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CHINA AND GLOBAL TRADE GOVERNANCE

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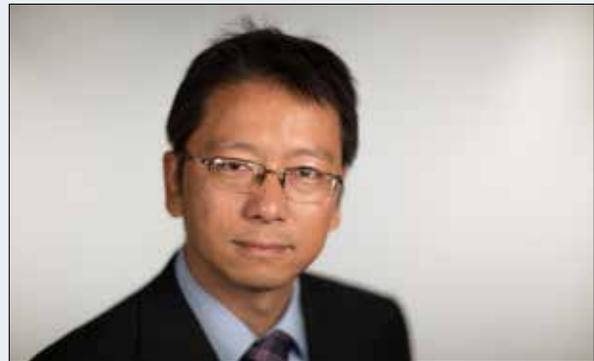
ABOUT THE GLOBAL ECONOMY PROGRAM

Addressing limitations in the ways nations tackle shared economic challenges, the Global Economy Program at CIGI strives to inform and guide policy debates through world-leading research and sustained stakeholder engagement.

With experts from academia, national agencies, international institutions and the private sector, the Global Economy Program supports research in the following areas: management of severe sovereign debt crises; central banking and international financial regulation; China's role in the global economy; governance and policies of the Bretton Woods institutions; the Group of Twenty; global, plurilateral and regional trade agreements; and financing sustainable development. Each year, the Global Economy Program hosts, co-hosts and participates in many events worldwide, working with trusted international partners, which allows the program to disseminate policy recommendations to an international audience of policy makers.

Through its research, collaboration and publications, the Global Economy Program informs decision makers, fosters dialogue and debate on policy-relevant ideas and strengthens multilateral responses to the most pressing international governance issues.

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ACRONYMS

APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASEAN+1	ASEAN plus One
ASEAN+3	ASEAN plus Three
ASEAN+6	ASEAN plus Six
BIT	bilateral investment treaty
CAFTA	China-ASEAN free trade area
CPC	Communist Party of China
DSM	Dispute Settlement Mechanism
EFSI	European Fund for Strategic Investments
FDI	foreign direct investment
FTA	free trade agreement
FTAAP	Free Trade Area of the Asia-Pacific
GATT	General Agreement on Tariffs and Trade
G7	Group of Seven
G20	Group of Twenty
IMF	International Monetary Fund
IPR	intellectual property rights
MFN	most favoured nation
P-4	Pacific Four
RCEP	Regional Comprehensive Economic Partnership
RTAs	regional trade agreements
SOEs	state-owned enterprises
TPP	Trans-Pacific Partnership
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TTIP	Transatlantic Trade and Investment Partnership
USTR	Office of the United States Trade Representative
WTO	World Trade Organization

EXECUTIVE SUMMARY

China's entry into the World Trade Organization (WTO) represents the beginning of its move to more closely embrace the world economy and participate in global multilateral trade governance. It took China almost a decade to adapt itself to the WTO's rules and finally enter into the core of its policy-making body, and become more active both at the Doha Round negotiations and the Dispute Settlement Mechanism (DSM). However, acquiring the power of rule making does not necessarily mean China exercised this power frequently or played a lead role in the WTO. A lack of leverage, and an insufficient willingness and talent to negotiate on significant issues such as tariff concessions and market access, as well as domestic restrictions, explain China's relatively mediocre performance in the WTO negotiations.

Mainstream opinion on China's future participation in the WTO suggests that China should play a more active role in the Doha Round negotiations, while not encouraging China to play a leading role. As a major beneficiary and upholder of the multilateral trade regime, China's current approach in the WTO is under great pressure due to the rise of mega-regional trade agreements such as the Trans-Pacific Partnership (TPP), Transatlantic Trade and Investment Partnership (TTIP), Regional Comprehensive Economic Partnership (RCEP) and other regional trade agreements (RTAs). These new circumstances and realities, together with the stagnation in the Doha Round negotiations, put the WTO in danger of being marginalized in global trade governance.

China has already taken a hedging strategy in global trade governance since the beginning of the twenty-first century by engaging with both the WTO and regional trade negotiations. The challenge brought by the TPP (China was excluded from joining its negotiation as a founding member) constitutes the major impetus for China to actively participate in its preferred regional free trade talks, such as the RCEP, as well as in the Doha Round negotiations. China regarded the TPP as the economic component of the US "pivot to Asia" strategy, which aimed to contain China. China also ramped up its bilateral free trade talks with its main trade partners, as well as its bilateral investment treaty (BIT) talks with the United States and the European Union, with the intent to buffer the potential impact brought by the TPP.

INTRODUCTION

Since the "reform and opening-up" policy was implemented at the end of the 1970s, trade has emerged as one of the most important factors in bolstering China's new economic growth strategy. China maintained double-digit rapid growth both in exports and imports during 1978–1994 (Xu and Smith 1996). The Chinese government understood the importance of trade in China's economic

development, and tried to join international trade regimes to further facilitate the growth of its trade and economy. China's efforts to join world trade regimes can be traced back to 1986, when China officially applied to resume its membership status as an original signatory of the General Agreement on Tariffs and Trade (GATT).¹

To meet the requirements of the international multilateral trade regime, China undertook reform measures on every aspect of foreign trade. China notably lowered its tariff level on a variety of goods and cancelled or reduced some non-tariff trade barriers, such as import quotas, licences and quantity control on import and export products. China also cancelled export rebates on some primary products and relaxed foreign exchange control, allowing foreign companies to be involved in some areas, for example, insurance and other financial services. By repealing internal regulations in terms of foreign trade, China tried to enhance transparency and began to reform its strictly controlled trade system as a whole. After eight years of tough negotiation, however, China failed to reach an agreement with the GATT before the latter evolved into the WTO in 1995 (*ibid.*).

