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## What If China Joined the Trans-Pacific Partnership Talks?

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**In Beijing, many observers regard the TPP as the economic counterpart of U.S. rebalancing in Asia to contain China's rise. On the other hand, if Beijing would participate in the talks, it could conceivably influence both the process and the future shape of the proposed trade pact.**

"We intend to complete negotiations on a Trans-Pacific Partnership," President Obama pledged in his 2013 State of the Union address.

In his 2014 State of the Union speech, he made no explicit reference to the TPP, which unleashed speculation about whether Washington's trade consensus is crumbling.

What is dividing Washington is the recognition that the TPP is not a transparent process to achieve free trade in Asia Pacific, but an opaque mechanism to extend preferential trade across the region.

By the same token, the TPP has left Beijing apprehensive.

#### The cumbersome TPP process

Historically, the Trans-Pacific Partnership (TPP) is about a decade old. It originates from a 2005 free trade agreement (FTA) among Brunei, Chile, New Zealand and Singapore.

The founding partners saw TPP as a way to expand their narrow pact into a broad trade agreement, which would cover all goods and services, and inclusive initiative, which would be open to new members and well aligned with other regional initiatives.

After the global crisis in 2008-9, Washington began to lead talks for a vastly expanded, but different FTA, which includes all three NAFTA nations (US, Canada, Mexico), ASEAN tigers (Singapore, Malaysia, even Vietnam), small Latin American countries (Chile, Peru), Oceania (Australia, New Zealand) and East Asia (Japan, South Korea) – minus China.

Ever since Japan joined the talks last year, the TPP has attracted increasing interest in the rest of East and Southeast Asia (South Korea, Taiwan, Thailand, Philippines), and South Asia (India), and to a degree even in China.

In the Obama White House, the TPP has been driven by the sense that, for two long decades, the U.S. has failed to participate in Asia's rapid growth. It is also supported by a strategic quest to move US military presence from the transatlantic axis to the trans-Pacific. Finally, the talks have been pushed by President Obama's pledge to double U.S. exports to rejuvenate American economy.

In turn, potential non-U.S. TPP members see TPP as a way to open access, as Vietnam, or to widen access to attractive markets, as Mexico. Other countries, especially Southeast nations that feel sandwiched between the U.S. and China, regard the TPP as a hedging device to ensure the U.S. presence in the region amidst China's rise. Still others consider the TPP a political instrument to seize external trade to execute structural reforms in domestic markets. In Japan, for instance, the TPP has a central role in Shinzo Abe's structural reform agenda.

#### Multipolar world, unipolar initiative

According to the US Trade Representative (USTR) Ron Kirk, the TPP will be a "high-standard, broad-based regional pact." In practice, U.S. negotiators have included in the TPP non-trade-related issues, including labor matters, environmental laws and intellectual property rights.

While the imposition of non-trade-related issues would be extremely challenging in the multilateral Doha Round, it is easier in bilateral regional talks. That is why Jagdish Bhagwati, a leading free-trade economist, sees America as a threat to Trans-Pacific Trade. "If I want to join a golf club, I need to play golf," he says. "But I should not have to go to church and sing hymns with the other club members."

Acceptance of non-trade-related demands has little to do with true free trade and such requirements certainly should not be a precondition for joining the TPP. However, historically, it is déjà vu all over again.

In the aftermath of the NAFTA in the early 1990s, Washington sought to extend that agreement with non-trade-related concessions via the Free Trade Agreement of the Americas (FTAA). Regionally, the effort crumbled against Brazil's opposition. The then-President Lula, a popular union leader, rejected the inclusion of labor standards in trade treaties and institutions. As he saw it, the FTAA sought to extend U.S. rules and regimes across the Americas.

Instead of opening South America to free trade, the FTAA split South America into two blocs. Now, a similar drama is evolving in Asia Pacific. As a result, the negotiations have been clouded by secrecy, which has resulted in protests and calls for transparency internationally and in Washington. As US Senator Ron Wyden (D-Oregon) has put it, “the majority of Congress is being kept in the dark as to the substance of the TPP negotiations.” According to the WikiLeaks releases of the TPP drafts, secrecy serves to cover the deepening divisions between Washington and other nations, particularly the “great pressure” being exerted by the U.S. negotiators to move other nations to their negotiating position.

Instead of a de jure multilateral agreement, the TTP focus is likely to be on a de facto set of bilateral agreements to accommodate the great diversity of the putative members and to resort to exemptions and protection of sensitive sectors – including sheltered US agricultural sectors.

Unsurprisingly, the TPP has unleashed growing opposition worldwide, most critically in the U.S. Congress. Critics oppose Trade Promotion Authority, which would allow the White House to “fast-track” congressional approval of the TPP. Politically, a failing TPP in the US would further erode US credibility in the region.

#### **Toward a real regional FTA**

In March 2013, the US Trade Representative suggested that the door to TPP is open for China, as long as Beijing “is capable of meeting the high standards that we’re negotiating.” While the effort to impose U.S. standards in the region does not serve Chinese interests, the real question is not whether China should join the current TPP, but whether it should participate in the process to shape the future TPP.

Beijing’s official position is to be open to all efforts to promote regional economic integration while promoting its own free trade negotiations. China has FTA pacts with several ASEAN nations, as well as Hong Kong, Taiwan and New Zealand. It is in talks with half a dozen others, including Australia. It also hopes to achieve an FTA in East Asia with Japan and South Korea.

Negotiating Chinese entry into the TPP would be challenging, due to the high threshold. The TPP would impose advanced-country rules in intellectual property, generic pharmaceuticals, local content requirements and liberalization of services, which would not serve current Chinese interests. As a result, China has played more active role in the Regional Comprehensive Economic Partnership (RCEP), the FTA between the ASEAN members and their FTA partners, which offers a more flexible path to regional cooperation.

If, however, Beijing would seek TPP membership, it could participate in the TPP incrementally and monitor the final template. In this scenario, membership would only follow “eventually” when the Chinese economy stands to gain greater benefits from the TPP. Such an approach could serve the mainland’s longer-term interests because it would allow Beijing to accelerate structural reforms domestically, while facilitating the shift from cost-efficiencies to innovation-driven competitiveness.

Geopolitically, China’s participation in the process would weaken containment policies strategically and U.S. bargaining position economically. In the long-term, however, it would serve U.S. interests by leading to a more cohesive final pact.

The current TPP vision is based on exemptions and exclusive bilateralism, which risks splitting the region into exclusive rival blocs. In the incremental scenario, however, China could achieve greater transparency in the process and greater multilateralism in the outcome.

After all, the original TPP concept rested on inclusive, rule-based multilateralism to align the Asia Pacific together – not apart.

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