

RESEARCHERS AT SINGAPORE'S *INSTITUTE OF SOUTHEAST ASIAN STUDIES* SHARE THEIR UNDERSTANDING OF CURRENT EVENTS

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**The Trans-Pacific Partnership as a tool to contain China:
Myth or reality?**

By Sanchita Basu Das

EXECUTIVE SUMMARY

- The Trans-Pacific Partnership (TPP) is an FTA initiative to liberalise trade in goods and services, encourage investments, promote innovation, economic growth and development and support job creation and retention. The 17th round of negotiations is ongoing in Peru from 15-24 May 2013.
 - The absence of China in the TPP negotiations has led to speculation that the TPP is an economic tool for the U.S. to contain China's rise in East Asia. However, the evolution of TPP does not indicate any such intention. Moreover, China and the current TPP members have strong trade linkages.
 - TPP can be seen as a regional initiative where member countries have to follow certain guidelines and standards for conducting economic activities so as to ensure a level playing field for interested parties.
 - In the short-run, China is more likely to abstain from the TPP agreement as it may not be ready to uphold the types of obligations currently negotiated in the TPP. Other than that, China will continue with its efforts to deepen economic cooperation with its Asia-Pacific neighbours. These can act as 'building blocks' for deeper FTAs with TPP signatories in the future.
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INTRODUCTION

Since the framework of the Trans-Pacific Partnership (TPP) Agreement with nine Asia-Pacific economies¹ was launched in 2011, the negotiations were joined by Canada and Mexico in December 2012. Japan expressed its definitive interest to join the TPP negotiations in March 2013, which the U.S. supported in an April 2013 meeting². These twelve economies constituted 38 per cent (US\$27.6 trillion) of world GDP, 26 per cent of world trade (US\$9.6 trillion) and 11 per cent (792 million) of world population in 2012. Negotiators envision the TPP to be a 'comprehensive and high-quality' FTA that aims to liberalise trade in goods and services, encourage investments, promote innovation, economic growth and development and support job creation and retention.

The TPP has twenty-nine chapters, including topics like market access for goods and services, agriculture, financial services, telecommunication, Intellectual Property Rights (IPR), Rules of Origin (ROO), Technical Barriers to Trade (TBT), sanitary and phyto-sanitary standards (SPS), foreign investment, competition policy, trade remedies, transparency in health care technology and pharmaceutical, labour, environment, regulatory coherence, government procurement, state owned enterprises (SOEs), e-commerce, small and medium scale enterprises, secretariat, dispute settlement and few others. This way, the agreement strives to create a "21st-century agreement" that addresses new and cross-cutting issues that continues to evolve in an increasingly globalized world.

Currently, 16 rounds of negotiation have been completed, and the 17th round is currently being held in Peru from 15-24 May 2013. Leaders are expected to reach an agreement in time for the October 2013 APEC Summit in Indonesia.

But where is China in the TPP negotiations? For 2012, while the U.S. is the world's largest economy (US\$15.7 trillion) in Purchasing Power Parity (PPP) terms, China ranks number three (US\$12.4 trillion).³ China is home to around 19.2 per cent of the world's population (7.1 billion in July 2012) compared to 17.8 per cent for India, 4.5 per cent for the U.S. and 3.5 per cent for Indonesia. In 2012, China's customs administration reported that the country's total trade in goods amounted to US\$3.87 trillion, edging out the U.S. at US\$3.82 trillion.⁴ It is hard to conceive of an Asia-Pacific trade agreement without China in it.

