evidence indicates that GATT and the WTO have helped to create a strong and prosperous trading system contributing to huge growth for international trade.

However, the WTO capacity to continue liberalizing trade have been questioned by difficulties to reach agreements at the Doha Round which was launched in 2001. This is because of the
disagreement among developed and developing countries of free trade over the sensitive issues such as agriculture products. As a result, several members have moved position of trade facilitation agreements towards bilateral or regional agreements, a move that may marginalise WTO (Bhala, 2015).

4. Bilateral, regional and mega-regional trade agreements

With the WTO in deadlock, there have been an increasing number of bilateral trade agreements. These agreements have expanded exponentially during the last decade as governments sought to deepen trade ties with key economic partners, facilitating trade and investment between home and foreign country by reducing or eliminating tariffs, import quotas or other trade barriers. They usually take the form of Free Trade Agreements (FTAs), that is, of agreements where tariffs and quotas are mostly removed between the partners. When FTAs include services and agreements to reduce behind the border barriers they are called “Deep and Comprehensive FTAs”. They primary appeal is that with only two parties involved in the negotiation, deals can be negotiated efficiently. Important but sensitive trade issues such as agriculture are often excluded from bilateral FTAs while issues necessary to foster supply chains are included, for instance competition policy or even environmental rules.

Another typical type of bilateral agreements is the so-called Bilateral Investment Treaties (BITs). A BIT is an agreement between two countries that establishes the terms and conditions for investors from the partner country to access the market of the other partner state. The BITs are intended to give investors more protection (from expropriation without full compensation), freedom (free transfer of capital) and market access (non-discriminatory treatment) when investing in foreign territory.

Regional trade agreements are the third option, situated between multilateralism and bilateralism, they involve a group of countries within a geographic region negotiating (at least) a free trade area (Wilson, 2013). Neighbouring countries tend to integrate for three main reasons (Mehta, n.d.). Firstly, because for the distance that the goods need travel among member states is short. Secondly, as the member parties are close to each other, consumers’ preferences are similar and therefore there is no need for adaptation. Lastly, for the fact of being geographical close countries facilitates to reach an agreement more easily as they share a common history.

Regional free trade agreements are sometimes considered easier than multilateralism, but more substantial than bilateral deals. The most ambitious and developed regional agreement
so far has been the European Union (EU), formerly the European Economic Community (EEC), created in the 1950s. Other examples are the Association of Southeast Asian Nations (ASEAN) in force since 1992 and the North American Free Trade Agreement (NAFTA) established in 1994.

Recently, mega-regional trade agreements occupy the centre of stage in international trade governance. Mega-regionals are defined as deep integration agreements which involve at least two of the following four countries: the US, the EU, China and Japan (Meléndez, 2015). That said, mega-regionals include ongoing negotiations between the US and the EU for a Transatlantic Trade and Investment Partnership (TTIP), the EU and Japan FTA as well as the recently agreed Trans-Pacific Partnership (TPP) between the US, Japan, Australia, Canada, Malaysia, Mexico, Peru, Vietnam, Brunei, Chile, New Zealand and Singapore.

The main drawback of reaching bilateral, regional and mega-regional trade agreements is the fact that this category of agreements does not take into account the effect of their deals on trade with non-member parties. According to Jacob Viner (1950), these agreements could lead a positive impact on member countries, as the countries can benefit from imports that replace inefficient domestic production, this effect is called “trade creation”. On the other hand, these agreements could lead a negative impact on non-member countries, because an importing country may be diverting its imports from a more cost efficient country towards a less efficient country, as the new country is a partner under the trade agreement, this phenomenon is termed as “trade diversion” (Evans, 2012). In the latter case, it is due to the existence of discriminatory approach to countries which are not parties to an agreement. Therefore, reaching an agreement that is not under multilateral track for a business operating in a country that is not member of the trade agreement, the effect may be much more distorting than multilateral agreements.

5. Conclusions

Historically, multilateralism has been the dominant approach to ensure the governance and liberalization of international trade. Since 1995 it is embodied in the WTO. After Russia’s accession to the WTO in 2012, practically all significant economies have become members, creating a single integrated system of global trade rules. However, over the past few decades there has been an increase in bilateral and regional trade agreements. It is often called a “spaghetti bowl” of global bilateral and regional trade agreements (Sajid, 2015). The

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1 As the EU is a Single Market it talks with a single voice in trade. For this reason, the EU is going to be considered as single actor in this research.
agreements are no longer linear strands lining up tidily; instead they are a messy mix of crisscrossing strands, like spaghetti tangled in a bowl, that link countries and trading blocs in self-benefiting trading alliances. As a result, businesses are nowadays even more affected by trade agreements than before.

Companies which are involved in international business activities are interested in trade agreements that involve either their country of origin or third countries as either of them can affect their access to foreign markets. FTAs between a business origin country and other countries provide an opportunity to explore new markets, to access new sources of raw materials and new production locations or to try to prevent or adapt to negative costs. FTAs between third countries may limit a business capacity to access those countries markets as trade may be diverted.
II. EU-CHINA RELATIONS IN A CONTEXT OF MEGA-REGIONALS

As explained in chapter one, the new international trade regime is principally based on mega-regional trade agreements. If the TPP and the TTIP are successfully implemented, they are expected to reshape world trade rules for the 21st century (Dadush, 2015). Nevertheless, these two major international trade packs are excluding China despite the fact that it is the second-largest economy and the largest trading nation in the global economy (Wang, 2015).

This chapter is devoted to explain the consequences of this shift of WTO’s centrality towards mega-regional trade agreements by focusing on those that presently are occurring. The chapter is structured in three sections. The first begins with presenting the reasons to the shift from multilateralism to mega-regionals. The second section focuses on the mega-regionals per se, namely the TTIP, the TPP, EU-Japan FTA as well as the mega-regionals that China is negotiating: the Regional Comprehensive Economic Partnership (RCEP) among 16 Asian countries, and the China-Japan-South Korea (CJK) FTA talks. Finally, section three explains the trade relations between EU and China. In 2013, China proposed opening talks for an EU-China FTA, but the EU refused.

1. From the WTO towards mega-regional trade agreements

For decades, the GATT/WTO has been a significant organization that aided the members to integrate more deeply their economies by facilitating the trade relations among them (Meléndez-Ortiz, 2015). However, nowadays the WTO capacity to achieve further trade liberalization has been questioned since the Doha Round became deadlocked in 2008.

The Doha Round, also known as Doha Development Agenda (DDA), is current trade negotiations rounds and was officially launched at the WTO’s fourth ministerial level meeting in Doha (WTO, 2016). After the DDA commenced, several other ministerial meeting negotiations took place. The 10th Ministerial Conference is the last of the WTO negotiation that was held in Nairobi (Kenya), in December 2015. In fact, in this last meeting the WTO members were able to reach some agreements, the minimum to keep the WTO alive (Deringer, 2015). The objective of these negotiations is to minimize tariffs on agricultural and as well industrial goods, to remove agricultural subsidies and access norms to services, and to reduce non-tariff barriers. However, the developed and developing economies failed to reach an agreement regarding trade liberalization issues such as subsidies for agricultural sectors, non-agricultural market access and access for services (Pakpahan, 2012).
Now, 15 years after the launch of Doha Round, there is not yet consensus between members regarding the objectives that were set out at the beginning. This is clearly due to changes in the global economy and in the pattern of international trade which have meant that the DDA has been overtaken by these new events (Deringer, 2015). Therefore, changes in today’s global trade arena affects directly the centrality role of the WTO in the international trade regime. According to Richard Baldwin (2015), there are three main facts (interconnected between them) that have eroded the WTO’s centrality and as result, the difficulty to reach an agreement in the multilateral trade governance.

