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**TPP's Impacts and China Strategies in Response**

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# TPP's impacts and China's Strategies in Response

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## Abstract

In 2009, during the very difficult period of WTO Doha Round negotiations, the Obama Administration announced its intention to join the Trans-Pacific Partnership agreement (TPP).<sup>†</sup> Relying on its advantageous status in economy, the U.S is making every effort to realize high standards in TPP deal. Obviously, the American TPP strategy has significant impacts not only on the U.S. itself but also on APEC, the WTO Doha Round negotiations and of course on China. Confronting this new situation, China needs to formulate its own strategies in response, with the purpose of pursuing competitiveness both regionally and globally. Based on analyzing the history of the TPP and its impacts, this article puts forth some suggestions on China's strategies in response. The author argues that the Chinese government should respond positively to the TPP and choose an appropriate time to initiate accession negotiations. Considering its relatively low stage of development, China may try to negotiate a reasonable transitional period to implement the rules and commitments under the TPP. At the same time, China should be more active in both pursuing a successful conclusion of the Doha Round negotiations and accelerating the processes of regional economic integration such as "China, Japan, Korea," "10 + 3" and RCEP so as to counterbalance the negative effects imposed by the TPP.

**Keywords:** Trans-Pacific Partnership agreement, Doha Round, China, Regional economic integration.

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<sup>†</sup> See <http://www.ustr.gov/about-us/press-office/press-releases/2009/november/ustr-news-kirk-comments-trans-pacific-partnership>

## **1. The basic facts of the TPP**

### **A. A brief introduction to the TPP's history**

The TPP's predecessor is the Trans-Pacific Strategic Economic Partnership Agreement, which is a multilateral free trade agreement between Brunei, Chile, New Zealand and Singapore that aimed to further liberalize the economy of the Asia-Pacific region. (To avoid confusion, hereafter this article will use "P4" to indicate it). In terms of content, the P4 agreement does not include certain articles concerning regulations on state-owned enterprise and protections for IPR, although it had set up the target of eliminating tariffs for all goods. In the first several years after this agreement was signed, there were few APEC members showing interests of accession, so at the beginning, it drew few attention from the APEC region where numerous FTA negotiations were ongoing.

In November 2009, president Obama formally announced the United States' intention to participate in the Trans-Pacific Partnership (TPP) negotiations.<sup>2</sup> Influenced by America's action, Australia, Peru, Vietnam and Malaysia took part in the TPP negotiations in succession. Discussion at this stage consisted of accession negotiations between the applicants and the original members. Theoretically, it was not necessary for other APEC members to respect the standards required by the U.S. if they had joined the negotiation at this stage.

However, the situation changed during the Hawaii Summit of APEC where President Obama actively pushed forward the TPP negotiations and successfully reached a new overall outlines for the agreement by the four original members and the five acceding members. From the perspective of international law, the TPP outline mentioned above is not a real international agreement. It is just an interim result of the TPP negotiations between the acceding members and the P4 members regarding the accession of new members and the expansion of the TPP's content. According to the strict rules of international treaty law, the TPP outlines lack enough components of an international agreement. Therefore, those participants of the TPP outlines do not have legal basis to ask other APEC members to accede to the TPP in the same way as acceding to an actual international agreement. Unfortunately

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<sup>2</sup> <http://www.ustr.gov/about-us/press-office/fact-sheets/2011/november/united-states-trans-pacific-partnership>

however, due to the reality of power politics of international community, other APEC members have no choices but to follow the way required by the U.S.

In November 2011, Japan, Canada and Mexico announced their intention of accession to the TPP. To date, these three countries have been accepted as formal participating party. However, due to the numerous conflicts between these three countries and the 9 parties before them, it seems that there will be a long way to go before they can reach the final TPP deal successfully, unless they cut down the ambitions set up so far.

### **B. The main features and contents of the TPP**

According to the report on the achievement of the broad outlines of TPP, the trade ministers involved have identified five defining features of the agreement:

1) Comprehensive market access: to eliminate tariffs and other barriers to goods and services trade and investment, so as to create new opportunities for workers and businesses and immediate benefits for consumers.