Rapid growth in trade continued in the 1990s, although China remained an outsider of the multilateral trade regime. The United States, Japan, Hong Kong and some EU countries have evolved into China's principal trade partners. Japan was China's largest trading partner from 1993 until 2004. The United States was China's second-largest trading partner during most of the 1990s, and has been China's largest export market since 1997 and its largest trading partner since 2004 (Hu Jiangyun 2011).² Short of the trade facilitation derived from privileged agreements in the WTO or any free trade agreement (FTA) with its major trading partners, China had to make extra efforts to maintain trade relations with its principal trading partners, in particular the United States. During the last decade of the twentieth century, China committed a great deal of resources every year to engage with the US business community and administrations to push the US Congress to pass related legislation to maintain normal trade relations (in the name of most-favoured nation [MFN] status) with the United States and guarantee China's increasing exports to the US market.

During that time, negotiations on China joining the WTO continued after the new multilateral trade organization

was established in 1995. China finally entered the WTO in 2001, after seven years of tough accession negotiations, but with a high price in terms of large concessions in both goods and services and overcommitments in each area of the WTO mandate (Gao 2011). Against the background of the dazzling growth in China's foreign trade and its great contribution to China's robust economic expansion since its entry into the WTO, the big concessions and undue commitments China made in the accession negotiations were eclipsed and received less attention from the Chinese public. Statistics show that China's total foreign trade (export and import) grew at an average rate of 25.9 percent during 2002–2008, much higher than the average growth rate of 18.1 percent during 1978–2008 (National Bureau of Statistics of the People's Republic of China 2009). China ranked second in total international trade in 2008, up from sixth in 2001, fifteenth in 1990 and twenty-sixth in 1980. China has already developed into a global manufacturing hub. With a decades-long large surplus in goods trade, China has accumulated a huge amount of foreign reserves and has held the largest foreign reserves in the world since 2008 (*ibid.*).

While the new round of multilateral trade negotiation, the Doha Development Agenda, has been under way since 2001, regionalism in the trade field grew into a trend. Countries across the world invested much attention and plenty of resources to establish regional and bilateral FTAs. The slow progress and the absence of substantial headway in the Doha Round negotiations encouraged China's preference for trade regionalism. China followed the tide and proposed an FTA to its important trading partner in Southeast Asia, the Association of Southeast Asian Nations (ASEAN), when Premier Zhu Rongji attended the fifth ASEAN-China Summit in November 2001 (Shi 2001). Encouraged by the proposal, other regional trade initiatives in the Asia-Pacific region caught on in the years that followed, including the ASEAN plus One (ASEAN+1) with South Korea, Japan and India, ASEAN plus Three (ASEAN+3) (China, Japan, South Korea), ASEAN plus Six (ASEAN+6) (China, Japan, South Korea, India, Australia and New Zealand), and so on.³

Accession to the WTO and participation in regional and bilateral trade agreement negotiations brought China into the global trade system. While the academic circle was debating whether building blocks or stumbling blocks best explain the relationship between regionalism and multilateralism in trade, pragmatic initiatives and negotiations were simultaneously underway. As the largest trading power and the second-largest economy in

1 China was an original GATT signatory when it was founded in 1947. China experienced a self-imposed isolation under Mao Zedong after the Communist Party of China (CPC) came to power in 1949 and its relations with most international organizations (such as the United Nations and GATT) were cut off.

2 See also the website of the Comprehensive Department of the Ministry of Commerce of the People's Republic of China for the statistics on imports and export in China from 1976 to 2015: <http://zhs.mofcom.gov.cn/tongji.shtml>.

3 The ASEAN-South Korea FTA was signed in 2007. The ASEAN-Japan FTA was signed in 2008. The ASEAN-India FTA was signed in 2009. ASEAN+6 was evolving into the comprehensive free trade talks, the RCEP, which is still ongoing. ASEAN+3 continues as a forum that functions as coordinator of cooperation between ASEAN and the three countries.

the world, China's strategies and behaviours in both the WTO and RTAs made a great impact on the direction and development in multilateralism and regionalism in global trade governance.

This paper explores policies, strategies and domestic factors that jointly determine China's participation in multilateral and regional trade regimes, based on an examination of the performance and roles China played in both the WTO and some of the RTA negotiations since 2001. China's attitude and response to the TPP negotiations is a case in point that reflects its strategies, policies and domestic factors in RTAs and global trade governance. The case of China's negotiation in the RCEP represents another.

The paper concludes that China has evolved into a key player both in the WTO and in a number of RTA negotiations it has been involved in. However, China still lacks the capacity to lead the direction and push through negotiations in the WTO, fettered by its self-restrained vision in global trade governance, as well as its domestic restrictions. China needs a global vision and the resolve to take a leading role in the WTO Doha Round negotiations. The pressure brought about by the TPP constitutes the best hope for Chinese reformers to take advantage and push through the tough domestic reform agenda. The Doha Round negotiations and comprehensive RTAs, such as the RCEP, will link China more closely to the global trade system.

CHINA IN THE WTO

How Has Accession to the WTO Changed China?

From China's perspective, the significance of its entry into the WTO cannot be overestimated. It brought great changes to China, including the fastest-ever economic growth, and affected how China manages its economy, including promotion of rule of law and transparency in the Chinese government. With average annual growth rates in the double digits, the decade after China joined the WTO witnessed the fastest-growing period in the history of the People's Republic of China, as well as the fastest growth of any large economy in modern history. China's GDP more than tripled during these 10 years (increasing from US\$1.3 trillion to US\$4.98 trillion) (Yi 2011) and China became the second-largest economy in the world. The total export and import volume increased nearly fivefold and China evolved into the largest exporting country and the second-largest importing country (Pei and Wang 2012; Wang Minyan 2011). Foreign direct investment (FDI) inflows into China maintained a strong increase in the same period. The accumulated FDI China received amounts to US\$1 trillion (Yi 2011), dwarfing all developing countries and most developed countries for 19 years in a row (Wang Minyan 2011; Zhou 2011). China remained the preferred

FDI destination in some surveys of international investors — it was listed in the first position from 2002 to 2011 in the A. T. Kearney FDI Confidence Index (Organisation for Economic Co-operation and Development 2012, 54).

