TPP, China and the Future of Global Trade Order

The Trans-Pacific Partnership, negotiated by 12 nations, could account for one third of all global trade. But so far, China is not included even though the country is a top trade partner for most of the participants and the world’s leading economy when accounting for purchasing power parity. TPP would eliminate tariffs and reduce non-tariff barriers. China would prefer reducing those tariffs by finalizing the Doha Round under the World Trade Organization rather than setting up a new trade group with new rules. But Doha remains an unfulfilled promise as nations cannot reach an agreement on ending subsidies for their agricultural industries. “A multilateral deal [like Doha] is the most cost-effective legal framework available to ensure non-discriminatory trading terms for all, in particular for the smallest and poorest groups,” writes Shuaihua Cheng, managing director of ICTSD China, International Centre for Trade and Sustainable Development. “It is fundamentally essential to foster inclusive globalization, without which abject poverty gives rise to terrorism and crime.” - YaleGlobal

China could ask to join TPP, but would prefer finalizing the Doha Round with the WTO

Shuaihua Cheng
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GENEVA: The fact that the US-led Trans-Pacific Partnership, or TPP, does not include China raises questions: Is the TPP meant to be an “anyone but China” club to contain the central kingdom? Will China react with competing trading blocks to escalate economic hostility against the US? What does this mean for the future of the global trade order?

While TPP could eventually help China, Beijing has deep reservations about the rules being drafted. From China’s point of view, deepening of the World Trade Organization with passage of the Doha Round is a greater priority than creating a new trade grouping.

The TPP is a mega free trade agreement, or FTA, currently under negotiation that encompasses 12 Asia Pacific countries. In 2006, Brunei, Chile, New Zealand and Singapore initiated a four-way FTA, termed Pacific-4. Later, five additional countries, namely the United States, Australia, Malaysia, Peru and Vietnam, joined the agreement and this led to the creation of TPP, which held its first round negotiations in Australia, March 2010. Since then, Mexico, Canada, Japan and South Korea have requested to join the TPP. Members approved participation of the first three candidates, but did not accept South Korea’s application.

The goal of TPP is to “craft a high-standard, 21st-century agreement,” as stated by the Office of United States Trade Representative [1], or USTR. It is reported that TPP aims to achieve duty-free access for trade in industrial products and comprehensive liberalization in services, and entails deeper regulatory convergence among members in the areas of investment, government procurement, competition policies, technical barriers to trade, intellectual property rights enforcement, state-owned enterprises, e-commerce, labor and environment.

The allegation that the United States is building an “anyone but China” club is hard to substantiate, suggested David Pilling or the Financial Times [2]. In theory, the TPP does not prevent China from membership. As the USTR [3] explained, if an economy is interested in joining TPP, it must send a formal request, and existing members then decide on admission by consensus.

China last expressed interest in TPP was May 2013. A spokesman for the Ministry of Commerce [4] said that China "will analyze the pros and cons as well as the possibility of joining the TPP, based on careful research and according to principles of equality and mutual benefit."

It makes economic sense for China to participate. Excluded from the TPP, Chinese firms would face discriminatory treatment in TPP markets. For example, TPP uses cumulation of origin to encourage member countries’ firms to source from within the TPP, instead of from non-members such as China, the world's biggest producer of components.

From a systemic perspective, China would be better off taking part in setting the rules now than to accepting rules passively in the future. Some of the new trade and trade-related norms stemming from TPP will likely supersede those already existing in WTO rules stamped in 1995.

Nevertheless, China has not applied to participate yet and has two kinds of concerns:

First is its domestic stability concern. China could benefit from further liberalization in manufacturing and services, a high-standard
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Protection and promotion of investment, even from tougher anti-corruption rules, as these issues are in line with the reform agenda of Chinese leaders. China, though, worries about the possible economic hardship resulting from quick, nationwide application of new TPP rules, which may trigger social or even political turmoil.

The second concern is that some high standards of TPP may not be necessarily good standards for China. TPP chapter on intellectual property rights is such an example. As certain public interest groups pointed out, the IP chapter is “heavily weighted toward big industry interests” of developed countries and has “negative impact on development.”

Many commentators argue that, in responding to TPP, China has proactively built its own rival trading blocs such as the Regional Comprehensive Economic Partnership, RCEP, and the Free Trade Area of the Asia Pacific, FTAAP.

Countries have a right to negotiate mega FTAs, driven by various geopolitical, economic or commercial considerations.

But these mega FTA negotiations have two serious problems. Firstly, they take up political and financial resources could otherwise be used in concluding the Doha Round. Secondly, they do not address sensitive but critical issues for the sustainability of the global economy, such as agricultural domestic support and export subsidies, fisheries subsidies, and anti-dumping rules.

Therefore, China, the United States and other major economies can and should do more to reengage in the WTO. A multilateral...
deal is the most cost-effective legal framework available to ensure non-discriminatory trading terms for all, in particular for the
smallest and poorest groups. It is fundamentally essential to foster inclusive globalization, without which abject poverty gives rise to
terrorism and crime.

The Bali Package that all WTO members agreed on in December 2013 offers a silver lining for the multilateral negotiations. At Bali,
members also promised to make a post-Bali work program by the end of 2014 with a view to concluding the Doha Round.

The clock is ticking. When Chinese President Xi and US President Obama meet at the APEC Summit in Beijing this November, or
even before, they should focus on neither TPP nor FTAAP. Instead, they should manifest their joint leadership, engagement and
commitment to conclude the Doha Round, which the Asia Pacific and the rest of the world badly need.

Shuahhua Cheng is managing director of ICTSD China, International Centre for Trade and Sustainable Development. The views
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