



## Report

### **China and the Trans-Pacific Partnership: Significant Challenges and Profound Opportunities**

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President Obama speaks to U.S. Trade Representative Ron Kirk, during a meeting with members of the Trans Pacific Partnership in 2011 [Jim Watson/AFP/Getty Images]

### **Abstract**

The creation of the TPP (Trans-Pacific Partnership) without China underlines the changing relationship between Beijing and Washington. It brings significant challenges to the Chinese economy and politics but also presents profound opportunities for China's much needed sociopolitical reforms. It is a watershed development that tests and demands wisdom and courage. What and how China reacts to the TPP will inform the world well about the nature, intent, and destiny of the rising Chinese power and determine the fate of the decades-long policy of incorporating China.

### **Introduction: the TPP is coming**

After years of hard, mostly secretive negotiations, the multilateral TPP (Trans-Pacific Partnership) was concluded on October 5, 2015 in Atlanta, USA. Assuming the approval and ratification by the governments of its member countries, the TPP represents a massive regrouping of the world economy that will reshape the landscape of international political economy and even world politics for years and decades to come.  
(1)

Based on what has been revealed, the TPP is much more than a free trade zone. Not quite like the European Union yet, the TPP promises extensive and profound rule-creation, governance improvement, economic integration, and coordination and

synchronization of sociopolitical policies among its member nations. As a major step to reform and upgrade the post-Cold War international regimes, the TPP creates and mandates many new norms and mechanisms to promote and govern transnational economic activities with significantly higher and more comprehensive standards that are also much more intolerant of noncompliance than the WTO (World Trade Organization). (2)

This ambitious and innovative rule-making and institution-building led by the United States includes 12 nations from the Pacific Rim, including some of the largest and most dynamic economies in the world: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, and Vietnam. The Partnership covers nearly 40 percent of world's GDP (gross domestic product) and 44 percent of the U.S. total goods export. (3) It is built to expand further geographically and policy-wise thus is a comprehensive platform for more global presence and impact. With the likely accompany of the similarly aspired TTIP (Transatlantic Trade and Investment Partnership) that is still being negotiated by the United States with the European Union, the TPP signals the coming of a new world economic order. The two partnerships promise freer trade and economic growth as well as promote continued integration and policy reforms among their members. The economic and financial leadership of the West headed by the U.S. is both revamped and consolidated.

### **China Is Not In**

Several countries around the Pacific like Russia and North Korea are not in the TPP. South Korea insisted that it was already in via its free trade treaty with the U.S. and later asked to join the TPP formally. (4) A few others in or near the region such as Bangladesh, Colombia, India, Laos, the Philippines, Taiwan, and Thailand have also expressed interest in joining the TPP.

Most conspicuous and intriguing, however, is that the TPP does not include China, the People's Republic of China (PRC), which is a genuine Pacific nation and also world's largest exporter. Other than some wishful murmurs, there is no sign that the PRC will be a part of the TPP anytime soon.

Under the WTO and various bilateral and multilateral trade regimes including free trade treaties, the PRC has over the past three decades risen to be a powerhouse of international trade and accumulated unprecedented and unparalleled amount of trade surplus. Indeed, profitable exports have largely financed China's impressive economic

growth to place it now as either world's second largest economy or already world's largest economy measured by PPP (purchasing power parity) method. (5)

The reasons why China is not in the TPP are multiple. (6) Some have long suggested the geopolitical and ideological differences between the United States and the PRC. To keep China out of the TPP is viewed as a new American effort to mitigate even contain the rising Chinese power—a political objective also openly or subtly shared by many of the TPP member nations. (7)

Others describe the widely shared American irritation and impatience over Beijing's persistent noncompliance of the WTO trade regime through its unilateral closure of home market especially the financial industry and the cyber space, extensive piracy of intellectual property rights (IPR), and dumping-like trade practices enabled by China's tenacious suppression of labor rights and environmental standards. (8)

China seems to like what it has now in international trade and thus is unmotivated to join the America-led TPP. Deep concerns also exist in Beijing about the TPP's higher labor, IPR, and environmental standards that link free trade to synchronized sociopolitical policies and values. This is easily viewed fundamentally threatening by the one-party regime of the CCP (Chinese Communist Party) as the TPP would require significant changes of China's domestic legal system and even its overall political system. Thus China has kept its distance from the TPP. (9)

