

or public institutions of the exporting country (region) that benefits the recipient. Subsidies are divided into prohibited subsidies and actionable subsidies. Prohibited subsidies are divided into export subsidies and import substitution subsidies. Actionable subsidies refer to those other than prohibited subsidies. If a member's subsidy adversely affects other members, the latter can take countermeasures or resort to dispute settlement mechanisms.

Trade policy review. It refers to the mechanism by which WTO members are regularly reviewed by other members. Before 2018, the top four WTO members in terms of trade volume should be reviewed every two years, and other members can be reviewed every 4-6 years or longer. Starting from 2018, the review duration has been extended, with the top four members being reviewed every three years, and other members every 5-7 years or longer. It is carried out through written answers to the question list and on-site communication at the review meeting, and finally the chairman of the review meeting will present a written summary.

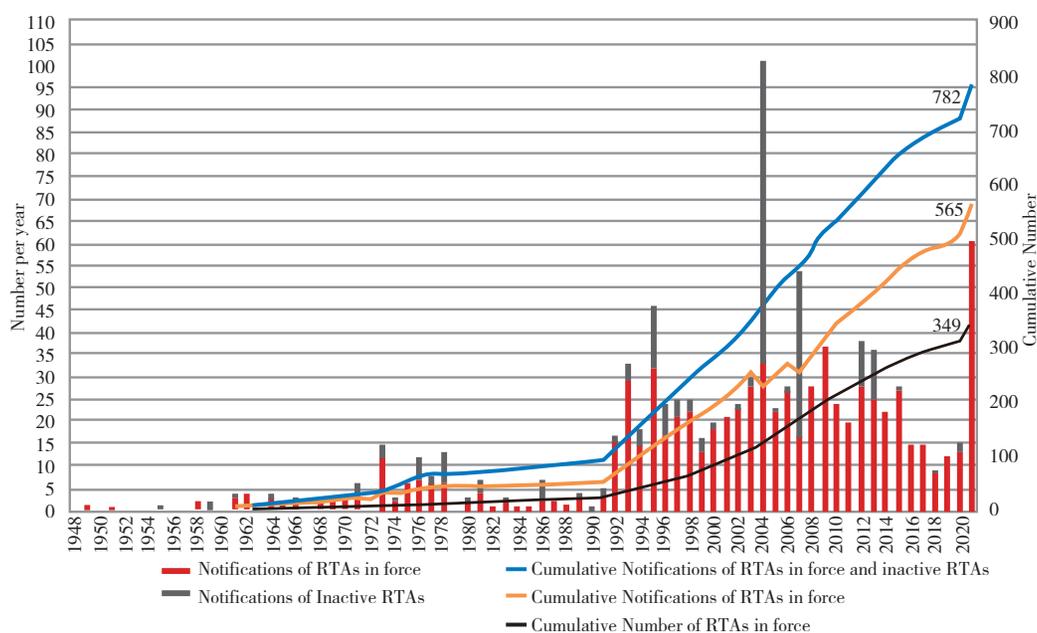
## II. Regional Economic and Trade Arrangements Represented by Free Trade Areas on the Rise

For a long time, **the two wheels of multilateralism and regionalism have accompanied and reinforced each other. When the multilateralism wheel moves fast, the regionalism wheel would be slower. When the multilateralism wheel moves slowly, the regionalism wheel would be faster.** In recent years, protectionism has been on the rise, and the multilateral trading system has fallen into a deadlock. The negotiation over, and development of, free trade area has significantly accelerated. As an exception to the most-favored-nation treatment of the WTO, the FTA has become an important way for countries to promote trade and investment liberalization, and participate in the formulation of international economic and trade rules.

### 1. Number of agreement increasing rapidly

Free trade agreements emerged in large numbers after 2000. Before 2000, there were only 29 free trade agreements notified to the WTO and still in force. After the global financial crisis broke out in 2008, the number of free trade agreements rose sharply. By the end of 2020, the number of regional trade agreements that have been

signed or under negotiation and reported to the WTO had reached 501, most of which have emerged in the past 10 years. Of the 342 regional trade agreements currently in force, more than 85% are signed in the form of free trade agreements.



**Figure 5-1** Number of Free Trade Agreements Effective after Being Notified to the WTO

Source: WTO website.

## 2. Scale and size expanding significantly

Major economies have generally accelerated the construction of free trade areas, which has led to the continuous emergence of super-large FTAs represented by the *Regional Comprehensive Economic Partnership Agreement* (RCEP). After the *Comprehensive and Progressive Trans-Pacific Partnership Agreement* (CPTPP) came into effect, its influence has gradually increased. The *Japan-Europe Economic Partnership Agreement* entered into force. The United States and Japan signed the trade in goods agreement and the *High Standard Digital Trade Agreement*. And the *North American Free Trade Agreement* was revised and re-signed. The developing countries have caught up in building of free trade areas. Vietnam has achieved high-standard opening-up through joining CPTPP. Mexico has entered the “circle” of high standard agreements through joining CPTPP and the *North American Free Trade Agreement*. The South American Common Market, which is a customs union organization in Latin America, signed a free trade agreement with the EU. And in Africa, the *African*

*Continental Free Trade Agreement* has also officially come into force.