Firstly, it is necessary to take into account that the concept of international trade has been changed in the lasts decades. For the most part of 20th century international commerce signified made-here-sold-there goods crossing borders. However, nowadays international commerce is no longer just goods crossing borders, it is also about factories crossing borders, including flows of people, services, investment, know-how, training and ideas. Secondly, the global trade and investment in the lasts decades have suffered changes due to the emergence of global value chains (GVCs) and the rapid technological development. These changes have greatly influenced greatly the necessity to have more sophisticated rules, as more cross-border flows are involved due to GVCs. Thirdly, the WTO did not adapt to the changes to the new dynamics of global trade, caused basically by the two points presented before. This indicates that in many areas the rules discussed in the WTO negotiations are considered either outdated such as intellectual property rights issues, or non-existent to cover actual topics that are rising nowadays as the case of state-owned enterprises.

At the same time, international trade regime is transitioning to a new era with the emergence of Brazil, India and China, the so-called BIC economies, countries that are playing a key role in the new trade environment. Nevertheless, BIC emerging powers cannot yet substitute the outstanding importance of developed countries such as the US, the EU, Canada or Japan together. This is fundamentally due to two main reasons (Garcia-Duran et al, 2016): the first reason is that emerging economies (even with China) still do not have as much market power as the previous developed economies together, and the second reason is that reaching bilateral trade agreements with BIC countries are not expected to set rules that would govern the new global economy.

As a result of this new trade scenario, WTO members have shifted their efforts from multilateral negotiations to bilateral or regional trade agreements in order to achieve the objectives and interests that are not possible to pursue at the WTO (Meléndez-Ortiz, 2015). These new agreements most of them are considered “deep and comprehensive integrations
agreements”, they go deeper than WTO obligations (WTO-plus) as they cover numerous policy areas which are not dealt by WTO disciplines (WTO-extra).

2. Mega-regionals: TPP, TTIP, RCEP and others

Mega-regional trade agreements are defined as ambitious regional trade agreements that have systematic global impact. Therefore, their actions influence trade rules and areas beyond their regions of application (World Bank, 2016). To be more specific, according to some scholars, mega-regional trade agreements are deep integration partnerships in which at least two countries are in a driver position or serve as hubs in GVCs – the US, the EU, China and Japan (Meléndez-Ortiz, 2015).

In this section, the aim is to focus on the ongoing most significant mega-regional trade agreements: the TPP and the TTIP. The importance of these two trade agreements is due to the impact that they would have on the world. They would affect at least a quarter of world trade in goods and services: TPP is 26.3% and the TTIP is 43.6% (World Economic Forum, 2014). Furthermore, this section covers other mega-regional trade agreements (not so ambitious in trade liberalization as the TPP and the TTIP) that are under negotiation, specifically the RCEP, the EU-Japan FTA and CJK FTA.

2.1. The Trans-Pacific Partnership (TPP)

The TPP is a trade agreement that includes 12 Pacific Rim countries and that was signed on 4 February 2016. It will enter into force after ratification over the next two years (if successful). The TPP is the largest, most diverse and potentially most ambitious trade agreement signed so far (among FTAs). The 12 member countries included are: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam. Originally, the TPP is an enlargement of a comprehensive FTA signed by four Pacific Rim countries: Brunei, Chile, New Zealand and Singapore in 2006. By 2010, an additional five countries: Australia, Malaysia, Peru, the United States and Vietnam joined to the agreement and led the creation of the TPP. After, in 2013 Canada, Japan and Mexico expressed their intention to join, bringing the total number of participating countries to 12, often termed as the TTP-12.

In fact, other countries have already showed interest in participating the TPP, namely: Korea, Taiwan, the Philippines, Colombia, Thailand, Laos, Indonesia, Cambodia, Bangladesh and India. It is important to notice that China, the largest trading partner for most of member countries members in the TPP, is not included. Eventually, China expressed interest in joining
the TPP in 2013 (Brookings Institution, 2013). According Evelyn Devadason (2014) China’s participation in the agreement would make the TPP to be more successful and important gains for China as well.

The TPP is a deep comprehensive trade agreement with the aim to reach extensive liberalization of both goods and services by covering traditional trade barriers. In addition, the TPP includes topics related to investment activities, government procurement, non-tariff measures and other trade related areas: state-owned enterprises, e-commerce, intellectual property, labour and environmental standards, supply chain integration, regulatory coherence and medium-sized enterprises issues (World Bank, 2016).

If the TTP is eventually implemented, it can significantly impact the international trade dynamics, as the goods trade among the TPP partners surpassed more than $2 trillion in 2012 (see Figure 2) (Draper and Meléndez-Ortiz, 2015). According to the World Economic Forum (2015), the vast majority of the trade among TTP partners is mainly caused by the North America Free Trade Agreement (NAFTA) member countries (Canada, Mexico and the US) and Japan. That is proven by the fact that intra-NAFTA trade alone amounts to nearly $1.2 trillion and the bilateral trade between NAFTA and Japan corresponds almost $250 billion in 2012. Then, the join intra-NAFTA and NAFTA-Japan trade represents 70% trade of TPP members. Therefore, it is unquestionable that the NAFTA countries (in particular US) and Japan are the key countries of the TPP, as intra-TTP trade by excluding US and Japan was only 9%.

**Figure 2.** Trade among TPP members ($billion), 2012.

In order to assess the economic impact after implanting the TPP, it is interesting to note that East Asian countries had implemented 99 FTAs by September 2013 (Cheong, 2013). Therefore, that means that there are currently countries that trade with other TPP member states without tariff barriers. Then, a study from Inkyo Cheong (2013) by taking into account the previous fact, he suggests that the impact of the trade liberalization through the TPP on the Gross Domestic Product (GDP) for most of member states are likely to be negligible. All member states could experience an increase of less than 1% in their GDP. The New Zealand could experience the greatest increase of 0.97% and Canada the lowest increase of only 0.02%. On the other hand, some other countries are expected to have negative or no effect on their GDP: Chile of -0.13%, Peru of -0.04% and no effect on the US’s GDP. However, a study from the Peterson Institute for International Economics suggest the impact of the TPP may be higher taking into account the non-tariff measures. In this case, the impact on the GDP is positive for all member states of the TPP with a minimum increase of 0.34% for US and a maximum effect of 13.57% for Vietnam.

According to some scholars (Draper and Meléndez-Ortiz, 2015), huge differences among members would impede that TPP could eventually be implemented. The 12 members forming the TPP are economically and demographically diverse. For example, the US’s economy is more than twice as larger than any other member participant and also in terms of population (Williams, 2013). It means that there are different levels of development and therefore, divergence of strategic interests among countries. On the other hand, however, these diverse countries have been able to reach an agreement.