1 Brunei, Chile, New Zealand, Singapore, Australia, Malaysia, Peru, the United States, and Vietnam

2 Japan is expected to participate in the July round of negotiations.

3 Central Intelligence Agency, The World Fact Book, Country Comparison: GDP (Purchasing Power Parity) (<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html>)

4 In World Trade, China Edges Out The U.S., Forbes, February 10, 2013 (<http://www.forbes.com/sites/kenrapoza/2013/02/10/in-world-trade-china-edges-out-the-u-s/>)

This has led many academics and policy analysts to deduce that the TPP is an economic tool for the U.S. to contain China's rise. The argument received further support from those accustomed to hearing U.S.' criticism of unfair Chinese trade practices. As Prof. Li Xiangyang⁵ of the Institute of Asia-Pacific Studies under the Chinese Academy of Social Sciences (CASS) argues, "*The TPP is an important part of the U.S.' 'Return to Asia' strategy that is based on economic and geo-political-security considerations. China 'containment' is an undeniable target of the agreement*". Li further adds,

...once TPP is instituted, APEC will be the first to be sidelined. For China, the exclusive TPP will not only bring about the 'excludability effect', but possibly reverse the course of the East Asian regional integration that China has been pushing for over a decade. It will constitute a major challenge to China's rise.

Despite these speculations of U.S.' intention to 'contain' China through TPP, this paper argues that this does not seem to be the case. By charting the evolution of the TPP and examining China's trade linkages with current TPP members, this paper argues that there is little evidence to support speculations that China's absence from TPP is a result of a containment strategy by the U.S.. The paper concludes with a section on the possibility of China joining TPP in the future.

EVOLUTION OF THE CURRENT FORM OF TPP

The TPP agreement was not originally an U.S. agenda. It grew out of an earlier preferential trade agreement from 2006, known as Trans-Pacific Strategic Economic Partnership (commonly known as the P4), between Brunei, Chile, New Zealand and Singapore. The objective was to achieve a 'high-quality' agreement to liberalise trade in the Asia-Pacific region.⁶ This was in line with earlier objectives that were drawn when Singapore and Chile launched discussions. Singapore was keen on establishing an effective free trade area in Asia either through ASEAN or through APEC (Elms and Lim, 2012).⁷ From the beginning, the P4 negotiated for an acces-

⁵ Li Xiangyang, "Transpacific Partnership Agreement: A Major Challenge to China's Rise", *International Economic Review*, 2012-02 (http://en.cnki.com.cn/Article_en/CJFDTOTAL-GJPP201202003.htm)

⁶ The P4 included chapters on liberalisation of tariff lines, services sector, ROO, customs procedures, trade remedies, SPS, TBT, competition policy, IPR, government procurement and dispute settlement. It also had some labour and environment provisions as a separate MOU.

⁷ Elms, Deborah K. and C.L. Lim, 'An overview and snapshot of the TPP negotiations' in C.L. Lim, Deborah K. Elms and Patrick Low (ed). *The Trans-Pacific Partnership: A quest for a Twenty-first-Century Trade Agreement*, Cambridge University Press, 2012

sion clause so that other states can join the grouping in the future (Article 20.6: Accession).⁸ Moreover, due to the almost stalled progress in the WTO Doha Round and difficulties in liberalising economies under the APEC process, P4 was seen as an alternative avenue of liberalisation among ‘like-minded’ partners.

In September 2008, the U.S. under President George W. Bush announced its intention to join the P4 Agreement. Australia, Peru, and Vietnam subsequently also announced their intention to join the talks. The P4 process soon metamorphosed into the Trans-Pacific Partnership (TPP) plurilateral talks. Initially, potential TPP member states were supposed to meet in 2009, but this was postponed due to a broader trade policy review within the U.S.. Finally, in November 2009, President Obama announced U.S. engagement with TPP countries “with the goal of shaping a regional agreement that will have broad-based membership and the high standards worthy of a 21st century trade agreement”.⁹ The first round of negotiations started in March 2010 in Melbourne with eight members.¹⁰

As negotiations started to gather speed, it became increasingly clear that there was a need for a mechanism to accommodate the accession of new members. It was decided that interested countries needed to hold a series of bilateral meetings with existing TPP members. And when all TPP members have approved of the new member, the potential new member has to seek official approval from the group as a whole. From the very beginning, TPP prohibited any observers (Elms and Lim, 2012). Malaysia was included as a negotiating partner in October 2010 as policymakers agreed to take drastic steps in relation to domestic economic reforms (like opening up government procurement and changes in the *bumiputra* policy). Vietnam initially joined as an associate member, but became a full member in November 2010.