2) Fully regional agreement: to facilitate the development of production and supply chains among TPP members, supporting the goal of creating jobs, raising living standards, improving welfare and promoting sustainable growth in TPP countries.

3) Cross-cutting trade issues: to build on work being done in APEC and other fora by incorporating four new, cross-cutting issues in the TPP. These are: a) Regulatory Coherence. This commitment will promote trade between the countries by making it more seamless and efficient. b) Competitiveness and Business Facilitation. Commitments will enhance the domestic and regional competitiveness of each TPP country's economy and will promote economic integration and job growth in the region. This will occur primarily through the development of regional production and supply chains. c) Small- and Medium-Sized Enterprises. Commitments will address concerns that small- and medium-sized enterprises have raised about the difficulty of understanding and using trade agreements, thus encouraging small- and medium-sized enterprises to trade internationally. d) Development. Comprehensive and robust market liberalization, improvements in trade and investment enhancing disciplines, and other commitments, including a mechanism to help all TPP

countries effectively implement the agreement and fully realize its benefits, will serve to strengthen institutions important to economic development and governance and will thereby contribute significantly to advancing TPP countries' respective economic development priorities.

4) New trade challenges: to promote trade and investment in innovative products and services, including those related to the digital economy and green technology, ensuring a competitive business environment across the TPP region.

5) Living agreement: to enable the updating of the agreement as appropriate to address trade issues that emerge in the future as well as new issues that arise with the expansion of the agreement to include new countries.

According to the content of the TPP outlines and the other results of numerous rounds of negotiations, the 12 current members of the TPP have reached legal agreements on the following issues:

----Competition. The competition text will promote a competitive business environment, protect consumers, and ensure a level playing field for TPP companies.

----Cooperation and Capacity Building. The TPP countries agree that capacity building and other forms of cooperation are critical both during the negotiations and post-conclusion to support the TPP countries' ability to implement and take advantage of the agreement.

----Customs. TPP negotiators have reached an agreement on key elements of the customs text as well as on the fundamental importance of establishing customs procedures that are predictable, transparent and that expedite and facilitate trade.

----E-Commerce. The negotiators agreed to enhance the viability of the digital economy by ensuring that impediments to both consumers and businesses embracing this medium of trade are addressed.

----Environment. The TPP countries share the view that the environment text should include effective provisions on trade-related issues that would help to reinforce environmental protections. They are also discussing an effective institutional arrangement to oversee implementation and a specific cooperation framework for addressing capacity

building needs.

----Financial Services. The text will improve transparency, non-discrimination, fair treatment of new financial services, and investment protections, and will create an effective dispute settlement remedy for those protections.

----Government Procurement. The text of the Government Procurement Chapter will ensure that the procurement covered under the chapter is conducted in a fair, transparent, and non-discriminatory manner.

----Intellectual Property. TPP countries have agreed to reinforce and develop existing World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) rights and obligations to ensure an effective and balanced approach to intellectual property rights among the TPP countries.

----Investment. The investment text will provide substantive legal protections for investors and investments of each TPP country in the other TPP countries, including ongoing negotiations on provisions to ensure non-discrimination, a minimum standard of treatment, rules on expropriation, and prohibitions on specified performance requirements that distort trade and investment.

----Labor. TPP countries are discussing elements for a labor chapter that include commitments on labor rights protection and mechanisms to ensure cooperation, coordination, and dialogue on labor issues of mutual concern.

----Legal Issues. TPP countries have made substantial progress on provisions concerning the administration of the agreement, including clear and effective rules for resolving disputes and are continuing to discuss some of the specific issues related to the process.

----Market Access for Goods. The TPP countries have agreed to establish principles and obligations related to trade in goods for all TPP countries that ensure that the market access that they provide to each other is ambitious, balanced, and transparent.

----Rules of Origin. TPP countries have agreed to seek a common set of rules of origin to determine whether a product originates in the TPP region. They also have agreed that TPP rules of origin will be objective, transparent and predictable.

----Sanitary and Phytosanitary Standards (SPS). The SPS text will contain a series of

new commitments on science, transparency, regionalization, cooperation, and equivalence. In addition, negotiators have agreed to consider a series of new bilateral and multilateral cooperative proposals, including import checks and verification.