China's accession to the WTO also brought about profound changes to China's domestic reform, which, in the eyes of some Chinese leaders and elites, topped all the economic achievements. These significant changes include greater transparency being brought to all levels of Chinese governments — the central government, in particular, with more market-oriented means being adopted in terms of the way the economy is governed. The Chinese government began to embrace the rule of law. Policy makers realized that China's entry into the WTO signified, first and foremost, that the government had to acclimatize itself to the rules and requirements of the WTO. Following the rule-based spirit of the WTO, a great deal of resources were mobilized and more than 3,000 laws and regulations at the national level, and 190,000 at the local level, were abolished, revised and promulgated (Yi 2011).

The largest-ever legislative revamp in history and China's transition to abide by the WTO rule of law in such a short time (Yi 2011; Cottier 2011; Wang Yong 2011) demonstrated its firm resolution to implement its commitments. The Chinese government also launched a nationwide, months-long campaign of learning the WTO rules to better understand and embrace them. China dramatically reduced its overall tariff in accordance with its commitments and the tariff level has dropped from an average of 43.2 percent in the early 1990s to 9.8 percent in 2010, when China fulfilled all its commitments on tariff reduction (Sun 2011b; Ding 2015). A new government agency, the General Administration of Quality Supervision, Inspection and Quarantine, was created in April 2001 and domestic standards for quality and quarantine inspection were unified, in accordance with the non-discrimination principle of the WTO. To meet the non-discrimination principle of the WTO, China also further improved market access for foreign investment and increased the percentage of foreign investment allowed in different industries.

Transparency is the first principle of the rule-based WTO regulations. China made commitments in regard to transparency in its accession protocol. Following the provisions contained in various WTO agreements (Chi 2012),⁴ greater transparency was brought to the Chinese governments at all levels as a result of the large-scale revision of laws. Legislative process that was once closed are required to be open to public participation. A few new laws created prior to and after China's accession to the WTO, including the Legislation Law (2000), Ordinance

4 For example, section 2 (c) of the Protocol on the Accession of the People's Republic of China; article 63, Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS); article 3, General Agreement on Trade in Services.

Concerning the Procedures for the Formulation of Administrative Regulations (2002) and the Administrative Licensing Law (2003), built the legal framework for public participation in the legislative process. These laws require that channels such as written comments, seminars, symposiums and hearings must be held for public participation in the legislative process. The media and the Internet are the two main platforms for participation. These requirements also apply to local legislation. Since 2002, all government regulation drafts and proposed legislative drafts in Beijing, for instance, have been released for public comments on the official website of the Beijing Municipal Government and of the government's Office of Legislative Affairs (Xu 2012).

Another impact of China's accession to the WTO was the ushering in and implementation of more pro-market means in the government's economic management. The Chinese government used to intervene in almost every aspect of the economy via numerous administrative means, such as mandating regulations and guidelines to set price ceilings, setting quotas and permits for export and import, and controlling who can engage in foreign trade. The large scale of the amendments to laws pushed the government to begin to retreat from many fields where it used to have close involvement, and the market began to play its role in managing the economy. The Chinese government realized that, when it comes to managing the economy, it should play a limited role, rather than acting as an omnipotent government. To use the Chinese way of describing it, the government is not supposed to manage, but to serve.

The most profound change brought about by China's accession to the WTO is that the Chinese government began to find its feet when playing by the rules. Beginning with its engagement in the foreign trade arena, the Chinese government has been gradually embracing the rule of law, although in a more reactive than proactive way. Under the threat of being sued by other members of the WTO, the Chinese government tried its best to avoid introducing and implementing policies or regulations that went against the rules of the organization. In this light, the DSM is the key to understanding the changes in China's actions.

China experienced an evolution from an overcautious rule-follower with a good record of implementing the DSM decisions in the first five years following its accession, to an increasingly assertive rule-shaker and rule-maker in the DSM in the next five years (Gao 2011; Chi 2012). The decade-long — but not too steep — learning curve shows that China has become gradually accustomed to using the crucial mechanism in the WTO to deal with trade disputes. China even skillfully used it to buffer some negative impact caused by lost cases or bring a substantial setback to the winner of the rulings. For instance, in a ruling on auto parts that it lost, China successfully won a three- to four-year transition period for the domestic manufacturers (Sun 2011b). China was judged to lose in an appeal of

intellectual property rights (IPR), but still won approval from the DSM on a key item that stipulates what value of infringed products constitutes actual infringement, that is, the threshold for criminal penalties against IPR infringement (*ibid.*). In that case, quite a number of China's infringed products can be exempted from charges.

The transition of China's attitude toward the DSM, as well as its more active and aggressive involvement into the mechanism, heralded changes in the country's ideas and behaviours when participating in international regimes in the following years. After constant complaints over being the main target of anti-dumping in the DSM and repeatedly describing itself as a victim of unfair use of the DSM by other countries in the first few years after its accession to the WTO, China had learned to skillfully and confidently play by the rules to protect Chinese companies' interests. China began to appreciate the beauty of rule of law in the international trade arena. Although it would be too hasty to expect that China will accept other forms of international dispute settlement — considering the situation where China remains reluctant and sensitive to submitting non-trade disputes (Chi 2012) over territory, for example, to international courts or tribunals — China's participation in the DSM has had or will have a profound but subtle impact on its willingness and capacity to participate in other international institutions. At least, there are increasingly fewer worries and less suspicion of China being a victim when it considers joining treaty-based, cohesive international organizations.