In November 2011, on the sidelines of the Asia-Pacific Economic Cooperation (APEC) Ministerial meetings, the TPP negotiating partners announced a framework for the agreement. At the same time, Canada, Japan, and Mexico approached the existing TPP partners about joining the negotiations. After several months of bilateral discussions, the TPP countries agreed to the accession of Mexico and Canada in June 2012. Both countries started participating in negotiations in December last year.

⁸ Article 20.6: *This Agreement is open to accession on terms to be agreed among the Parties, by any APEC Economy or other State.* (http://www.fta.gov.sg/tpfta/c20_tpsep.pdf)

⁹ Office of the US trade Representative, *Announcement by President Barack Obama, November 14, 2009* (<http://www.ustr.gov/about-us/press-office/fact-sheets/2009/december/tpa-statements-and-actions-date>)

¹⁰ Australia, Brunei, Chile, New Zealand, Peru, Singapore and the US; Vietnam participated as an associate member.

In March 2013, Japan under the newly elected Liberal Democratic Party (LDP) announced its interest to participate in the TPP negotiations and started the bilateral consultations. In April 2013, the U.S. and the other TPP countries welcomed Japan as a new participant in the negotiations.

Therefore, these developments counterpoint concerns of U.S. intention to 'contain' China when the Bush administration decided to join P4 in 2008. This has been repeatedly mentioned by the Obama administration.¹¹ The TPP initiative is similar to the WTO, where member countries follow certain guidelines and standards for conducting economic activities and ensuring a level playing field for such activities to take place amongst the members. Viewed in this manner, countries 'constrain' each other from unfair international trade practices. This is reiterated by Mathew Goodman, former White House coordinator for APEC and the East Asia Summit and the current William E. Simon Chair in Political Economy at the Center for Strategic and International Studies (CSIS):

It is true that TPP is aimed at updating the rules of the road for the regional trading system and that some of these rules are being designed with China in mind. But the motivation for creating new disciplines on state owned enterprises (SOEs) or strengthening ones on intellectual property is to create a level playing field that enables other countries to better compete with China, not to limit the latter's growth or integration¹².

CHINA'S TRADE LINKAGES WITH TPP MEMBERS

Trade agreements like TPP are unlikely to see a 'containment' of China as other TPP members participating in Asia's production network have an intrinsic interest to maintain relations with this major player. Table 1 shows the extent of such trade linkages between China and current TPP members.

¹¹ Remarks By President Obama to the Australian Parliament The White House, Office of the Press Secretary, November 17, 2011 (<http://www.whitehouse.gov/the-press-office/2011/11/17/remarks-president-obama-australian-parliament>)

¹² Five Myths about TPP, Mathew P. Goodman, Center for Strategic and International Studies, Global Economics Monthly, Volume II, Issue 4, April 2013

Table 1: China's Bilateral Trade Linkages with current TPP Members, 2011 (US\$ billion)

	Exports	Imports	Total Trade	Trade Balance
Australia	33.9 (1.8)	82.7 (4.7)	116.6 (3.2)	-48.7
Brunei	0.7 (0.04)	0.6 (0.03)	1.3 (0.04)	0.18
Canada	25.3 (1.3)	22.2 (1.3)	47.4 (1.3)	3.1
Chile	10.8 (0.6)	20.6 (1.2)	31.4 (0.9)	-9.7
Japan	148.3 (7.8)	194.6 (11.2)	342.8 (9.4)	-46.3
Malaysia	27.9 (1.5)	62.1 (3.6)	90.0 (2.5)	-34.2
Mexico	23.9 (1.30)	9.4 (0.5)	33.3 (0.9)	14.6
New Zealand	3.7 (0.2)	4.9 (0.3)	8.7 (0.2)	-1.2
Peru	4.6 (0.2)	7.9 (0.5)	12.5 (0.3)	-3.2
Singapore	35.6 (1.9)	28.1 (1.6)	63.7 (1.7)	7.4
United States	325.0 (17.1)	123.1 (7.1)	448.1 (12.3)	201.9
Vietnam	29.1 (1.5)	11.1 (0.6)	40.2 (1.1)	17.9
World	1,898	1,743	3,642	154.9

