

## Free Trade Area and China's Economy from the Perspective of Import and Export

Li Ping

Department of Economics College of Humanities and social science of Harbin Institute of Technology, Harbin, 150001, China

Email: [hitlipingls@aliyun.com](mailto:hitlipingls@aliyun.com)

**Abstract:** In-depth development of economic globalization, the world's economic development extension features has been enhanced, international trade in national economic development plays an increasingly important role, in 2012 the sum of China's import and export accounted for more than 50% of GDP, the establishment of a free trade area for the realization of bilateral and multilateral trade liberalization with a significant role. Eighteen Third Plenary Session will promote the construction of the free trade zone, and make Shanghai as a pilot area of the Free Trade Area, in order to increase financial support for cross-border investment and trade, and financial reform's further deepen, promoting the Chinese economy's stable and healthy development. Therefore, this paper will choose empirical analysis of the relationship between export and import growth and GDP growth in the import and export data in 1979--2012, and focus on exploring the effects of free trade zones for import and export of China's economic growth from the perspective of a free trade area for the healthy development provide a reference recommendations.

[Li Ping. **Free Trade Area and China's Economy from the Perspective of Import and Export.** *World Rural Observ* 2015;7(3):110-115]. ISSN: 1944-6543 (Print); ISSN: 1944-6551 (Online). <http://www.sciencepub.net/rural>. 18

**Keywords:** Import and export, Free trade zone, Chinese economy.

### 1. Introduction

Since 2001, China joined the WTO; China plays an increasingly important role in the international political and economic arena, based on the principles of WTO "consensus" to solve the problem, so as to promote trade between Member States. Member states under the multilateral trading system due to differences in political, economic and cultural level, it is difficult to reach a consensus, which seriously affected the rapid development of international trade. Therefore, the establishment of a free trade area greatly solved the disadvantages of international trade under the multilateral trading system, promoted the rapid development of trade in the region to a greater extent. In the Third Plenary Session of the Communist Party of China's 18, in order to building a free trade zone proposed new ideas and constructive comments, providing a favorable policy and institutional support for the China FTA. For a clearer understanding of the development of free trade zones driven the import and export trade, and then explore the relationship between China's economic construction in free trade zone and the import and export perspective. This paper will select empirical study on the relationship between import and export development and GDP growth of total imports and exports and gross domestic product data in 1979--2012. Thereby the role of export and import growth of free trade zones by analyzing the relationship between economic development and free trade zone is analyzing.

### 2. The Fundamental Analysis of China Free Trade Area

FTA means that by signing free trade agreements between countries, free trade in the region, cancel the tariff and non-tariff barriers of most of the export goods, cancel the majority of the service sector market access restrictions, allow the storing, marketing, packaging and processing of foreign goods in the region, in order to promote the free flow of goods, services and capital, technology, personnel and other factors of production, complementary advantages, in order to promote trade development to obtain economic benefits.

Economic globalization has promoted multilateral trade liberalization, accelerate the pace of regional free trade zone between countries Hull construction, at present, RTAs in force as many as 250 of the world and showed rapid growth trend, which has 80 % free trade zones or much more in the last decade, in order to establish a free trade area, for breaking barriers, strengthening inter-regional economic cooperation has a very important role.

#### 2.1 The Basic Pattern of Chinese Free Trade Area

November 10, 2001, after 15 years of trade negotiations, China finally got the pass to join the World Trade Organization, began to be more deeply involved in the business process of multilateralism. As to the pros and cons for China's accession to the WTO, academic debate has never stopped, there's no doubt that the WTO has brought China a bigger stage and more opportunities, but at the same time, it has also brought more severe challenges to China's foreign

trade development. In various trade barriers and dumping and anti-dumping cases, voice of developing countries is still very limited, the rapid development of regional and national free trade zone, has also brought new challenges to non-discriminatory treatment of China in the WTO. In recent years, China

participates among the regional economic cooperation in a more active attitude. China continues to actively promote trade and investment liberalization and economic and technical cooperation in the area of the OECD.

**Table 1. Status of China Free Trade Area**

FTA has signed agreements	FTA being negotiated	FTA being studied
China - ASEAN	China - GCC	China - India
China - Pakistan	China - Norway	China - Colombia
China - Singapore	China, Japan and Korea	—
China - New Zealand	"Regional Comprehensive Economic Cooperation Partnership Agreement"	—
China - Chile	—	—
China - Peru	—	—
China - Costa Rica	—	—
China - Iceland	—	—
China - Switzerland	—	—
Mainland and Macao Closer Economic Partnership Arrangement	—	—
The mainland and Taiwan cross-strait economic cooperation framework agreement	—	—
China - South Korea	—	—
China - Australia	—	—
The mainland and Taiwan cross-strait economic cooperation framework agreement	—	—
China - South Korea	—	—
China - Australia	—	—

As shown in Table 1, China is building 18 free trade zones, involving 31 countries and regions; Which has signed 12 free trade agreements, in addition to the free trade agreement has not yet entered into force of Iceland and Switzerland, the rest have been implemented. We are negotiating six FTA and studying two free trade zones. China has initially built up global trade network across the east perimeter of the FTA platform and radiation continents.