----Technical Barriers to Trade (TBT). The TBT text will reinforce and build upon existing rights and obligations under the World Trade Organization Agreement on Technical Barriers, which will facilitate trade among the TPP countries and help the regulators in protecting health, safety, and the environment as well as in achieving other legitimate policy objectives.

---- Telecommunications. The telecommunications text will promote competitive access for telecommunications providers in TPP markets, which will benefit consumers and help businesses in TPP markets become more competitive.

----Temporary Entry. TPP countries have concluded the general provisions of the chapter, which are designed to promote transparency and efficiency in the processing of applications for temporary entry, and to encourage the continuation of ongoing technical cooperation between TPP authorities.

----Textiles and Apparel. In addition to market access on textiles and apparel, the TPP countries are also discussing a series of related disciplines, such as customs cooperation and enforcement procedures, rules of origin, and special safeguards.

----Trade Remedies. TPP countries have agreed to affirm their WTO rights and obligations and are considering proposals, including new obligations that would build upon existing ones in the areas of transparency and procedural due process.

The contents mentioned above are all the results reached by the current TPP participating countries through many rounds of negotiations. Due to the secret nature of the TPP negotiations, only limited information can be obtained from the government websites of those TPP participating countries, therefore the integrity of this information cannot be assured.

## **2. The main impacts of the TPP**

With the inclusion of the U.S. as well as other APEC countries, the TPP deal will have significant impacts on the WTO Doha round negotiations, the APEC regional economic integration and the trading benefits of the main economies in the Asia-Pacific region especially those big ones such as China.

### **A. The impacts of the TPP on the WTO Doha Round negotiations.**

There are both positive and negative impacts of the TPP on the WTO Doha Round negotiations. The positive ones are as follows: first, the TPP will probably have similar impacts on the Doha Round negotiations as the NAFTA's impacts on the Uruguay Round negotiations, which was regarded as a kind of positive pressure helping conclude the final negotiations of that round. During the very tough Uruguay Round, the U.S signed NAFTA with Canada and Mexico to impose more pressure on European countries and other GATT contracting parties. This turned out to be one of the motives for other countries to agree on the final "single undertaking." Even though the current situation of the TPP negotiations is not the same as that of the Uruguay Round negotiations, the American TPP strategy will surely impose pressure on those non-TPP countries and force them to become more active in supporting the successful conclusion of the Doha Round negotiations. After all, it better to have the U.S. stay in Doha, rather than to have it turn closer to FTAs and move further away from the multilateralism.

Secondly, it will be much easier for those TPP members to accept the final results of the Doha Round negotiations, due to the extensive and deep market access commitments as well as the substantive domestic reform that will have already taken place under the American pressure. For instance, if Japan hope to accede to the TPP successfully, protection measures on agricultural products and industry will inevitably be cut off or just remain very few, meanwhile domestic reform of its agricultural system shall be carried out. As a consequence, pressure from the domestic agriculture protection group on Japan's government in the Doha Round negotiations will be mostly relieved, so that Japan is capable to take a



more positive posture in the final period of the Doha Round.

At the same time, the negative impacts of the current TPP negotiations on the Doha Round negotiations are also obvious. First, it shakes the confidence of WTO members in the multilateral trading system. Since the global financial crisis of 2008, trade protectionism has been growing. Under this background, the stagnant Doha Round negotiations have forced more members to turn to bilateral or regional FTAs, which have become a serious challenge to the multilateral trading system. Under these conditions, the U.S chose to transfer its negotiating resources from the Doha Round negotiations to the TPP. As a result, it will probably further damage the credibility of the multilateralism and make the vulnerable Doha Round even more difficult.

Secondly, it will lead to a diversion of negotiation resources. The success of trade negotiation relies not only on the determination of politicians but also on the huge inputs of negotiation resources such as the negotiators' labor and financial support. There is no doubt that the Doha Round negotiations will not be concluded successfully unless tremendous negotiation resources are invested into it. During the current critical period, however, the U.S has transferred its negotiation resources to the TPP and impelled many APEC countries to conduct a similar shift. Consequently, the Doha Round will very likely become more difficult and the time required for its conclusion will be prolonged.