2.2. *The Transatlantic Trade and Investment Partnership (TTIP)*

The TTIP is the proposed trade agreement between the US and the EU. Negotiations stared in 2013 with the aim to reach a comprehensive, and high-standard trade and investment agreement (USTR, 2016). The TTIP is focused on trade liberalization, behind the border issues and other non-tariff issues such as public procurement, intellectual property or labour and environment issues (Draper and Meléndez-Ortiz, 2015). In addition, the TTIP would cover other areas of trade, known as “21st century issues”: electronic commerce and information and communication technology, state-owned enterprises, small and medium-sized enterprises and transparency, anticorruption and competition (USTR, 2016). In short, according to the European Commission (2015), the TTIP objectives are classified in three parts: market access (to have an easier and better access), regulatory co-operation (cutting the red tape and costs) and new rules (to make easier and fairer to export, import and invest).
A study from the Centre for Economic Policy Research (CEPR), carried out in 2013, estimates that once the agreement is implemented the TTIP could bring significant positive economic effects for the EU (€120 billion) and the US (€95 billion). In terms of GDP effects, the gains would signify about 0.5% for the EU and 0.4% for the US GDP by 2027. According to the Bertelsmann Foundation (2013), trade growth from simply eliminating tariffs would be negligible. The results show that tariff liberalization scenario implies per capita income increase of 0.27% for the EU and 0.80% for the US. However, by taking into account the deep liberalization scenario they found that the impact is much larger. Under this second scenario, per capita increase would be 13% for the US and 5% for the EU. Nevertheless, the study published by Bertelsmann Foundation has been criticized for the untested methodology used that differs from the standard approach of other similar studies (CEPR, 2013).

Though results differ among studies about impact of the TTIP, it is clear that regardless the technique used the tariff liberalization is unlikely to achieve a significant economic impact for both the EU and the US. However, the reduction of non-tariff measures and standards regulations that act as barriers to trade, investment and public investment would have a much more significant impact in terms of economic gains for the both the EU and the US (Draper and Meléndez-Ortiz, 2015).

### 2.3. Regional Comprehensive Economic Partnership (RCEP)

The RCEP is a proposed FTA currently under negotiation between the 10 member states of the Association of Southeast Asian Nations (ASEAN)\(^2\) and its six existing FTA partners: Australia, China, India, Japan, Korea and New Zealand. In total, the 16 RCEP participants represent 45% of world’s population, 33% of world GDP and accounts almost 30% world exports (Stephenson, 2015). The RCEP negotiations were formally launched in 2012 at the ASEAN summit held in Cambodia. According to the joint statement issued by the countries involved in the negotiations (2013), the RCEP aims to achieve a comprehensive and high quality FTA that will broaden and deepen the current FTAs among the 16 countries, known as the ASEAN+6. At the RCEP core, its primary goal is to harmonize the rules and regulations combining the multiple and overlapping FTAs in the region into a single agreement (Basu, 2015). Accordingly, the RCEP seeks to ‘multilateralize the noodle bowl’ (Ming, 2015).

As stated in the RCEP’s joint statement (2013), the RCEP will include trade in goods and service issues and also other topics such as investment, intellectual property, economic and technical cooperation, competition and dispute settlement. However, the key focus of the RCEP is on

\(^2\)ASEAN member countries are: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.
trade of goods. Its principal objective is to eliminate barriers on goods in a progressive way. With respect to services, it will mostly eliminate restrictions and discriminations measures between RCEP member states (Ming, 2015). Therefore, the RCEP is a much less ambitious mega-regional trade agreement compared to the TPP or TTIP, as the RCEP is a less comprehensive regarding the coverage of issues encompassed in the agreement in comparison to the other two mega-regionals presented above (Ming, 2015). The reason for this fact is that the RCEP pays far less attention to other issues as environment, labour and government procurement (those topics are not covered).

Hence, the RCEP is considered to be more consistent with WTO rather than “WTO-plus” or “WTO-extra” agreement. Even though not as comprehensive as the TPP or TTIP, if successfully concluded, the RCEP would generate global annual benefits by $500 billion by 2025, larger than $295 billion that would yield the TPP (Petri and Plummer, 2012). This is because the RCEP deals a larger number of pre-existing trade barriers than the TPP (Ming, 2015).

While it has been argued by scholars that the RCEP is led by China, however officially China is declared to accept ASEAN’s centrality rather than substitute by itself as stated in the ASEAN-China summit (2013). Nevertheless, it is clear that China is a strong supporter for the ASEAN led RCEP, and therefore China is considered the main backbone of the RCEP. More recently, China seems interested in taking the key role as the leading force with the aim to push forward the regional economic integration, fact expressed by the Chinese President in 2014 (Ming, 2015), in order to counterweight to the US lead TPP and TTIP.

2.4. Other mega-regionals: EU-Japan FTA and China-Japan-Korea (CJK) FTA

EU-Japan FTA
The EU-Japan FTA negotiations were officially launched in 2013. The negotiations aim to conclude an ambitious and mutually beneficial FTA that will lead to economic growth for both parties (European Commission, 2015). The agreement will deal with the trade liberalization in goods, in services and investment and aims to eliminate tariff and non-tariff barriers (Muxfeldt and Götz, 2015). According to the Delegation of the European Union to Japan (2015), Japan is EU’s seventh largest trading partner whilst the EU is Japan’s third biggest trading partner after the US and China.

A study by European Commission (2012) regarding the impact of the EU-Japan FTA, shows that the successful conclusion of the agreement could generate a potential 32.7% increase in EU exports to Japan and Japanese exports to the EU could rise by 23.5%. The EU-Japan FTA is considered as an ambitious trade agreement as it would also cover other areas in the current
trade environment; such as competition policy, trade and sustainable development, intellectual property, competition policy, e-commerce, dispute settlement and other issues.

**China-Japan-Korea (CJK) FTA**

The China-Japan-Korea (CJK) is a proposed FTA between China, Japan and Korea. Negotiation was officially launched in 2012, with the aim to build a comprehensive institutional framework for trade, investment and cooperation within the three participating countries (China’s Ministry of commerce, 2015). In fact, there are complicated historical and territorial hindered cooperation between these three nations since the WWII. However, the current globalised world and highly integrated regional production network have pushed the three countries to have the need of a more mature economic partnership (Chiang, 2013). The idea of a trilateral FTA has been discussed before the official launch of CJK, but scholars say China is now pushing especially hard effort for the agreement, as a reaction to US initiatives in Asia (AFP, 2013).

The three nations are major traders in Asia: China is the largest, Japan the second largest and Korea the fourth largest (World Bank, 2014). China, Japan and Korea are also major economic players in the world, the total GDP amounted $12,344 billion which represented 19.6% of the world’s total GDP in 2010 (CJK’s Joint Study Committee, 2011). According to a trilateral joint study carried out in 2008, the economic impacts of a CJK FTA will generate positive effects for all three countries, under which China’s GDP will increase by 0.4%, Japan by 0.3% and Korea by 2.8%. As declared in the CKJ’s Joint Study Committee (2011), the CKJ FTA seeks to deals with the trade in goods, trade in services, investment and other issues, such as intellectual property rights, transparency, competition policies, dispute settlement mechanism, e-commerce, government procurement and environment. Therefore, the CKJ FTA is considered as an ambitious agreement to some extent, as it aims to establish a significant 21st century economic partnership in East Asia (Shi, 2014).