## **2.2 The Reason for China to Speed up the Establishment of Free Trade Zones from a Trade Point of View**

Speed up free trade area, take advantage of the system security from FTA, and promote the exchange and flow of all countries and regions of goods, services, investment and personnel, coordinate the two markets and two resources, expand opening up, enhance inter-regional trade relationship and economic integration, in order to achieve mutual benefit and common development, which is an important objective of the FTA construction in China. From the point of view in import and export, China has to accelerate free trade zone based on the following reasons:

First of all, FTA promotes trade between

countries. Within the traditional framework of the multilateral trading system, since there is a big difference in the level of economic and political development of Member States, when making decisions, it is difficult to reach a consensus, which seriously affected the trade between member states. Since the establishment of free trade zone, it reduces trade friction between Member States, promotes reaching consensus and strengthen regional trade cooperation to achieve the complementary advantages.

Secondly, the establishments of free trade zone promote the growth of trade and investment of FTA members. Since the implementation of the FTA, the abolition of most of the goods tariff and non-tariff barriers, the abolition of market access for services has promoted trade, service trade and the rapid growth of investment goods.

Again, the establishment of free trade zone provides more trade and investment opportunities for the member states, promotes the development of an effective FTA partner border regions. Cooperation between countries or separate customs territory, often promotes the economic development of border areas with FTA partners. Border areas can take advantage of preferential policies of free trade area, use the positive

development of sub-regional cooperation to attract and undertake FTA members or domestic regional industrial transfer, to achieve the priority development of the region.

### 2.3 The Initial Results Achieved of the Establishment of Free Trade Area in China

First, China - Iceland Free Trade Agreement signed successfully. April 15, 2013, in Beijing, China and Iceland signed the first free trade agreement between China and European countries - China - Iceland Free Trade Agreement, which covers trade in goods, services and many other areas of trade, investment, the implementation of the agreement has a high level of tariff concessions, the two sides eventually reach to zero tariff products, according to the number of tariff measure, it is close to 96 percent, according to the trade measure, it is close to 100%.

Secondly, China - Switzerland FTA agreements successfully was signed. July 6, 2013, Sino-Swiss FTA signed in Beijing. Agreement establishes issues which aims at achieving industrial cooperation, strengthening exchanges and other aspects of the watch detecting, which will effectively promote the development of Sino-Swiss bilateral watch trade.

Three decades of reform and opening up and the accession to the WTO of ten years, China's comprehensive national strength and international competitiveness enhance a lot, and promote the anti-risk capability and the ability to apply international rules significantly increased. At present, China has become the world's second largest economy and the second largest trading nation, and laid a solid foundation for promoting free trade area.

### 3. An Empirical Analysis of the Relationship between Foreign Trade and Economic Growth

Exports, investment and consumption have long been seen as "Troika" for driving China's economic growth, particularly in foreign trade which has played a pivotal role in the development of our national economy. In 2010, China has become the world's biggest export power. However, we should clearly recognize that our country is just a big trading nation but not a trade powerful nation. There are still many problems in foreign trade commodity structure, regional structure of foreign trade, foreign trade growth mode, etc., especially it did not imagine significant that net exports can promote economic growth. This section is based on this consideration that we hope we can accurate measurement and analysis of the contribution of foreign trade to economic growth in the case by analysis combined with quantitative and qualitative and the case continued this contribution. What's more, through research, we can further tap the country's foreign trade in the presence of the problem, in order to solve these problems and really to make trade play a positive and effective role in promoting China's economic development.

#### 3.1. Model Specification and Data Input

##### 3.1.1 Model Specification

In order to more clearly express the relationship between foreign trade and economic growth, and in order to unify rules of operation and eliminate time trend among variables and heteroscedasticity, the paper make part of the variables logarithmic process. The model is set as follows:

$$LNGDP_t = \beta_0 + \beta_1 LNX_t + \beta_2 LNM_t + v_t \quad (1)$$

Where:  $GDPT$  — China's economic growth,

$X_t$  — China's exports,

$M_t$  — China's imports,

$\beta_0$ 、 $\beta_1$ 、 $\beta_2$  are parameters to be estimated;

$v_t$  is a random variable, which representative all the explanatory variables caused by changes in the explanatory variable factors.