CHINA'S ROLES IN THE WTO

Almost 15 years after China's accession to the WTO, the kind of roles it plays and how its roles in the multilateral trade organization — in particular, its role in the Doha Round — are evaluated remain high-profile issues. It is obvious that China has developed from a unique newcomer that once had to make excessive commitments, beyond what was required, as the price of WTO membership into an important player in the WTO. In the first few years after entering the WTO in 2001, China was a taciturn, low-profile participant most of the time — a cautious observer that seldom communicated with other members. It gradually became active both at the DSM and the Doha Round negotiations and began to sue other members through the DSM. China also entered into the key policy-making circles, becoming a member of the “new quad,” or Group of Four, the Five Interested Parties, the Group of Six and the Group of Seven (G7) in the WTO. Following the WTO ministerial meeting in July 2008, China played more prominent roles in the organization.

Based on its performance on the WTO stage, two nearly opposite perspectives on China's role in the multilateral trade regime have emerged. Chinese officials, and some scholars, believe that China has already entered the core of policy making in the WTO and that important negotiations

cannot be done without its participation (Sun 2011b; Pei and Zheng 2011). China participated in the Doha Round negotiations and has been playing a significant, constructive role in the multilateral trade regime. Conversely, many foreign critics think China would rather participate in the negotiations as a marginalized member and that it played a passive, even destructive, role in the Doha Round negotiations (Bergsten et al. 2008, 14; Sally 2011; Leal-Arcas 2011). Former Director-General of the WTO Pascal Lamy also said in 2013 that, to some degree, China was only a passive participant in global economic governance (Zhu 2013). China did not play a role that was equivalent to its status as a trading power at the Doha Round talks, and was accused of being afraid of further liberalization of trade, taking “a tactic of silence” at the talks and not taking responsibilities as a major power (Li 2013).

The two seemingly contradictory views actually reflect the increasingly significant status of China in the WTO and the Doha Round negotiations. China’s substantial influence in the WTO cannot be denied. From China’s perspective, its voice can be heard in the policy-making progress of the multilateral trade regime, and its influence on the international trade stage was enhanced by entering the WTO. From a historical perspective, China’s accession to the organization is a huge success and it made a big difference for China, compared to previous years when it remained an outsider of the WTO. Joining the WTO and Doha Round negotiations meant China acquired the power of rule-making in international trade. China secured “a seat at the big kids’ table” and could play crucial roles in rule-making for international trade by becoming a member of the inner circle, the trade G7 in the WTO.

Judging from its performance in the Doha Round negotiations in the first decade after its accession, however, China did not exercise its rule-making power very well in the WTO and did not use the power effectively, let alone play a leading role, in the Doha Round negotiations, as many officials and scholars both within and outside China had expected. China only played “a relatively active and constructive role,” as Zhang Xiangchen, then director-general of the WTO Bureau at the Ministry of Commerce of China, assessed in December 2005 (YNET.com 2005). In the years that followed, China remained reactive in WTO negotiations and usually did not take the initiative, leaving the task to other big players (Sally 2011). China’s relatively mediocre performance in the WTO, the Doha Round in particular, can be attributed to several factors, which are discussed below.

First, China lacks leverage to negotiate in significant issues such as tariff concession and market access because of the far-reaching commitments and substantial concessions in many areas of the WTO mandate that China had to agree to as the price for joining the organization. These undue commitments and a number of substantial concessions put China in an awkward position, in which it could not

participate as actively and effectively as other new powers in the WTO, such as Brazil and India. China’s bargaining chips were used up during its 15-year-long accession negotiations and many of its commitments have been beyond the level of commitments of most of developing countries. The huge concession in the agriculture sector, in particular, has already surpassed the level that the current Doha Round negotiations could reach (Tu 2005, 178-179; Gao 2011; Blustein 2011).

Second, a fairly strong consensus has been reached domestically — in particular among relevant government departments in charge of economic policy making, such as the Ministry of Commerce and the Ministry of Agriculture — that China should slow down on further negotiation on the Doha Round because its economy has become quite open due to its extensive WTO commitments. Further tariff concession and market access would bring negative influence over a variety of its national industries. What is more, the further tariff concession and market access demand from the United States and other developed countries is too great and beyond what China can afford (Sun 2011c; Li 2013).

Third, as a trading power with a great deal of surplus, China has been worried about being regarded as an intimidator (Li 2013), which aggressively asks for more market access if it actively participates in the Doha Round negotiations on market access. It is not in China’s interest to act as a vanguard in the market access negotiation and incurs more criticism from developing countries.

Forth, China needed more talent and expertise to effectively participate in the Doha Round and other multilateral trade negotiations. Unlike the International Monetary Fund (IMF) or the World Bank, where voting shares play a crucial role in the decision making, decisions in the WTO, particularly in the negotiation and dispute settlement process, largely depend on how good the policy makers, negotiators and lawyers from each country are (Wang Xiaodong 2011; Zhang 2012). A shortage of talent constitutes an important reason why China kept a low-profile in many controversial issues in the first few years after it entered into the WTO (Lou 2006). China still needs hundreds of thousands of lawyers, accountants, negotiators and consultants who are familiar with the WTO rules and fluent in English, to deal with the extremely complicated laws and the process of the DSM in the WTO.

After four to five years of adjusting to the rules in the WTO, China gradually evolved into a relatively active participant. The July 2008 ministerial meeting in Geneva seemed a turning point for China’s role in the Doha Round negotiations and its status in the WTO. At the gathering of seven key ministers convened by WTO Director-General Pascal Lamy as a final spurt aiming to end the negotiations, Chen Deming, China’s minister of commerce, was included in the inner circle meeting for

the first time. Although it finished with no agreement after a 10-day see-saw battle of haggling, China's increasingly prominent role was recognized. China described its role in the meeting as that of a helpful contributor who both upheld principles and showed flexibility. China attributed the failure of the talks to India and domestic politics in the United States (Sun 2011b). India was unwilling to make compromises on the Special Safeguard Mechanism for developing country agriculture, and US President Barack Obama showed no willingness to use his political capitals to push the issue forward domestically. Scholars from outside China recognized the country played a bold role in the Doha Round negotiations but did not spoil the July meeting (Sally 2011; Blustein 2011), as depicted by some US media coverage. As for China's role in the WTO negotiations, some foreign scholars argued that China should have done more to foster the Doha Round's success and should do more in the future because it has a clear-cut stake in an open global market (*ibid.*).