**3. EU and China trade relations evolution**

The origins of trade relations between Europe and China started with the Silk Road, specifically in the 2nd century B.C. when Zhang Qian, a general of the Han Dynasty, opened up the Silk Road³ (Feng, 2011). At that time, it is easy to guess for the name that the most traded and

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³Presently China has a plan to revive the Silk Road. In 2013, Chinese President Xi Jinping announced the One Belt One Road initiative, comprising the ‘Silk Road Economic Belt’ and ‘21st century Maritime Silk Road’. The project intends to transform the ancient Silk Road by investing in highways, ports and railways connecting China to Europe and the wider world (Cauchi, 2015).
important good was silk. From the part of Europe, the Venetian explorer Marco Polo is considered one the first westerns to travel the Silk Road to China during the Middle Ages, concretely between 1271 and 1292 (UNESCO, 2008). In his tales, he witnessed the successful trade between Europe and China.

The official EU-China trade relations began in 1975. There are two principal reasons why this diplomatic relation took at that given moment. Firstly, in 1975 started the negotiations for a trade agreement between the European Economic Community (EEC) and China, implemented in 1978. Secondly, during the late 1970s China’s economic reform and opening up policies by Deng XiaoPing, favoured China’s trade relations with other countries.

During the 1980s, bilateral relations between the ECC and China broadened to cover other issues such as scientific programmes, development, academic and cultural exchanges (Dai, 2006). In addition, in 1985 the EEC and China extended the trade agreement to a deeper Trade and Cooperation Agreement. As a result, by 1989 the total trade volume between EEC and China totalled $13 billion. It represented 15% of China’s total foreign trade and merely 1% of EEC total trade (Casarini, 2006).

The crackdown on student protest by the Chinese government of 4 June 1989 in Tiananmen Square had a considerable impact on China’s relations with Europe. After the massacre, the EEC freeze the bilateral relations with China by imposing economic sanctions and arms embargo. However, months after the Tiananmen massacre China made some changes to its human legislation (Casarini, 2006). Therefore, in 1990 the EEC and China relations were normalized, although arms embargo remained in force (Dai, 2006). Regardless this, the EU and China relations incremented since the 1990s. In July 1995, the European Commission released its fist official policy paper A Long-Term Policy for China-Europe Relations, by establishing more sophisticated strategic relations (European Commission, 1995). In addition, from 1998 started the annual summits between the two sides, fact that deepened even more the bilateral relations (EEAS, 2016).

There is no doubt that trade interdependency between EU and China is becoming increasingly important throughout the time. A clear example is that the EU was a strong and indispensable supporter of China’s accession to the WTO in 2001 (European Commission, 2009). After becoming a member of the WTO, the EU firms have improved the access to the Chinese market principally by the reduction on import tariffs, but many non-tariff barriers remain. Moreover, two years after the China’s accession to the WTO, concretely in 2003, EU-China Comprehensive Strategic Partnership was established with the aim to continue to develop and diversify their relations from its economic focus (EEAS, 2016).
More recently, at the 16th EU-China Summit held in 2013 the EU-China 2020 Strategic Agenda for Cooperation was adopted. It has set the framework for EU-China relations until 2020 in four different areas: peace, prosperity, sustainable development and people-to-people exchange (EEAS, 2015). In addition, at the same time both sides agreed to the launch of negotiations of a comprehensive EU-China Investment Agreement. According to the European Commission (2014), the aim of the Bilateral Investment Treaty (BIT) is to facilitate and eliminate the market access restrictions for investors from both sides.

However, rather than a BIT, China would prefer to negotiate with the EU an EU-China FTA (Godement and Stanzel, 2015). In 2014, the Chinese president Xi Jinping emphasized the interest for an EU-China FTA when he visited Europe. Nevertheless, the EU’s reaction towards the China’s suggestion has been lukewarm (Barone and Bendini, 2015). In fact, the EU states that the possibility of the EU-China FTA negotiations depends on a successful outcome on the current BIT (Hansakul and Levinger, 2014).

**Figure 3.** Important developments of EU-China relations.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>EEC-China official diplomatic relations established</td>
</tr>
<tr>
<td>1985</td>
<td>EEC-China Trade and Cooperation Agreement</td>
</tr>
<tr>
<td>1989</td>
<td>Tiananmen Square Massacre, EEC imposed economic sanctions &amp; arms embargo</td>
</tr>
<tr>
<td>1990</td>
<td>EEC-China relations were normalized, but arms embargo remained in force</td>
</tr>
<tr>
<td>1995</td>
<td>EU issues first official paper <em>A Long-Term Policy for China-Europe Relations</em></td>
</tr>
<tr>
<td>1998</td>
<td>EU-China Annual Summit started</td>
</tr>
<tr>
<td>2003</td>
<td>EU-China Comprehensive Strategic Partnership</td>
</tr>
<tr>
<td>2013</td>
<td>EU-China 2020 Strategic Agenda for Cooperation</td>
</tr>
<tr>
<td>2015</td>
<td>Celebrated 40 years of EU-China relations</td>
</tr>
</tbody>
</table>

*Source: own elaboration with data from European Commission (2016).*
In 2015 was the 40th anniversary of the establishment of diplomatic relations between the EU and China. During these four decades, bilateral relations have progressed in a successful way (Foreign Trade Association, 2015). Nowadays, the EU and China are considered two of biggest traders in the world, the EU is China’s biggest trading partner and the China is the EU’s second trading partner—and is probably soon replace the US as the first trading partner position (European Commission, 2016). According to European Commission statistics, the bilateral trade in goods reached €466.8 billion and trade in services of €54.3 billion in 2014.

4. Conclusions

This chapter has explained why there has been a shift of the WTO’s centrality in trade governance, undertaken by the rise of mega-regional trade agreements. The latter provide a means for facilitating existing patterns of trade and building new ones that are necessary due to changes in the trade environment. Though no mega-regional trade agreement is currently in force, the TPP is in the ratification process and there are several under negotiation: the TTIP, RCEP, CJK FTA or the Japan-EU FTA. While the more ambitious in terms of trade liberalization are the TPP and the TTIP, all these mega-regionals are expected to have important economic effects.

In the both TTIP and TPP are participating world’s major economies, particularly the US, the EU and Japan. However, the negotiations exclude the world second largest economy and the largest trading nation (Wang, 2015). In addition, China is also one of the largest trading partners of both TTIP and TPP participants. This is not the scenario that China is satisfied to encounter as an economic leader. Therefore, in the last years China have started to joining other FTAs such as RCEP or the CJK FTA negotiations. In 2014, China expressed the interest to open a FTA negotiations with the EU, the EU is China’s largest trading partner and China is EU’s second trading partner. Nevertheless, the EU did not express much interest on creating EU-China FTA, rather the EU preferred to start BIT negotiations with China.
III. METHODOLOGY

Nowadays, independently whether a business carry out its activities at international level or not, they are affected not only by agreements reached through the multilateral track but also by bilateral or regional trade agreements. This is due to the fact that in the current global dynamic world, new trade issues have arisen which are not covered by the WTO. Taking into account this scenario, as discussed in the previous chapters, countries aim to deeper their economic ties with key trade partners by establishing bilateral or regional or even mega-regional FTAs covering issues that have not yet been covered by WTO.

Currently, the mega-regional trade negotiations are the hot topic in the international trade arena, especially the TPP and the TTIP. As explained in the previous chapter, if these agreements are successfully concluded, they will have a huge impact on the whole trade system. Three of the four most important economies in the world are involved in those agreements: the US, the EU and Japan, but China is not a member of any of those mega-regional negotiations. China suggested a mega-regional with the EU in 2013 (Godement and Stanzel, 2015), which could be an obvious fact to have a FTA between these two trade partners as their interdependency is really high, however, the EU’s reaction was lukewarm (Barone and Bendini, 2015). Rather, the EU suggested that was preferable to conclude an EU-China BIT first.