Thirdly, closely related to resource diversion, it will also divert attention from successfully concluding the Doha round. Taking advantage of the opportunity to host the APEC summit in 2011, President Obama announced the conclusion of the TPP broad outlines, attracting attention from all over the world and diverting people's minds from the Doha Round negotiations. Imaginably, the doha round's successful conclusion will be more uncertain as the attention of those WTO members is deconcentrated by the TPP.

Now that the positive impacts and the negative influences are coexisting, the question is how to make the former outweigh the latter. To fulfill this target, the most important thing for those TPP participating countries especially the U.S. is to remain enough emphases and efforts on the WTO DDA, rather than drawing too much attention from it to the TPP. In

addition, the U.S. should, during its pushing on the TPP, clearly show to the international community its persistence in multilateralism, so as to help build the confidence of WTO members on the WTO system.

### **B. The TPP's impacts on APEC**

The American strategy of propelling the TPP negotiations not only distracted the focuses of WTO members from the Doha Round negotiations, but also diverted some attention from the APEC system. In terms of impact, there are both pros and cons. The positive impacts are as follows: first, the TPP will probably become one of those pathways leading to the FTAAP and the comprehensive economic integration of the Asia-Pacific region. Secondly, it will force its members to solve specific institutional and historical problems in the field of market access and domestic reform, which will make them feel much easier to engage in the APEC economic integration. Taking Japan as an example, although the U.S. welcome Japan's accession to TPP, it is unlikely to lower the requirements on agricultural market access for Japan, which requires substantive reform of Japan's highly protected agricultural market if Japan really hope to successfully join the TPP. If so, the key obstacle of Japan towards participating the deep economic integration of APEC will be removed.

The negative impacts include: 1) Intensifying the "Spaghetti bowl phenomenon." With the expansion of TPP membership, the overlapping trade relations among APEC members will become more complicated if the rules of origin cannot be harmonized, and as a result, trade costs will increase and those enterprises lacking sufficient human resources and experience will face a more confused economic environment. 2) Damaging the balance of development among the APEC countries. Some countries will pay huge costs due to urgent accession to TPP without careful consideration. Taking Vietnam as an example, regardless of whether it's wise for Vietnam to utilize TPP as a tool to compete with China in southeast Asia, it will have to undertake many painful difficulties due to the high standards requested by the TPP, which will probably damage its economic development eventually.

Moreover, there is an extreme viewpoint that the TPP will replace APEC. The main argument is that the APEC system is too weak to produce binding agreements to meet the

needs of trade and investment integration by APEC members, while the TPP overcomes those shortcomings and its members tend to expand continuously. In my opinion, however, this argument does not hold water. First, the current institutional arrangement of APEC is reasonable and effective in that it can facilitate all of its members' efforts to pursue a common target of economic integration, regardless of the huge differences in politics, economy, and culture among them. Secondly, the TPP is not capable to replace APEC. Notwithstanding the aggressive dominance of the TPP by the U.S., it is in essence only one of numerous FTAs within this region. No matter how promising the future of the TPP is, other existing FTAs will continue to survive and develop. Consequently, it is impossible for APEC to be replaced by the TPP. So far, there are only 12 countries joining the TPP negotiations and the time for the conclusion of these negotiations is still unclear because of continuing internal conflicts. Therefore, it is too early to talk about the replacement of APEC by the TPP, especially as the future of the TPP itself remains a problem.

### **C. TPP's impacts on the U.S.**

To participate and dominate the TPP negotiations is an important part of the strategy of "returning to Asia" for the Obama Administration. According to the accessible information, the U.S. hopes to realize the effect of "one stone, many birds" through its TPP strategy.

First, the U.S. wishes to take advantage of dominating the TPP, as a complementary action for its overall military and diplomatic strategy of "returning to Asia", to expand its presence and benefits in the Asia- Pacific region as well as restricting China's influence. Secondly, the Obama Administration takes this strategy as a tool to realize its ambitious goal of "doubling exports" as well as enhancing employment. Thirdly, the U.S. wants to balance China's leading role in the process of economic integration in East Asia through the TPP.