CHINA'S STRATEGIES FOR WTO NEGOTIATIONS IN THE FUTURE

Since 2011, after China got through its first decade in the multilateral trade regime (Sun 2011a, 2011b, 2011c; Li 2013), Chinese scholars and officials have been rethinking China's role in the WTO negotiations. With the approach of the second decade of the twenty-first century, three challenges highlighted the new realities facing China in WTO-related issues.

First, China's economic reform and opening up appeared to have reached a plateau. The driving forces for reform that came with China's accession to the WTO are subject to the law of diminishing marginal utility. Chinese economic reform is facing less and less inner impetus and opening-up policies in a variety of areas, in particular, foreign investment, seemed to be regressing. Easier reforms have been completed and tougher, "deep-water zone" reforms encountered tremendous resistance from strong vested interest groups. Interests need to be restructured in order to overcome this vigorous obstruction.

Second, China's economy as a whole is experiencing a necessary restructuring in industries and it is transitioning from an export- and investment-driven growth model to one powered by consumption. Economic growth is experiencing a downward spiral. Stabilizing economic growth and the job market is always on the list of priorities for Chinese leaders, which means they have to keep going back to an investment- and export-led pattern when they believe it is necessary, resuming a short-term stimulus package to maintain stable economic growth. This, conversely, brought more resistance to the economic restructuring. Reforms in the financial sector are needed most to boost further economic transition. Since the 2008 global financial crisis, China's enterprises in general are

facing a more difficult business environment because of inflation, the rising cost of labour, fluctuation of the renminbi exchange rate and higher environment standards and so on. Under the circumstances, further market access and tariff cuts — affecting agricultural products, in particular — will face stiffer resistance and the Chinese government is not in a good position to make further concessions in the Doha Round negotiations.

Third, Chinese officials and scholars hold a humble but suspicious attitude toward China's future role in the WTO, compared to the loud voices from outside China calling for it to play a more active, or even a leading, role at the Doha Round negotiations. These Chinese officials and scholars have asserted that China should adhere to playing a constructive role as a developing country and resist the enticement of playing a leading role at the Doha Round negotiations to avoid falling into the trap of taking excessive responsibilities in the WTO. They identify a leading role as a requirement for more responsibility and concessions in the negotiations. China insists on identifying itself as a developing country, the same as India, Brazil and other emerging economies; therefore it is not realistic to expect China to play a leading role as a developed nation. They advocated for China shouldering a responsibility that is equivalent to its status as a developing economy. China cannot make the same promises as developed countries do in terms of market access. Developed countries such as the United States asked too much in the negotiations and it will hurt the interests of developing countries. It is unfair for developing countries to take on the same responsibilities as developed countries and it is against the spirit of the Doha Development Agenda.

Based on the new realities and challenges, Chinese scholars suggested principles and strategies for China's participation in the Doha Round negotiations in the years to come. In general, they insisted that China should play a more active role in the Doha Round negotiations, as an important participant in rule making and a responsible nation in the negotiations, but still did not suggest that China play a leading role (see Li 2013; Sun 2011b, 2011c). Improving the external environments for China's further economic development, as well as using the external pressure brought by the Doha Round negotiations to promote China's domestic reform, are two other key points mentioned often.

Specifically, two suggestions are raised to support China's active participation. First, China should provide other members further market access through promoting negotiations on trade liberalization for certain sectors such as IT products and environmental products, as well as on service agreements. They argued that as a responsible power, China should provide public good to other members, in particular to the least-developed members (see Wang Yong 2011; Li 2013). What China currently can offer is to further open its huge domestic market to

accommodate more imports from WTO member countries. This requires Chinese policy makers to maintain a delicate balance between providing further market access and protecting vulnerable sectors in China.

Second, to build a bloc to smooth the negotiation, breaking the stalemate in the Doha Round negotiations, China should build coalitions among developing countries in different forms, for example, the Group of Twenty (G20) trade coordination group, as well as cooperation among BRICS countries (Brazil, Russia, India, China and South Africa). By doing this, China is expecting to enhance the bargaining chip for the developing countries as a whole. At the same time, China also should be vigilant to avoid enforcing the existing trend of the Doha Round negotiations involving a showdown between developing and developed economies. The size of China's economy qualifies it to coordinate key issues between the two types of countries (Li 2013; Sun 2011b).

China's half-hearted attitude toward playing a leading role in Doha Round negotiations reflects the conflicting views on whether China should further promote economic reform and the opening-up policy. Internally, lack of consensus and a road map for deepening reform leads to realistic, moderate participation in the WTO negotiations externally. Extra stimulus is needed for Chinese leaders to take a further step in the Doha Round negotiations and play a leading role in the WTO.

China's strategy of being pragmatic, low profile and avoiding playing leading roles in the Doha Round negotiations is under great pressure, considering the new circumstances and realities facing the multilateral trade regime. The Doha Round negotiations have been delayed for years and face the possibility of being irrelevant due to the rapid development of RTAs, in particular the mega-trade arrangements such as the TPP, TTIP and RCEP. As the largest trading power, China benefited from joining the WTO, the foundation of an increasingly freer trade network consisting of multilateral, regional and bilateral trade agreements. Facing more trade protectionism since the 2008 global financial crisis, China's top leaders have actually advocated an open world economy via the G20, Asia-Pacific Economic Cooperation (APEC) and other global and regional economic platforms. A substantial, specific road map is needed to push through the leaders' vision of an open global economy. As a first step, China's grand strategy of One Belt, One Road, initiated in 2013, is designed to provide a key infrastructure interconnection for the open global economy.