### **Box 5-2 Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)**

In October 2015, 12 countries, including the United States, agreed to pass *the Trans-Pacific Partnership Agreement* (TPP). In January 2017, the United States announced its withdrawal. After that, the remaining 11 countries declared that they would sign a new free trade agreement (CPTPP). The CPTPP was negotiated in January 2018, signed on March 8, and formally entered into force on December 30 of that year. CPTPP covers a population of over 500 million, and the total GDP accounts for 13% of the global economy.

The CPTPP covers a wide range of rules, which require that the signatories should revoke or reduce tariffs on industrial and agricultural products, provide facilitation measures in the field of trade and investment, and their bound tariffs should be higher than the level stipulated by existing trade rules, such as those of the WTO. In addition, the agreement is called “comprehensive and progressive” because, in addition to efforts to reduce trade costs, it also stipulates higher requirements on environmental standards, intellectual property rights, and state-owned enterprises.

### **Box 5-3 RCEP: the Largest FTA in the World**

RCEP is currently the largest free trade zone in the world. In 2019, the 15 member countries of RCEP have a total population of 2.27 billion, a total GDP of 26.2 trillion US dollars and a total export of 5.2 trillion US dollars, accounting for about 30% of the global total. RCEP free trade zone means that about one third of the global economy will form an integrated market. RCEP includes major countries in East Asia and will give strong impetus into regional and global economic growth.

### **3. Continuous improvement in level of openness**

The scope and depth of economic cooperation between free trade agreement partners have continued to expand, showing a trend of ever-increasing openness. **In terms of trade in goods**, in international high-standard free trade agreements, usually tariffs on most products have been canceled, which is close to complete liberalization. For example, in most free trade agreements signed by the United States,

the European Union, and Australia, the number of tax items and imports of zero-tariff products account for more than 99% of the total, and tariffs on most products will be immediately cancel when the agreement takes effect. **In terms of service trade and investment**, the developed countries usually make service and investment market opening-up commitments in the form of a negative list in their free trade agreements. That is, they only specify limited restrictive measures and no restrictions are imposed on market entry or national treatment in other sectors that have promised to open up. At the same time, in recent years, **the “three zeros” concept, that is, zero tariffs, zero barriers, and zero subsidies**, has also received much attention.

#### 4. More in-depth negotiation topics

As the global economic and trade situation changes, free trade agreements have covered a wider range of topics to include more “21<sup>st</sup>-century topics”. The rules have had stronger binding force, and stricter enforcement has been required. **In terms of scope of issues**, most of the free trade agreements the developed countries have signed include high-standard “behind the border” issues, such as intellectual property right protection, environment, labor, state-owned enterprises, e-commerce, and competition policy. The behind-the-border measures are diverse, concealed, and difficult to predict. Although they are related to trade, they are traditionally a matter within the scope of a country’s economic sovereignty. **In terms of requirements of the rules**, through the establishment of the dispute settlement mechanism, the implementation of these rules has been linked to tariff reductions, making them “rules with teeth”.

#### 5. More prominent guiding role of rules

Free trade areas are characterized by higher level of openness, greater flexibility, and faster progress. The level of openness is often “a head higher” than that of multilateralist arrangements. It has become an important carrier across the world for promoting regional economic cooperation through an institutional framework. Now free trade areas account for more than half of global trade. As a “test field” for experimenting with new international economic and trade rules and initiatives, free trade areas have catered to the new trend of economic globalization and played an increasingly prominent role in guiding and pushing forward setting and implementation of rules.

### Box 5-4 Regional Trade Arrangements and Multilateral Trading System

Despite the current slowdown in the progress of the multilateral trading system, the conclusion that “the multilateral trading system represented by the World Trade Organization is the main channel of global trade rules, and regional trade liberalization is a useful supplement” remains unchanged. The multilateral trading system and regional trade arrangements have always been two paths and two wheels for promoting trade liberalization. The multilateral trading system provides disciplinary constraints and a rule basis for regional trade arrangements to prevent regional fragmentation and the “spaghetti bowl” effect. Regional arrangements are more flexible than multilateral arrangements, relatively easier to accomplish, and easy to implement. They have enriched economic cooperation, and are also an important way to promote the development of the multilateral trading system.

## III. New Trends Evolving from Global Economic Governance

**With the evolution of the multilateral trading system and regional economic and trade arrangements, the global economic governance structure and rule system are also gradually evolving.** With the changes in the international balance of power and the unsmooth development of economic globalization, especially the adjustment of the international trade and investment landscape since the outbreak of the global financial crisis in 2008, the global economic governance system has undergone accelerating changes, and the current pandemic has intensified this process.

### 1. More multilateral governance platforms

Traditionally, WTO, IMF and World Bank have been the three pillars of the global economic governance mechanism. In the post-global financial crisis era, the role of the three pillars has declined. Meanwhile, governance mechanisms at different levels have gradually played an important role. The importance of the G20 has increased significantly and gradually become one of the main platforms for global economic governance; the importance of such cooperation mechanisms as APEC, BRICS, and Shanghai Cooperation Organization is also rising. Forum mechanisms such as the World Economic Forum, the Boao Forum for Asia, and the Hongqiao International