Note: the number in the brackets gives the percentage share to the world

Source: UN Comtrade Database; Author's estimate

Even the U.S. needs China to cooperate on commercial activities. The bilateral trade between China and the U.S. has expanded over the past three decades (US\$5 billion in 1981 to US\$448 billion in 2011). China is currently the U.S.' second-largest trading partner, its third-largest export market, and its biggest source of imports¹³. Because China exports to the U.S. have risen much more rapidly than China imports from the U.S., this has led to the problem of China's growing merchandise trade surplus with the U.S.. In addition, China is the largest foreign holder of U.S. Treasury bills, bonds and notes.¹⁴ Again, due to its large population and booming middle class, China is an important market for many U.S. companies (like Walmart, Kentucky Fried

¹³ *China-US Trade Issues*, Wayne M. Morrison, Congressional Research Service (7-5700), May 21, 2012

¹⁴ As of January 2013, China owned US\$1.26 trillion of US Treasuries, which is 11 per cent of the total US\$11.6 trillion in debt held by the public.

Chicken, Nike, General Motors, Apple, Boeing, Coca Cola, Intel and Microsoft). The United Nations Population Division and Goldman Sachs predict that China will have 1.4 billion middle-class consumers by 2030, compared to a forecast of 365 million in the U.S.¹⁵

Keeping in mind the importance of trade and economic cooperation, China has either signed or is in the process of signing bilateral and multilateral FTAs with several countries. It has bilateral trade pacts with five of the twelve TPP members (Australia, New Zealand, Chile, Singapore, Peru), and is engaging with three TPP parties (Brunei, Malaysia, Vietnam) through broader trade arrangements with ASEAN. While China is currently participating in the ASEAN-led Regional Comprehensive Economic Partnership (RCEP) Agreement¹⁶, which involves 16 countries including India, it has started negotiating the China-Japan-Korea Trilateral FTA.

THE FUTURE OF CHINA AND THE TPP

In the short-run, China is more likely to abstain from the TPP agreement. It may not be ready to implement the types of obligations currently negotiated in the TPP (e.g., environment issue, labour laws, SOEs, IPR regulations, higher transparency in economic activities and others). It will wish to develop its domestic economy first before it can consider joining the U.S.-led 'comprehensive high quality' trade accord. Given the ability of China to carry out extensive reforms leading to the joining of the WTO in 2001, its membership to the TPP will just be a matter of time.

In the medium-term, China will continue with its efforts to deepen economic cooperation with its Asia-Pacific neighbours (China-Korea or CJK FTA). This can act as 'building blocks' for deeper FTAs with TPP signatories in the future. This will allow the trade and investment climate in Asia-Pacific economies to become more liberal leading to a push for domestic political and economic reform, and raise productivity not only of the Chinese firms but also of other FTA partners. This way, the firms in the region will be better placed to compete against each other at home and abroad.

However, whether China ultimately joins TPP is a choice China has to make. This decision-making becomes difficult since China is one of the leading economies of the RCEP initiative in the Asian region. For now, both TPP and RCEP are seen as parallel pathways of economic integration into APEC's Free Trade Area of the Asia Pacific (FTAAP). In the long-run, there are chances that both the U.S. and China may

¹⁵ *The Most Popular American Companies in China*, by Douglas A. McIntyre, Charles B. Stockdale, 24/7 Wall St., January 3, 2012 (<http://www.foxbusiness.com/industries/2012/01/03/most-popular-american-companies-in-china/>)

¹⁶ *RCEP: Going Beyond ASEAN+1 FTAs*, by Sanchita Basu Das, ISEAS Perspective, 17 August 2012 (http://www.iseas.edu.sg/documents/publication/ISEAS%20Perspective_4_17aug12.pdf)

come to a middle path that bridges some of the elements of the TPP and the RCEP. Such an arrangement could be embraced under the FTAAP, thus leading to a linkage of the two economic powers.

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