With its initiation and years-long closed door negotiations since 2008, the TPP has been bringing tremendous impact on the global trade governance system. China — the largest trade power in the system — began to feel the impact of the TPP, which constitutes the economic component of the US pivot to Asia policy that was introduced in 2011. When

the TPP deal was reached in October 2015, it pushed China to assess and assimilate the immediate impact and rethink its engagement in the Doha Round negotiations, as well as other mega-trade agreement negotiations such as the RCEP.

CHINA AND RTAs: THE TPP AND CHINA'S RESPONSE TO IT

The Rise of the TPP: An Explanation

Richard Baldwin (1993) explained the rapid spread of regional FTAs with "a domino theory of regionalism": the political equilibrium that balances anti-membership and pro-membership forces tends to tilt to the latter because of its more powerful lobbying propelled by worries of being treated unfairly by other countries in a trade bloc, which will push a government to join the trade bloc. Baldwin and Dany Jaimovich (2012) further expound that the contagion of FTAs is partly driven by the incentive of trying to reduce discrimination created by third-nation FTAs.

The fact that the Doha Round negotiations have been held up for years encouraged more members of the WTO to engage and accelerate the regional and bilateral trade agreement negotiations. Too many preferential trade agreements in regional trade areas have eroded the MFN treatment in the WTO. The preferential trade agreements are always given exclusively to its members and did not apply to all the members of the WTO. The pressure of being excluded from preferential trade areas pushed nations one after another into the RTA and FTA negotiations, otherwise the MFN treatment they acquired from other members in the WTO would become the least-favoured-nation treatment. China realized that it had to catch up with the tide and sped up its pace to negotiate FTAs and RTAs with other members of the WTO, in particular China's major trade partners, to maintain and expand its trade relations with them.

With the rise of the regional trade area at the dawn of the twenty-first century, Asian economies paid much more attention to FTAs as an effective economic policy to stimulate economic growth. ASEAN stands at the centre of FTA negotiations in the Asia-Pacific region. Initiated in 2001, and with its Framework Agreement on Services announced in 2003, the China-ASEAN free trade area (CAFTA) received wide attention in the Asia-Pacific and galvanized other major economies in the area to follow up. The CAFTA came into effect on January 1, 2010, after 10 years of negotiation. By then, ASEAN had already established five free trade areas with China, Japan, South Korea, India, and Australia and New Zealand (Findlay 2011) in a series of ASEAN+1 free trade areas. Over the same period, other broader FTA initiatives for Asian economic integration, such as ASEAN+3 and ASEAN+6 were raised and under discussion.

Put in a broader political economy background, China and Japan, as the second- and third-largest economies, respectively, were in the position to compete for a leading role in the Asian economic integration process at the very beginning. China prefers the ASEAN+3 model and Japan advocates the ASEAN+6 model. It seemed the United States, the largest economy and sole superpower in the world, was excluded from economic integration in the East Asian region. In response to the situation, President George W. Bush announced in February 2008 that the United States would join the delayed Pacific Four (P-4) negotiations on financial services and investment.⁵ The 2008 Annual Report of the President of the United States on the Trade Agreements Program articulates that US participation in the TPP is an answer to “the proliferation of preferential trade agreements among U.S. competitors and the development of several competing regional economic integration initiatives that exclude the United States” and it “could position U.S. businesses better to compete in the Asia Pacific region” (Office of the United States Trade Representative [USTR] 2009).

A parallel event of the WTO Doha ministerial meeting in July 2008 likely added the extra impetus that pushed the United States to fully participate in the P-4 negotiation and reinvent it into the TPP, serving as a vehicle for the United States squeezing into broader Asia-Pacific trade integration. The US delegation has made the greatest efforts since joining the Doha Round negotiations, trying to reach an agreement to end the Doha Round negotiations and to leave a significant political legacy for President Bush in the ministerial meeting in July 2008. The meeting eventually failed and the United States vehemently accused India and China of being responsible for the failure. Although some Western scholars argued that China should not be blamed for the failure, with a detailed description of what really happened in the meeting (Blustein 2011), the deeply disappointed United States began to give up on the WTO as the proper platform for further promotion of trade and investment liberalization. Although China should not be blamed for the failure of the meeting, the United States’ perception was that China was not willing to cooperate with US suggestions, and that it was not a partner the United States could count on for international trade rule making.

The core policy-making mechanism of the member-driven WTO, that is, decisions taken by consensus among some 150 members, explains the deep-seated reason for the delayed Doha Round negotiations. It also provides the institutional reason for the rise of emerging economies such as Brazil, China, India and South Africa in the multilateral

trade organization. In a way, the mechanism contributed to the failure of the July 2008 ministerial meeting. Unlike the IMF and World Bank, in which power is delegated to a board of directors and voting sharing is calculated based on the share capital each member subscribed and the United States can have actual control of the policy making on significant issues, the United States increasingly felt powerless in the WTO to get each nation, emerging powers in particular, to endorse it. With more emerging powers rising in the WTO — where decisions are made by consensus — it is no longer an organization the United States can dominate to get things done. The United States needs to find another platform to make rules for high-level trade agreements for the twenty-first century.

In September 2008, the United States decided to participate in comprehensive negotiations for an expanded trans-Pacific agreement and began to take charge of the negotiations. In December 2008, the United States announced that Australia, Peru and Vietnam would also participate in the negotiations. On November 14, 2009, in Japan, President Obama (2009) committed the United States to engage with the TPP countries to create “a regional agreement that will have the high standards worthy of a 21st century trade agreement,” indicating the US readiness to kick off the formal negotiations. With more countries joining or indicating their intention to join in the subsequent two years, a new trading negotiation, known as the TPP, was formalized by all its parties at the APEC leaders’ meeting in Honolulu in 2011. Once again, Obama emphasized that the TPP would be a twenty-first-century deal that ensures high environmental and labour standards and addresses new barriers other than tariffs. The United States made it clear in 2012 that the TPP Agreement is “the most significant negotiation currently underway in the international trading system” (Donilon 2012) and it constitutes the economic lynchpin of the Obama administration’s diplomatic and security pivot to Asia as the president sought a new era of American leadership in the fast-growing region.