However, it will be very difficult for the TPP to help the U.S. to realize the above goals. First of all, with the comprehensive improvement of its national power, China will inevitably enhance its own influence in the East Asia region. So, even though some Asian countries will choose to join the TPP, it does not mean they will abandon China--the biggest market in this region. Actually, most Asian countries, excluding its traditional military allies, are cautious

about this intervention into Asia's affairs by the U.S.

Secondly, whether TPP will tremendously enhance American trade and employment depends on the scope of its membership as well as the degree of market openness of the final agreement. There are two major countries need to be considered. One is Japan. If Japan refuse to compromise in the fields of agriculture and auto as required by the United States, the possible economic gains for the U.S. will be reduced significantly. Another more important country is China. If China is excluded to the TPP due to the American “containing China” policy, this FTA will lose a most important participant and the U.S. will miss a historical opportunity of fully sharing the positive externalities offered by the economic development of China.

Thirdly, it will be very difficult for the U.S. to realize its target of containing China in the East Asia region through the TPP. On the one hand, besides TPP, China still has many other choices of trade liberalization which will offset the potential negative impacts brought about by the TPP; on the other hand, the TPP will likely become a booster for China's new round of reforms and opening, especially if China chooses to pursue participating in the TPP negotiations in an open and inclusive manner.

### **3. China's strategies in response to the TPP**

#### **A. the overall position**

Somebody argues that China shall not join the TPP or just take it easy towards the exclusion of TPP. The reasons supporting this viewpoint are as follows: First, the TPP's standards of market access and domestic regulations are too high to be accepted by China which is still a developing country. If China joins the TPP, they argue, the possible loss and challenges will go beyond its bearing ability. Second, the TPP will have little negative impacts on the development of China, so it doesn't deserve its risking to join this agreement. Furthermore, they insist that China already has signed a lot of bilateral FTAs and is just negotiating some new regional FTAs within Asia, such as the RCEP, which will successfully offset the potential negative effects of the TPP.

In my opinion, however, the above arguments are narrow-minded and short-sighted. Admittedly, the standards and benchmarks are really high compared with other existing FTAs, but we should acknowledge that these high requirements are in compliance with the general direction of Chinese reform and opening up. Now that China is committed to “spurring reform through opening up”, it must be brave to undertake the high level opening commitments, otherwise it will be a empty political slogan. Moreover, the direct loss of China –in terms of market access-caused by the TPP may not be very large, however in terms of rule-making, the Chinese absence to the TPP means it will loss a key platform for influencing the international standard establishment, which is of great importance for the long term development of China. Finally, the value of negotiation on the bilateral and regional FTAs dose not justify China’s choice of saying NO to The TPP , for that the two tracks of liberalization can be carried on simultaneously and the effects of them may be complementary.

If we put this question in a much bigger historical background, i.e the process of reform and opening up, an optimistic and positive attitude supporting Chinese accession to the TPP will be regarded more reasonable. The history has proved that only if China persists in its reform and opening policy can it make progress and resolve difficult problems during the process of development. 35 years ago, under the leadership of Mr. Deng Xiaoping, the Chinese government analyzed the international and domestic situation correctly, conformed to the people's desires, and made the historic decision of reform and opening up, infusing powerful vitality into China's modernization construction. China's rapid development over the past 35 years relied on this reform and opening up, so undoubtedly China's future development should also firmly rely upon continuing reforms and opening up. The strategy of reform and opening up is a critical choice which will determine the destiny of contemporary China, and is the only way to realize the goal of the great rejuvenation of China. Therefore, China should be open to all of the processes of liberalization and integration including the TPP negotiations.

Despite the rules and standards that exceed the common scope of FTAs, such as

regulations on state-owned enterprises, labor standards and environmental protection standards which were added into the TPP under pressure from the U.S, TPP is one of the potential pathways towards the FTAAP under which the economic integration of the Asia-Pacific region may be realized. If China chooses to join the TPP, there will surely be pressure in the fields of state-owned enterprise regulation and intellectual property rights protection, and at the same time some vulnerable industries will also face fierce competition. However, all of those problems cannot be regarded as an argument against China's access to TPP, because they are also what China must face and manage to resolve even if china do not join the TPP. Obviously, the difficulties facing China during the TPP accession negotiations are much less compared with what china was facing during the WTO accession negotiations.