This paper questions the European Commission’s argument that China is not prepared for an EU-China FTA. Its hypothesis is that there are other reasons behind for the EU’s rejection of an EU-China FTA, such as political (fear of EU losing political power in front of China) and economic (fear of having less benefits than China from the FTA). To test this hypothesis this paper proposes a method based on the EU own reasoning. The method is justified in the first section of this chapter. The second section then explains the method per se. Finally, the third section deals with hypothesis validation.

1. Justifying the method

China is absent from both TPP and TTIP, as explained in the previous chapter, the two most important mega-regionals. Therefore, China wants to be a member on a similar trade deal in order to not be excluded of this new type of trade agreements that would reshape the new global rules. Taking into account that the EU is China’s largest trading partner and China is the EU’s second trading partner (European Commission, 2016), China began asking the EU for an EU-China FTA talks since 2013 (Godement and Stanzel, 2015). This Chinese goal was
emphasised by the president Xi Jinping when he visited the EU’s headquarters in 2014, to open talks on a comprehensive EU-China FTA (Jia, 2015).

The EU’s first response to the Chinese suggestion was cautious (Bendini and Barone, 2015). The main objective for the EU currently is to conclude the EU-China BIT, and it is possible in the long term broader their cooperation leading to a EU-China FTA, as stated in the European Commission’s website (2016). The EU has even dampened China’s hopes to jointly launching a feasibility study of a EU-China FTA (Tiezzi, 2014). However, the reasons for the refusal are unclear as the EU has only publicly stated that the Chinese goal may be reached in the future, as seems now China is not prepared.

Nevertheless, what is it to be prepared? It is important to notice that the EU is a great defender of FTAs. As indicated in the Commission’s Communication on Global Europe (2006), FTAs are intended to address issues which are not covered by the WTO, including investment, public procurement, competition and other regulatory issues. The Commission also declared the need to prioritise FTAs with the strategic trading partners by considering economic criteria: economic size, growth, tariffs and non-tariff barriers.

In addition, in more recent Commission’s Communications on Trade, Growth and World Affairs (2010) and Trade for All (2015) stated again the importance of FTAs. Concretely, in the communication issued in 2010, it underlines this idea that FTAs are necessary in order to “gain a better access to the largest and fastest-growing economies in the world” (p.22). In these communications, the Commission insisted that EU need to engage and deepen strategic economic partners, namely the US, China, Russia, Japan, India and Brazil.

In fact, the EU has already started intense negotiations with US (through the TTIP), Japan, India and Brazil (through EU-Mercosur) for FTAs. In the case of Russia, currently there are negotiations for bilateral agreement although the Ukraine situation has frozen those negotiations. Therefore, it is noticeable that China is the only EU’s key partner which has been disregarded by EU in sense of engaging a bilateral trade agreement, except for the EU-China BIT.

Thus, which are the conditions that China has to comply with to be prepared to negotiate an FTA with the EU? In a recent paper, the European Parliament (2015) indirectly indicate that the possible reason for the EU’s rejection of EU-China FTA may be caused by the fact of the difficulty to conclude the EU-China Partnership and Cooperation Agreement (PCA) negotiations, launched in 2007. As explained in the in the paper Trade and economic relations with China 2015 (2015), the European Parliament specifically states that:
Negotiations for an EU-China Partnership and Cooperation Agreement (PCA) were launched in 2007. According to the European Commission, the conclusion of the deal does not appear to be within reach. Beijing hopes to convince the EU to 'work jointly to create conditions for launching a feasibility study of a China-EU free-trade agreement'. The European Commission, however, considers that the necessary conditions for formally opening preliminary talks on an ambitious EU-China FTA have not yet been met. (p. 18-19)

Therefore, the lack of an agreement for the EU-China PCA seems to be a stumbling block for the EU-China FTA, as this can be understood that the difficulty to reach an agreement on the EU-China PCA leads directly to the non-feasibility of EU-China FTA. Is that the reason why the EU is not negotiating an FTA with China? If that was the case, this work hypothesis could be rejected. Nevertheless, it might also be the case that this is just an excuse. In short, to test whether this work hypothesis can be rejected it would be necessary to check whether concluding a PCA is a necessary condition for a FTA.

The objective of establishing a PCA is to strengthen and deepen EU relations with third countries, especially countries in Central and Eastern Europe and Asia (Yan, 2015). It normally includes issues related to economic cooperation and as well political dialogue, with the aim to provide a basis for cooperation in different fields: the legislative, economic, social, financial, scientific, civil, technological and cultural (EUR-Lex, 2010).

2. The method

To establish whether concluding a PCA is a necessary condition for engaging in FTA negotiations, this research checks whether this has been the case in previous EU FTAs negotiations. Following the WTO database on Regional Trade Agreements (RTAs), EU has in force FTAs with 33 countries or group of countries of different level of development, geography, or even size. Therefore, in order to carry out the research, it will be necessary to select cases as similar to China as possible that has in force a FTA with EU in order to make the comparisons. In addition, it is also necessary to take into account negotiations that EU has concluded with seven countries or territories for a FTA (but not in force yet), and as well as ongoing negotiations that may possibly lead the creation of a mega-regional (Japan and the US). To do so, Cremona’s classification of EU RTAs is used.

According to Cremona (2010), the EU relations with third countries can be classified in four groups: candidates and potential candidates, neighbours, development and global market access. The first group, candidates and potential candidates, are agreements established with
countries that they are “potential candidates” to join the EU. In other words, countries belonging to this group are considered prospective members of the EU in the future. Another group is neighbours, as it is clearly stated in its name, countries inside this group are those which are geographically close to the EU.

The third group, development, is referred to agreements with those countries that are considered developing countries and is aimed to the development and trade integration. Finally, the last group is global market access, in this case the agreements are established with the objective to improve market access at high growth emerging markets, by building and extending behind WTO commitments, as stated in the Commission’s Communication on Global Europe (2006).

In the Table 1 is shown all the FTAs that EU has in force, concluded negotiations for a FTA and those ongoing negotiations that are aimed for the creation of mega-regionals. The structure of the table is the result obtained by merging WTO information regarding EU FTAs and Cremona’s classification of different groups of FTAs. Therefore, from this table will be selected countries that are comparable cases to China in order to carry out the research.

The first group of countries is not possible to choose as cases to compare with China, as China will never be a potential country candidate for an EU enlargement. In addition, countries belonging to the third group, which are developing countries, they will also be disregarded as China is considered an emerging country. Moreover, the EU do not consider China as a developing country for the reason that China is no longer a beneficiary of EU’s Generalised Scheme of Preferences (GSP)\(^4\).

From neighbours group of countries, it is not possible to select all countries to compare with China, as most of them lack of similar characteristics to China. However, there three countries that share a common background with China, which all of they are former communist countries and therefore they serve as adequate countries to compare with China. Concretely, these countries are Ukraine, Moldova and Georgia. Finally, countries belonging to the last group of global market access, are also suitable countries to contrast with China, since their common characteristic is that they are not possible to be classified in none of the other groups of countries. Specifically, these countries are: Canada, Japan, Korea, Singapore and the United States.