The assertive return to Asia by the United States in the name of the pivot strategy, with the TPP as its economic pillar, complicated the situation facing the Asian economic integration process. China, in particular, felt the pressure brought on by the TPP, which, it appeared, would exclude China. After the strategy of a pivot to Asia (National Security Advisor Tom Donilon began to call the strategy a “rebalance to Asia” in his remarks in November 2012) was announced, the dominant opinion among China’s elite claimed that it was a policy aiming to contain China, with the TPP as the indispensable lynchpin providing an economic integration framework that excludes China. As time has elapsed, however, China’s perspectives on the TPP have evolved and different views have emerged.

5 The P-4, originally known as the Trans-Pacific Strategic Economic Partnership, was launched on the sidelines of the summit of the APEC forum in 2002 by New Zealand, Chile and Singapore. The high-standard free trade area was called Pacific Three (P-3) then, and changed its name to P-4 with Brunei’s joining in 2005.

China's Response to the TPP

China did not pay much attention to the TPP when the United States announced it would join the P-4 negotiation in 2008. It held a suspicious and dismissive view of it, and doubted whether the negotiation would be sustainable and influential in the first two to three years after 2008. The TPP first received public attention in China at the 2011 APEC meeting, when the United States promoted it with grandiose words: “the high-standard 21st century trade agreement” (Obama 2009). The Chinese government showed a respectable, neutral attitude toward the TPP at the 2011 APEC meeting and both President Hu Jintao and an official from the Ministry of Foreign Affairs claimed that China held an open attitude toward any initiative that would facilitate economic integration in the Asia-Pacific region, including the East Asia Free Trade Area, RCEP and TPP,⁶ saying they all constitute the foundation to the Asia-Pacific Free Trade Area (Hu Jintao 2011; Ministry of Foreign Affairs 2011).

Although the official Chinese view on the TPP was seemingly open-minded, China's academic circle and media overwhelmingly showed a suspicious and hostile view toward the trade agreement. Official media also sometimes revealed apprehension and concern regarding the TPP due to its obvious intention to exclude and contain China. Two articles on *People's Daily* in July 2011 and February 2013, respectively, expressed this worry (Ding and Ji 2011, 3; Yang 2013, 6). Scholars believed that the TPP was a trade agreement the United States would use to lead future high-standard rule making in international trade and that China would be kept out of twenty-first century high-level trade arrangements. The TPP posed severe challenges to China — China took the approach of wait and see where it would lead and then respond accordingly. The message leaked from some internal high-level meetings in 2012 indicated China should “observe calmly,” an expression that usually implies “uncertainty” and a “wait-and-see” attitude (Song 2013).

The accelerated negotiation process and expanded membership in the TPP since 2011, in particular, Japan joining the negotiation, intensified China's concern about being excluded from the negotiation, and prompting it to further articulate its attitudes toward the TPP. The Ministry of Foreign Affairs repeated the previous “open” attitude held by China in May 2013. The Ministry of Commerce spokesperson claimed that China had followed the development of the TPP negotiation closely and would assess the pros and cons of China joining (Sheng 2013). It was the first time that Chinese officials openly expressed the possibility of China joining the TPP negotiation, with

the same open attitude toward the trade agreement that it had demonstrated two years before.

The TPP deal was finally reached on October 5, 2015, after a number of delays in the seven years of behind-closed-doors negotiations. The conclusion of the TPP negotiation caught some Chinese scholars by surprise, as they had predicted it would take more time to finish the talks. With the trade agreement negotiation nailed down, a TPP fever rose in China's media and public opinion once again — much more heated than the previous two rounds, in 2011 and 2013 (see Table 1), when the trade deal first attracted attention from China. Conspiracy-based narratives such as “TPP as NATO on the economic front” to contain China again dominated the public opinion, supplemented with plenty of enthusiastic analyses on how China could respond and break through the containment brought about by the TPP.

Table 1: Number of Reports on the TPP in *Caijing Magazine* and *Caixin.com*

	2011	2012	2013	2014	2015
<i>Caijing Magazine</i>	3	1	6	2	16
<i>Caixin.com</i>	1	1	6	9	26

Data sources: *Caijing Magazine* (<http://magazine.caijing.com.cn/>); *Caixin.com*.

Note: *Caijing Magazine* and *Caixin* are two of the most prestigious media sources that focus on financial and economic reports in China. The reports from *Caixin.com* include news reports, blogs, articles and interviews. The ones from *Caijing Magazine* only include articles and interviews.

During the overzealous media coverage and circulation on social media, the Chinese government, as usual, kept its open attitude, even giving positive comments on the final TPP deal. The Ministry of Commerce issued a statement describing the accord as “one of the important free trade agreements in the Asia-Pacific region.” Responding to the statement “TPP is one of the means for the US to limit Chinese influence in Asia rising,” Minister Gao Hucheng (2015) said that China has maintained the smooth conduct of information communication with key members of the TPP negotiation. He even, surprisingly, mentioned that the US officials and other TPP members had repeatedly said the TPP was not directed against China, was not intended to contain China and had no intention to exclude China. Gao's remarks showed the positive and frank attitude of the Chinese government on the TPP.