## **The Challenges**

The full impact of China's staying out of the TPP will take some time to show. It is however clear that China will face significant challenges. The TPP is poised to alter the "apolitical" international trade game that China has got used to and gamed lucratively well for many years. It also highlights the differences and deficiencies of the Chinese political economy that could ignite and energize domestic discontent, resistance, and protests over China's lack of IPR and rule of law, environmental protection, and labor rights. "China is an economic giant with heart diseases," claimed a Chinese scholar, and the norms and values promoted by the TPP are bound to aggravate China's problems. (10)

China's crucial access to the world market in general and the American market in particular could be significantly reduced and displaced by the similarly endowed TPP member nations. International capital flow and manufacture chains are likely to move

and relocate elsewhere at China's expenses. Moreover, China's overall international stature and power are negatively affected. As the U.S. President Barak Obama gloated in his statement about the TPP, the Chinese are not in to make the rules for international trade. (11) Indeed, as this author has learned first hand, the vision of this political consequence has helped to overcome considerable domestic resistances to the TPP deals in places like the U.S. Congress and the Japanese society.

In combination, the forthcoming impact of the TPP is likely to erode China's trade position, slow down further its economy which is already showing signs of weaknesses, undermine Beijing's diplomatic power, and ultimately affect the CCP one party rule and the PRC sociopolitical stability. It is therefore perhaps no exaggeration for some Chinese analysts to sound panicky over a life under new trade rules, the "economic NATO," made by Beijing's ideological opponents. (12)

## **The Opportunities**

By its design, the TPP is an external source of important domestic policy reforms for its member nations. It could also be a great opportunity for China to launch some otherwise difficult domestic reforms such as moving away from its state-monopolized, investment-driven and overly subsidized export-led growth model. It could help China to reform its legal system and especially improve its IPR protection, labor protection and environmental protection. The much desired upgrading of the Chinese economy to be more intensive, innovative, and equitable could be motivated and facilitated by a TPP membership. The consequential challenges presented by the TPP could very well create and sustain painful but necessary reforms that will better China and its economic future in the long run, if Beijing joins the TPP with good compliances.

So far, however, the ruling CCP seems to characteristically put its political interests ahead of China's socioeconomic considerations. Refusing to reform its political system and in anticipation of the TPP, Beijing has already done a great deal to cope and oppose. It has strived to make several arguably low-grade free trade deals with many countries including the Southeast Asian nations, South Korea, Chile, and Australia. It seeks partnership with Russia and other former Soviet republics. It spends or commits huge funds for alternative, supplemental, and competing international economic and financial organizations such as the AIIB (Asian Infrastructure Investment Bank), the BRICKS Bank, and the romantic, extensive but misty "One Belt One Road" scheme that aims to export Chinese production capacity to its neighboring regions. In the aftershock of the

TPP creation, some in Beijing further advocated a China-led trade block to compete with the U.S.-led new economic system featuring the TPP and TTIP. (13)

All those Chinese actions and proposals, impressive and ambitious as some of them really are, seem to be still unable to address the main challenge created by the TPP for China: the likely reduction of access to the American market and the pending relocation of international production chains. The expensive showering of money around may or may not create sufficient new market for China, before it creates financial bubbles and troubles for the PRC to exacerbate the TPP plight. (14) China's competitive and combative responses may actually further the already growing suspicions about the true intent of the rising Chinese power, fueling the creeping effort in many corners of the world to hedge further against Beijing and to even seek containing China.

### **Conclusion: A Fateful Watershed**

There is currently an unusually open and heated discussion even debate inside the PRC about why China is not in the TPP, if the TPP is more of an opportunity for China than a challenge to the CCP government, and what to do after the TPP creation. (15) Some have openly characterized the China-TPP relationship as a historic rivalry, "a new global strategic game between China and the United States." (16) The PRC leaders, somewhat surprised by the progress the TPP and caught between competing rationales and demands, have yet to announce China's overall reaction to the TPP other than discounting its significance. (17)

In many ways, what Beijing decides to do concertedly about the TPP—whether to seek to join it, to declare a war on it, or to game it as it did so very effectively with the WTO—has become a strong test about the nature and intent as well as the future of the increasingly confident and active PRC. Some Chinese scholars have argued that to work with and even to join the TPP through sociopolitical reforms at home such as opening up the Chinese cyber space would greatly benefit China whereas opposing moves would gravely hurt China; although the CCP leaders may feel in the opposite way. (18) The decades-long American and Western effort to "incorporate China" has greatly changed China and the world. (19) The relationship between China and the TPP poises to be a fateful watershed development to reveal if Beijing will consequentially shun and dismiss the idea to join the world, or the West is detesting and discarding the policy of incorporation of China, or both. Much of the rise of China and the peace and prosperity of the Pacific and the world seems to critically hang in the balance.

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