\(^4\) As stated in the European Commission website (2016), the EU’s Generalised Scheme of Preferences (GSP) allows developing countries to benefit from trade preferences by paying less or no duties on their exports to the EU.
Table 1. European Union Free Trade Agreements.

<table>
<thead>
<tr>
<th>TRADING PARTNER</th>
<th>STATUS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Candidates and potential candidates</strong></td>
<td></td>
</tr>
<tr>
<td>Albania</td>
<td>In force since 2009</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>In force since 2008</td>
</tr>
<tr>
<td>Former Yugoslav Republic of Macedonia</td>
<td>In force since 2004</td>
</tr>
<tr>
<td>Montenegro</td>
<td>In force since 2010</td>
</tr>
<tr>
<td>Serbia</td>
<td>In force since 2010</td>
</tr>
<tr>
<td><strong>Neighbours</strong></td>
<td></td>
</tr>
<tr>
<td>Algeria</td>
<td>In force since 2005</td>
</tr>
<tr>
<td>Egypt</td>
<td>In force since 2004</td>
</tr>
<tr>
<td>European Economic Area (EEA)</td>
<td>In force since 1994</td>
</tr>
<tr>
<td>Faroe Islands</td>
<td>In force since 1997</td>
</tr>
<tr>
<td>Georgia</td>
<td>In force since 2014</td>
</tr>
<tr>
<td>Iceland</td>
<td>In force since 1973</td>
</tr>
<tr>
<td>Israel</td>
<td>In force since 2000</td>
</tr>
<tr>
<td>Jordan</td>
<td>In force since 2002</td>
</tr>
<tr>
<td>Lebanon</td>
<td>In force since 2003</td>
</tr>
<tr>
<td>Moldova</td>
<td>In force since 2014</td>
</tr>
<tr>
<td>Morocco</td>
<td>In force since 2000</td>
</tr>
<tr>
<td>Palestinian Authority</td>
<td>In force since 1997</td>
</tr>
<tr>
<td>Norway</td>
<td>In force since 1973</td>
</tr>
<tr>
<td>Switzerland-Liechtenstein</td>
<td>In force since 1973</td>
</tr>
<tr>
<td>Syria</td>
<td>In force since 1977</td>
</tr>
<tr>
<td>Tunisia</td>
<td>In force since 1998</td>
</tr>
<tr>
<td>Ukraine</td>
<td>In force since 2014</td>
</tr>
<tr>
<td><strong>Development</strong></td>
<td></td>
</tr>
<tr>
<td>Cameroon</td>
<td>In force since 2014</td>
</tr>
<tr>
<td>CARIFORUM</td>
<td>In force since 2008</td>
</tr>
<tr>
<td>Country/Region</td>
<td>Status</td>
</tr>
<tr>
<td>---------------------------------------------------</td>
<td>---------------------------------------------</td>
</tr>
<tr>
<td>Central America</td>
<td>In force since 2013</td>
</tr>
<tr>
<td>Chile</td>
<td>In force since 2003</td>
</tr>
<tr>
<td>Colombia and Peru</td>
<td>In force since 2013</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>In force since 2009</td>
</tr>
<tr>
<td>Eastern African Community (EAC)</td>
<td>Negotiations concluded in 2015</td>
</tr>
<tr>
<td>Eastern and Southern Africa (ESA)</td>
<td>In force since 2012</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Negotiations concluded in 2014</td>
</tr>
<tr>
<td>Mexico</td>
<td>In force since 2000</td>
</tr>
<tr>
<td>Papua New Guinea and Fiji</td>
<td>In force since 2014</td>
</tr>
<tr>
<td>South Africa</td>
<td>In force since 2000</td>
</tr>
<tr>
<td>South African Development Community (SADC)</td>
<td>Negotiations concluded in 2014</td>
</tr>
<tr>
<td>Vietnam</td>
<td>Negotiations concluded in 2015</td>
</tr>
<tr>
<td>West Africa</td>
<td>Negotiations concluded in 2014</td>
</tr>
</tbody>
</table>

**Global market access**

<table>
<thead>
<tr>
<th>Country</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>Negotiations concluded in 2014</td>
</tr>
<tr>
<td>Japan</td>
<td>Negotiations ongoing since 2012</td>
</tr>
<tr>
<td>Korea</td>
<td>In force since 2011</td>
</tr>
<tr>
<td>Singapore</td>
<td>Negotiations concluded in 2014</td>
</tr>
<tr>
<td>United States</td>
<td>Negotiations ongoing since 2013</td>
</tr>
</tbody>
</table>

*Source: own elaboration with data from WTO database (2016).*

### 3. Hypothesis validity

In order to check whether China complies with non-feasibility for an EU-China FTA, evidence provided by the European Parliament, the method that is used to test this fact consists to examine if that concluding a PCA is a necessary condition for a FTA. Therefore, this work investigates whether the EU had concluded a PCA before starting FTA negotiations with third countries. Out of the 33 FTAs the EU has in force, seven concluded negotiations and two ongoing negotiations for mega-regionals, eight cases can be considered evidence for China.

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<sup>5</sup> Although Cremona included Central America in the fourth group of global market access, it is classified in this paper in the third group of development. As according to Commission’s Communication on *Global Europe* (2006), the FTA with Central America is focused on development objectives.
So as to validate the hypothesis, none of the cases analysed must not had previously a PCA or another type of agreement (as EU uses different names for similar agreements), before establishing a FTA. In the other way around, if all of the cases selected had an agreement before reaching a FTA, then the hypothesis will be rejected. Nevertheless, if the result is between these two possible cases, then it will not possible either to reject or accept the hypothesis, and therefore this research question will remain for further discussion.

4. Conclusions

The EU is an active and a great defender of FTAs, especially since 2006. However, the EU have refused the China’s proposal of a EU-China FTA because it is not prepared. This work hypothesis is that the reason why the EU has so far refused is due to other reasons, such as economic and political. As by looking at the different communications published by the European Commission stating the criteria that is considered when choosing a partner for a FTA, China complies with all those requirements to be a possible candidate for FTA with the EU.

To test this research hypothesis, the method proposed is based on the EU own reasoning, according to a paper issued by the European Parliament (2015). It states indirectly that the non-feasibility of an EU-China FTA is due to the difficulties to reach an agreement on the EU-China PCA. Therefore, it is necessary to check that whether to have a PCA previously is a necessary condition for an FTA. To do so, eight countries are chosen with the most similar characteristics to China.

The hypothesis would be accepted if none of the cases analysed had previously a PCA. On the contrary, if all the countries had an PCA before establishing a FTA, then the hypothesis would be rejected.
IV. ANALYSIS

The objective of this chapter is to check whether third countries need to have a previous agreement, such as a PCA, in order to start negotiations for a FTA with the EU. According to the European Parliament, that seems to be the reason why the EU has refused the China proposal for a EU-China FTA. As the PCA between the EU and China launched in 2007 is still under negotiation.

However, this paper hypothesis is that there are other reasons such as economic or political rather than the non-feasibility condition argument provided by European Parliament. Therefore, as explained in the previous chapter, eight cases have been selected as evidence to test if they previously had had an agreement with the EU before launching negotiations for a FTA, they are namely: Ukraine, Moldova, Georgia, Canada, the US, Japan, Korea and Singapore. These countries are the ones with most similar characteristics with China, hence suitable countries to compare with the EU-China situation for opening negotiations for a FTA.