##### 3.1.2 Index Description

###### (1) China's economic growth— $GDPT$

Economic growth is usually refers to a longer time span, which is a country's per capita output (or per capita income) levels which continue to increase. The GDP is an important indicator of macroeconomic statistics. It refers to the final outcome of a country or a region during a given period of production activities, and GDP growth in place it is very reasonable.

###### (2) Foreign Trade ( $X_t$ 、 $M_t$ )

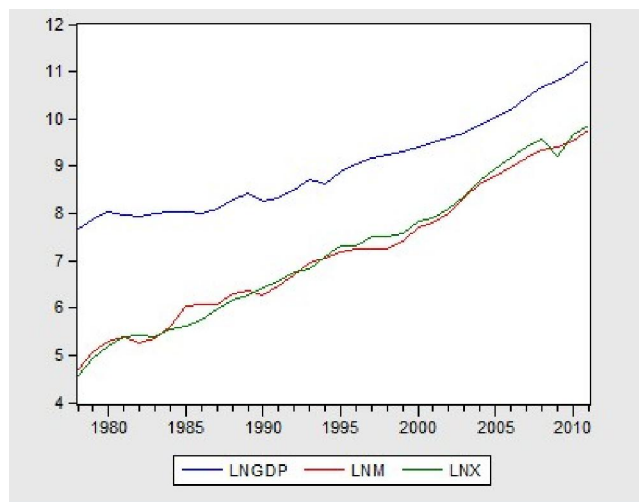
Foreign trade, including imports and exports of a country, both the representative of the difference between the two is in term of the difference of a country's current account, which is closely linked to the country's balance of payments.

##### 3.1.3. Data Entry

In order to study the issue of comprehensiveness, this study selected the data from 1979 to 2012, and the specific data is in the following table.

**Table 2. Original data of Foreign Trade and Economic Growth in China (Unit: US \$)**

	GDP	X	M
1979	2612.6	136.6	156.7
1980	3034.5	181.2	200.17
1981	2868.9	220.07	220.15
1982	2812.1	223.21	192.85
1983	3017.6	222.26	213.9
1984	3105.6	261.39	274.1
1985	3069.8	273.5	422.52
1986	2975.7	309.42	429.04
1987	3239.8	394.37	432.16
1988	4041.6	475.2	552.7
1989	4513.2	525.4	591.4
1990	3902.9	620.9	533.5
1991	4092	719.1	637.9
1992	4881	849.4	805.9
1993	6132.2	917.4	1039.6
1994	5592.1	1210.1	1156.1
1995	7279.8	1487.8	1320.8
1996	8561.1	1510.5	1388.3
1997	9525.1	1827.9	1423.7
1998	10194.7	1837.1	1402.4
1999	10833.2	1949.3	1657
2000	11983.9	2492	2250.9
2001	13248.2	2661	2435.5
2002	14538.2	3256	2951.7
2003	16409.7	4328.3	4127.6
2004	19316	5933.7	5614.2
2005	22343.5	7619.53	6599.53
2006	26801.4	9689.78	7914.61
2007	34021.5	12204.56	9559.5
2008	43025.8	14306.93	11325.67
2009	49963.8	10056	12017
2010	59266.12	15779.3	13948.3
2011	74660	18986	17435
2012	73011	17239	33831

**Fig 1 Relation analysis of trend**

### 3.2 Basic Statistical Analysis

#### 3.2.1 Trend Relationship Analysis between the Independent Variables and the Dependent Variables

As can be seen from the chart, GDP growth and growth in exports and imports show a change of trend in the same direction. Next, we will face the relationship between import and export and GDP growth which will be discussed in detail.

#### 3.2.2 Stationary Test Result Analysis

Stationary test results of LnGDP, LnM and LnX are as follows:

**Table 3. The stationary test of LnGDP**

the stationary test of LnGDP		t-Statistic	Prob.*	conclusion
Augmented Dickey-Fuller test statistic		-0.115051	0.9924	not smooth
Test critical values:	1% level	-4.262735		
	5% level	-3.552973		
	10% level	-3.209642		
the stationary test of DLnGDP		t-Statistic	Prob.*	conclusion
Augmented Dickey-Fuller test statistic		-6.617147	0.0000	smooth
Test critical values:	1% level	-4.284580		
	5% level	-3.562882		
	10% level	-3.215267		

**Table 4. The stationary test of LnM**

the stationary test of LnM			t-Statistic	Prob.*	conclusion
Augmented Dickey-Fuller test statistic			-1.403242	0.8393	not smooth
Test critical values:	1% level		-4.296729		
	5% level		-3.568379		
	10% level		-3.218382		
the stationary test of DLnM			t-Statistic	Prob.*	conclusion
Augmented Dickey-Fuller test statistic			-5.476359	0.0001	smooth
Test critical values:	1% level		-3.661661		
	5% level		-2.960411		
	10% level		-2.619160		