It has been proved by the past 12 years' experience since China's accession to the WTO that, as long as China responds appropriately and takes advantage of the rules effectively, it can gain greater development momentum through turning pressure into motivational force and changing challenges into opportunities. If we attribute the success of the first 10 years' development in the 21th century to China's entry into WTO, then much of the success China hopes to realize in the next 10 years of development will rely on whether China can actively participate in the regional and global economic integration process, including TPP, with a more open and inclusive attitude.

In addition, the choice of joining TPP provides China with economic benefits. So far, there has been some simulation analysis on the economic impacts on China from TPP conducted by certain research institutions and scholars. Based on an assumption that Japan has entered into the TPP successfully and the tariffs of TPP members will be reduced to zero, the results of several different simulation analyses demonstrate that the establishment and operation of the TPP will cause economic and trade losses for China. After conducting simulation analysis with a dynamic computable general equilibrium model, the Center for China's Economic Research of Beijing University drew a conclusion as follows: the scope of influence on China's import and export by TPP is between -0.1%-0.4%; the export decline will reduce employment by 330,000 jobs each year on average. After doing simulation analysis based on the GTAP6 version database, Chinese scholar Wan Lu argues that the TPP

will reduce China's GDP by -0.31%, losing China -0.776 billion dollars and will change trade terms by -0.2%. Therefore, to avoid the losses caused by trade and investment diversion mentioned above, the best choice for China is to join the TPP.

## **B. The detailed suggestions on China's response to TPP**

### **1) To make a decision of joining the TPP negotiations as soon as possible**

First of all, China should make up its mind to participate in the TPP negotiations as early as possible, on the basis of coordinating the positions of related departments appropriately. Certainly, just like other APEC members, China will also face opposition from vulnerable industries and vested interests when it tries to join the TPP. Nonetheless, China should make its decision based on the overall national benefits rather than those limited interests. Secondly, China should begin the preparatory work for accession negotiations as quickly as possible. China should also formulate a related negotiation scheme as soon as possible, because bilateral market access negotiations are the prerequisite for joining TPP. Thirdly, China needs to identify the best opportunity for initiating the process of joining the TPP negotiations. China may conduct this task by taking into account the development of the TPP negotiations as well as the condition of the Sino-American bilateral economic and trade relationship.

### **2) To accelerate the FTA negotiations**

First of all, China should be more active in promoting FTA negotiations in the Asia-Pacific region such as "China, Japan and Korea", "ASEAN+3" and RCEP. This strategy will help improve China's trade benefits within the APEC region on the one hand, and on the other hand will enhance China's negotiation status in future TPP negotiations. Secondly, China should consider the possibility of initiating bilateral FTA negotiations with those TPP members that have not signed a FTA with China yet. This choice will alleviate the difficulties in the future bilateral market access negotiations when China seeks to join the TPP. A bilateral FTA between China and the U.S. is unrealistic in the short term because the

relationship between the two countries is currently too complicated and sensitive. However, from a long-term perspective, this choice is wise and feasible as it fits in with the fundamental interests of both countries and conforms to the broader trend of economic globalization and trade liberalization. Therefore, China and America should both be open-minded and well prepared for it in advance.

### **3) To be more active in pursuing the successful conclusion of WTO Doha Round negotiations**

Compared with regional and bilateral FTAs, the strengthening of the multilateral trading system will bring about more benefits for China. This has been proven by the 12 years of development since China's entry into the WTO. Similarly, in comparison with joining the TPP, China will gain more from the successful conclusion of WTO Doha Round negotiations. For this reason, China should be more active in pushing forward the WTO Doha Round negotiations and should endeavor to successfully conclude this round as quickly as possible. According to the current situation of Doha Round negotiations, it is unrealistic to insist on completely meeting the ambitious targets set at the beginning of this round. So both China and the U.S. should show more flexibility and embark upon less ambitious negotiations in order to secure the success of this round.

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