This chapter is divided in nine sections. After analysed the EU relations with the countries selected in the first eight sections, a summary of the results is presented in the ninth.

1. EU-Ukraine

Nowadays, the EU is considered as Ukraine’s largest trading partner, accounting for more than a third of Ukraine trade (European Commission, 2016). The framework under which the EU and Ukraine relations are established is through the Deep and Comprehensive Free Trade Agreement (DCFTA) between the EU and Ukraine. As stated in the European Commission’s website (2016), the aim of this DCFTA is to boost bilateral relations between the EU and Ukraine in both goods and services, by progressively reducing tariffs and line up Ukraine’s rules with the EU’s ones, especially in industrial and agricultural sectors. In addition, the DCFTA also covers other areas related to trade, such as public procurement, competition, intellectual property and among others.

The EU-Ukraine DCFTA entered into force since 1 January 2016, as a part of their Association Agreement (AA) signed on 27 June 2014. According to the delegation of the European Union to Ukraine (2016), the EU-Ukraine AA, which includes the DCFTA, serves as new contractual relations by aiming at political association and as well as economic integration.
The EU-Ukraine AA replaced the EU-Ukraine PCA as the legal framework for EU-Ukraine relations (EEAS, 2016). The oldest framework under which EU-Ukraine relations took place was therefore a PCA. The EU-Ukraine PCA entered into force in 1998. The purpose of the agreement was to strengthen the links between the EU and Ukraine by providing a framework for political dialogue and to promote commercial and economic cooperation (EUR-Lex, 1998).

In short, after analysing EU-Ukraine relations, it is noticeable that in this case the EU had previously a PCA with Ukraine before engaging for a FTA, which is included within an AA.

2. EU-Moldova

The EU is Moldova’s biggest trade partner as 62% of Moldova’s export is destined to the EU. However, for the EU, trade with Moldova only accounts about 0.10% of EU’s overall trade (European Commission, 2016). Nowadays, relations between EU and Moldova are conducted through the EU-Moldova AA, in force since 1 September 2014.

According to the European Commission (2016), the EU-Ukraine AA’s purpose is to deepen both political and economic relations between EU and Moldova, and as well as progressively integrate Moldova into EU’s market. In addition, the EU-Moldova AA also includes the setting up of a DCFTA, as in the case of Ukraine however, the EU-Moldova DCFTA is not in force yet.

The EU-Moldova AA replaced the PCA between the EU and Moldova. Before the introduction of the EU-Moldova AA, the relations between the EU and Moldova had been guided by the EU-Moldova PCA which entered into force in 1998. The PCA established the legal and institutional framework for bilateral relations between both parties, by focusing on trade and economic cooperation, and also political dialogue (EEAS, 2016).

Hence, in this case is also proven true the statement that before the establishment of a FTA, included in an AA, previously a PCA between the EU and Moldova was in force.

3. EU-Georgia

The EU is considered as the main trade partner for Georgia, as 26.10% of Georgia’s trade takes place with the EU. However, for the EU trade with Georgia only represents 0.10% of its overall trade (European Commission, 2016). The EU relations with Georgia have followed the same stages as with Moldova.
Nowadays, relations between EU and Georgia are conducted through the EU-Georgia AA in force since 1 September 2014. As in the case of Moldova, the EU-Georgia AA aims to both deepen economic and political ties between the parties and includes a provision for setting up a DCFTA. As was the case for Moldova, the EU-Georgia AA substituted the EU-Georgia PCA, which was the previous basis for bilateral relations between the EU and Georgia since 1999.

In short, the EU relations with Georgia, which basically follows the same steps as for Moldova, indicate that in this case it is also proven that before engaging for a FTA, included in a AA, a PCA was established first.

4. EU-Canada

In 2014, the EU was Canada’s second most important trade partner, after the US, with about 9.40% of Canada’s total external trade in goods. On the other hand, in the same year, Canada was ranked as the EU’s 12th most important trade partner, accounting for 1.70% of EU’s total external trade (European Commission, 2016).

In 2009, the EU-Canada Comprehensive Economic and Trade Agreement (CETA) negotiations were launched and in 2014 the negotiations were concluded, however it is not in force yet. The CETA is defined as an ambitious FTA that will cover goods, services, investment and public procurement (EEAS, 2016). As stated in the European Commission’s website (2016), if eventually the agreement enters into force, the CETA will remove over 99% of tariffs between EU and Canada.

Pending the entry into force of CETA, current trade relations between EU and Canada are guided by the Framework Agreement for Commercial and Economic Cooperation in force since 1976 (European Commission, 2016). Through this agreement, both parties committed to develop and diversify their commercial relations and also to foster their economic cooperation (EEAS, 2008).

In addition, the there is an EU-Canada Partnership Agenda since in 2004. It acknowledges the relevant evolution of EU-Canada relations, by building on an established track record of both economic and political cooperation between the EU and Canada since 1976, and as well as determines ways of working together in order to move forward and enhance the relationship (EU Chamber of Commerce in Canada, 2016).
As stated in the EU-Canada Partnership Agenda report (2002), it aims to increase the political dialogue with the objective to strengthen their common approaches to international security and to ensure the effectiveness of the multilateral system, further enhance the economic relationship, advance cooperation on issues of justice and home affairs and lastly, cooperate on global and regional challenges.

As the content covered by this last agreement mentioned between EU and Canada is similar of a PCA, therefore it is also considered that there is a previous agreement before start negotiations for an FTA, which is in this case the CETA.

5. EU-US

The EU is ranked as second trading partner for the US whilst the US is considered as EU’s largest trading partner (USTR, 2016). Accounting the EU and the US economies together, they represent for about half the entire world GDP (European Commission, 2016).

The EU and the US started negotiations in 2013 for a FTA named as the TTIP. As explained in the chapter two of this paper, the TTIP is aimed to reach a comprehensive and high-standard trade and investment agreements, by focusing on trade liberalization, behind the border issues and other non-tariff issues, for instance public procurement and environmental issues. In addition, the TTP would cover other areas of trade, known as “21st century issues”, such as electronic commerce information and communication technology, state-owned enterprises, small and medium-sized enterprises and transparency, anticorruption and competition (USTR, 2016).

The Transatlantic Economic Partnership (TEP) launched in 1998, was designed to extend and intensify bilateral and multilateral cooperation in the field of trade and investment, within the framework of the New Transatlantic Agenda (NTA) established since 1995 (EEAS, 2016). More precisely, the TEP aims to achieve mainly three goals: market access for goods, services and agricultural products, multilateral and bilateral trade liberalization of goods, services and capital, and deepening political dialogue (Pollack, 2003).

After analysed the EU relations with the US, it is verified that before launching negotiations for the TTIP they previously have had an agreement which in this case the TEP.
6. EU-Japan

The EU is Japan’s third largest trading partner after US and China, whereas Japan is the EU’s seventh biggest trading partner (Delegation of the European Union to Japan, 2015). According to the European Commission (2016), the EU and Japan together accounts for more than a third of the whole world’s GDP.

As explained in the chapter two of this paper, the EU-Japan FTA negotiations were launched in 2013 and it is still under negotiations. After 16 rounds of negotiations, the next round will take place in Brussels in September 2016 (European Commission, 2016). This ambitious agreement is aimed to deal with the trade liberalization in goods, in services and investment and as well as to eliminate tariff and non-tariff barriers (Muxfeldt and Götz, 2015).