**Table 5. The stationary test of LnX**

the stationary test of LnX			t-Statistic	Prob.*	conclusion
Augmented Dickey-Fuller test statistic			-2.406868	0.3695	
Test critical values:	1% level		-4.262735		
	5% level		-3.552973		
	10% level		-3.209642		
the stationary test of DLnX			t-Statistic	Prob.*	conclusion
Augmented Dickey-Fuller test statistic			-6.245538	0.0001	
Test critical values:	1% level		-4.273277		
	5% level		-3.557759		
	10% level		-3.212361		

There are three tables above results can be found. Three variables are integrated of first-order single whole time series, which means DLnGDP, DLnM and DLnX variables are stationary time series.

### 3.2.3 Causality Analysis

**Table 6. Causality analysis**

Null Hypothesis:	Obs	F-Statistic	Prob.
DLNX does not Granger Cause DLNGDP	23	1.93898	0.0012
DLNGDP does not Granger Cause DLNX		0.81262	0.0453
DLNM does not Granger Cause DLNGDP	26	3.43739	0.0334
DLNGDP does not Granger Cause DLNM		1.72894	0.2002

From the test results it can be found that there shows the two-way causal relationship between exports and economic growth and a single causal relationship between imports and economic growth. In economic development, the rapid development of the export sector will promote the rapid growth of GDP, meanwhile the growth of GDP will promote export sector, which is in line with the economic development of the existing laws and phenomena. And the role of imports sector to economic development mainly in: economic growth (GDP evaluated) will facilitate imports, causing an increase in imports. However, the import sector's contribution to GDP is not obvious. Thus, it is a one-way varies between GDP and imports, while between changes in export and GDP is a two-way relationship.

#### **4. Analysis of Strengthen FTA Measures from a Trade Perspective**

The current international economic downturned and unemployment increased. Domestic economic recessed and the domestic unemployment increased. Domestic and foreign interest rates upside down. Therefore, how to use effective regulation of domestic economic policy is a major problem faced by central banks and governments. In the global economic slowdown situation, how to effectively use a variety of tools to speed up the construction of a free trade zone to promote the import and export development and steady economic growth, has become an important topic of the Third Plenary Session of the eighth. Faced with the construction of a sound road FTA, sound policy and institutional guarantee are important prerequisites for the regulation of the FTA, and only these two aspects will gradually improve, then building a free trade zone will become reasonable and compliant.

First of all, play the role of government macro. As a WTO member, China will, as always, adhere to the system and the WTO guidelines, and based on the priority development of free trade zones, the spirit of mutual benefit and win-win concept, strengthened with neighboring countries and regional trade development to enhance bilateral and multilateral dialogue, promoting trade activities in the region to drive around economic development and achieve prosperity in the region.

Second, improve the system and build free trade zone. Strengthen the system of political, economic, legal and other baking, and provide protection financial, legal and other aspects of building a free trade zone, and achieve a smooth cooperation between China and their trade partners, promoting the legalization of duty-free goods and auditing full use preferential policies for the development of intra-regional trade, the promotion of sustained and stable growth of regional trade provide a new engine for the steady and rapid growth of China's economy.

Finally, expand trade and optimize the trade structure. China's industrial structure and trade structure has been facing a situation of uneven development. Exports contain low technology, and most of all are raw materials processing industry and export-oriented. Import goods are mainly high-tech products and the trade structure is unbalanced, seriously restricting the healthy development of China's economy. Therefore, we must adjust our business structure and promote industrial upgrading. A reasonable guide the flow of capital flows and technology and personnel and financial resources promote the use of free trade zone member states. To achieve the goal of rapid economic development, we should explore and maximize the use of regional resources.

#### **References:**

1. Jun Zhao. the form of dispute settlement mechanism of China Free Trade Zone[J]. *China circulation economy*. 2013 (8).
2. Xuefeng Luo Hong. Bo Free Trade Zone[J]. *China foreign trade*. 2006 (3).
3. Chengsi Zhang. Globalization and dynamic mechanism model of Chinese inflation[J]. *Economic Research*. 2012(6).
4. Main indicators of national economy statistics [J]. *China economic report*. 2012.7.
5. Jiyong Chen. The correlation between the structure of foreign trade and economic growth of our country [J]. *International trade issues*. 2008.03.
6. Sai Tang, Changsheng Li. 2015. China Rural Credit Market. *World Rural Observation*, 7(1):65-70.