The EU-Japan relations started during the 1970s and 1980s by focusing on trade related issues, but progressively broadened to cover other areas such as industrial cooperation (Delegation of the European Union to Japan, 2015). In 2001, the so-called Action Plan was launched for 10-year partnership between the EU and Japan. The objectives were to strengthen further their political relationship, promote peace and security, strengthen the economic and trade relations, coping with global and social challenges and as well as to bring people and culture together (EEAS, 2016).

Therefore, in this case, the statement that a PCA is a necessary condition in order to start negotiations for FTA is applicable to Japan as the Action Plan content is similar to the PCA.

7. EU-Korea

The EU is Korea’s fourth largest export destination (after China, US and Japan) whilst Korea is EU’s eighth export destination (European Commission, 2016). In terms of numbers, EU exported to Korea 43.2 billion euros of goods, whereas imports from Korea was 38.8 million euros in 2014 (European Commission, 2016).

The EU-Korea FTA entered into force since 2011, it is the first completed agreement in a new generation of FTAs launched by the EU in 2007. In addition, it is also the EU’s first FTA with an Asian country (Delegation of the European Union to the Republic of Korea, 2016). According to the European Commission (2011), the EU-Korea FTA as a new generation of agreements goes further than previous agreements which are exclusively focused on the lifting classical
trade barriers. Moreover, the EU-Korea FTA also includes provisions on issues related to investment, services, industrial sectors, intellectual property and government procurement.

However, there is not any previous agreement between EU and Korea before engaging for a FTA negotiations. Therefore, in this case, the statement that a PCA is a necessary condition in order to start FTA negotiations is not true for the EU-Korea case.

8. EU-Singapore

The EU is Singapore’s second major export partner, whereas Singapore is considered as the EU’s 17th largest trading partner and the EU’s largest trade partner in ASEAN, accounting almost one-third of EU trade in goods and services and approximately two-thirds of investments between the EU and ASEAN (EEAS, 2016).

According to European Commission (2016), after negotiations held between 2007 and 2009 for a FTA between the EU and ASEAN encountered difficulties, the EU-Singapore Free Trade Agreement (EUSFTA) negotiations were launched in 2010. Therefore, the EUSFTA is the first trade deal between the EU and Southeast Asian country and it serves as a stepping stone towards building a regional network in Southeast Asian. The EUSFTA negotiations were completed in 2014, but the agreement is not yet in force as it is pending for ratification. As an ambitious FTA, the EUSFTA covers issues related to trade in goods, services, investment and as well as addresses non-tariff barriers, such as regulatory matters (Delegation of the European Union to Singapore, 2016).

Currently, the legal basis for the EU-Singapore cooperation is the so-called EC-ASEAN agreement established in 1980. This agreement serves as framework for commercial, economic and as well as development cooperation between the two regions (EEAS, 2012). However, as stated in the Delegation of European Union to Singapore’s website (2016), in 2013 initiated the negotiations for an EU-Singapore PCA. It is aimed to strengthen political dialogue and it will set the new framework for cooperation in different areas, such as education, transport, energy and science and technology. Therefore, the EU-Singapore will further deepen EU-Singapore relations beyond trade issues.

In this case, the EU had initiated the negotiations for the EUSFTA without having previously a PCA. Therefore, from case of Singapore it can be understood that a PCA is not a necessary condition in order to open negotiations for a FTA.
9. Summary of the results

Analysed the eight cases chosen for carry out the study, with the aim to prove whether third countries need to have a previous agreement before engaging negotiations for a FTA, the results are summarized in Table 2.

As it is shown in the Table 2, six out eight countries had had previously a PCA or a similar agreement before starting negotiations for a FTA with the EU. Then, this means that for other two countries, the EU have started negotiations for a FTA directly, without any prior agreement.

**Table 2. Results of the countries analysed.**

<table>
<thead>
<tr>
<th>Country</th>
<th>Name of the FTA</th>
<th>Status of the FTA</th>
<th>Previous agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>AA/DCFTA</td>
<td>In force since 2014/2016</td>
<td>Yes</td>
</tr>
<tr>
<td>Moldova</td>
<td>AA</td>
<td>In force since 2014</td>
<td>Yes</td>
</tr>
<tr>
<td>Georgia</td>
<td>AA</td>
<td>In force since 2014</td>
<td>Yes</td>
</tr>
<tr>
<td>Canada</td>
<td>CETA</td>
<td>Negotiations concluded in 2014</td>
<td>Yes</td>
</tr>
<tr>
<td>US</td>
<td>TTIP</td>
<td>Negotiations ongoing since 2013</td>
<td>Yes</td>
</tr>
<tr>
<td>Japan</td>
<td>EU-Japan FTA</td>
<td>Negotiations ongoing since 2012</td>
<td>Yes</td>
</tr>
<tr>
<td>Korea</td>
<td>EU-Korea FTA</td>
<td>In force since 2011</td>
<td>No</td>
</tr>
<tr>
<td>Singapore</td>
<td>EUSFTA</td>
<td>Negotiations concluded in 2014</td>
<td>No</td>
</tr>
</tbody>
</table>

*Source: own elaboration.*
V. CONCLUSIONS

Nowadays, as shown throughout this report, important economies in the world are actively participating in negotiations for so-called mega-regional trade agreements, namely the TTIP, the TPP, EU-Japan FTA, RCEP and CKJ FTA. Taking into account this, it is unquestionable that to open talks for a EU-China FTA, fits perfectly in the current mega-regional trade agreements negotiations scenario.

In 2013, China suggested opening talks for an EU-China FTA. Despite this, the EU seems not interested for a FTA with China and only declared that it will a possible fact but in a long term. The EU refusal to the China proposal was based on China not being prepared without defining what that means. However, a paper issued by the European Parliament implicitly states that the EU refusal was due to lack of agreement for the PCA, launched in 2007 and still under negotiation. To establish whether this is the real reason for delaying the launching of FTA negotiations with China, eight country cases, that share similar characteristics with China and with whom that EU has a FTA or is negotiating one, have been analysed.

Results show that six out of eight cases had had a prior agreement, a PCA or a similar agreement, before launching negotiations for a FTA with the EU. On the other hand, the EU started negotiations for a FTA directly with two of the eight countries, that is, without any previous agreement. Therefore, the finding suggests that the hypothesis that EU is not willing to launch an FTA with China for economic or political reasons rather than lack of preparation cannot be rejected. While most of the cases would validate that a PCA may be a necessary pre-condition for launching FTA negotiations, there is evidence that this was not a requisite in at least two cases. Therefore, having as a result an intermediate case, this research question should remain open to further discussion.

This conclusion is supported by a more content based analysis of the results. First, the EU steps for a FTA with former communist countries had started in each case by establishing previously a PCA (case for Ukraine, Moldova and Georgia). Secondly, the results show that EU also set up pre-agreements, although no a PCA, with developed countries as in the case of Canada, the US and Japan. Lastly, the EU started negotiations for a FTA straightforward with two Asian countries, Korea and Singapore, without any previous agreement. Following these results, the hypothesis could only be rejected if the EU treats China as a former communist country or a developed country. If China is to be considered primarily as an Asian country, then the reasons for the EU delaying opening FTA negotiations may be due to economic and/or political reasons rather than technical ones.
In any case, what this research clearly asserts is that the European Parliament definition of China preparedness based on previous PCA, is not good enough. Therefore, China may be forgiven for not being happy with the EU answer.
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