Contrary to the heated discussion imbued with a sense of crisis in academic circles and the media, the relatively positive response from the Chinese government revealed its growing confidence in coping with the possible negative impact caused by the TPP (see the next section for the details). However, even if the Chinese government holds suspicion and concern toward the TPP, it was not in

⁶ At this point the TPP was still being called the TPSEP (Trans-Pacific Strategic Economic Partnership).

a position to speak up. After all, the TPP is a high-standard agreement aiming to promote free trade in the Asia-Pacific and it did not publicly exclude China from joining it. The overwhelming expression of concern and suspicion toward the TPP by the media and scholars does indicate, in a sense, the hidden worries held by the Chinese government on the TPP. The long-standing competition between China and the United States for the leading role in Asian economic integration, as well as the strategic distrust⁷ between the two countries, provided the broad context for the negative response to, and worries about, the TPP in China. The TPP negotiation finally concluded and China was excluded from joining it, which certainly proves and intensifies this competition and mistrust. In addition, China has always held an open but unarticulated attitude on the TPP and it never clearly expressed its strong willingness, if any, to join the negotiation, which also reveals the suspicion, and even distrust, from the Chinese side on the intention of the TPP.

AN ANALYSIS OF CHINA'S RESPONSE TO THE TPP

The TPP: A Trade Agreement that Excludes China?

China's fast-growing economic influence in the Asia-Pacific and its de facto leadership in economic integration in the region worried the United States. The free trade areas in Asia were thriving in the first decade of the twenty-first century and they naturally excluded the United States, which was kept busy in the war against terrorism during the same period. It is hard to say whether China had a grand strategy to exclude the United States in Asian economic integration, but China did tend to have a narrower membership in its RTA initiatives in the Asia-Pacific region. It seemed that China was trying to promote RTAs that excluded the United States and prevented it from leading Asian economic integration in the first place.

With an obvious target of counterweighting China's increasingly growing influence, the United States began to aggressively push merging into the Asia-Pacific economic integration process through promoting the high-standard TPP. According to the perspective of Chinese analysts, the United States' assertive pivot to the Asia-Pacific and its leadership, with a model for a twenty-first-century trade agreement, would also naturally aim to exclude China. China felt the pressure of being excluded. As a counterbalance measure to the TPP, China quickly turned to the RCEP proposed by ASEAN (Indonesia, in

particular), a new RTA initiative based on the ASEAN+6 model that China did not endorse (Miles 2012). China's preference was ASEAN+3.

From the US perspective, the TPP had two related missions: squeezing into the thriving Asia-Pacific economic integration process and leading the process by setting up a model for the twenty-first-century international investment and trade rule. Initially, the United States joining the P-4 was a measure to avoid being excluded from economic integration in the Asia-Pacific region. The United States regarded the trade agreement as a pathway to the final Free Trade Area of the Asia-Pacific (FTAAP). With its huge economy and powerful political influence, the United States easily assumed the leadership at the P-4 and reinvented it as a new high-standard trade agreement soon after it joined the negotiation (Lewis 2011; Hamanaka 2014). The US-led TPP soon became a convenient key vehicle to lead a high-standard trade agreement and to "institutionalize" or "engage" China, the biggest economic and political competitor for the United States in the Asia-Pacific region and the rest of the world.

Control of membership and agenda is key in the formation of economic groupings in the contemporary world, and exclusion of major rivals is more critical at the regional level. Those who compete for leadership in the same region tend to exclude the main competitor from the regional trade arrangement it leads (Hamanaka 2014). The purpose of the exclusion of the rival is usually to keep the main competitor out of the ongoing negotiation and then invite it as a latecomer, putting it in a relatively disadvantageous position (*ibid.*).

The way the United States deals with China on the TPP negotiation perfectly illustrated this theory. The TPP is invested with the mission of maintaining US competitiveness in the future in the most thriving region by leading the twenty-first-century trade agreement and counterbalancing China's rapidly growing dominance in the Asia-Pacific region. To realize this goal, the first step is to establish the TPP, from which China, as the target country of engagement, should be excluded. But the ultimate goal still aims to engage China and incorporate it into the twenty-first-century investment and trade rules, which are set and dominated by the United States. This suggests that the United States would not actually welcome China joining the negotiation before it is finalized, although officially the United States kept saying the TPP is open and many American scholars had been appealing for China to join for years.

The United States must have realized that if China joined, that would become a game changer in the TPP negotiation process, as China would stand up for its interests in the negotiation. The United States would have found it more difficult to dominate and lead the direction for the TPP negotiation due to China's huge economic and political

7 "Strategic distrust" became a widely used term to describe the current US-China relations after a well-known article in 2012 titled "Addressing US-China Strategic Distrust" by Wang Jisi from Peking University and Kenneth G. Lieberthal from the Brookings Institution (www.brookings.edu/~media/research/files/papers/2012/3/30-us-china-lieberthal/0330_china_lieberthal.pdf).

resources for negotiation. Given the experience in the 2008 July WTO Doha ministerial meeting, the TPP negotiation would, most likely, have been out of the control of the United States and the negotiation might never have ended if China joined before the idea was concluded. This explained the real meaning of President Obama's (2015) talk of "we can't let countries like China write the rules of the global economy" when the TPP deal was finally reached on October 5, 2015.

In fact, in previous years, Obama had already expressed the same idea that the United States needed to exclude China from the TPP negotiation and negotiate with China later, so the United States could ask for a higher price from China. In a presidential debate against Republican candidate Mitt Romney in 2012, Obama tried to show US leadership in Asia-Pacific region by saying "We're organizing trade relations with countries other than China so that China starts feeling more pressure about meeting basic international standards."⁸ Obama further confirmed the point by stating that "if we can get a trade deal with all the other countries in Asia...that'll help us in our negotiations with China" (Gao 2014; Inside US Trade 2013). Finally, after China implicitly expressed the possibility of joining the TPP negotiation in the summer of 2013, the United States formally excluded China from being a founding member of the trade agreement with its announcement in November 2013 that no new countries would be accepted until the negotiation among the current members was concluded (USTR 2013).

China's Countermeasures to the TPP

An overview of its reaction to the TPP since the United States joined and led the negotiation in 2008 reveals China's changing attitudes toward the trade agreement. China initially ignored it, took a wait-and-see attitude when it was expanded and formally started in 2011, and has sought countermeasures to balance it since then, although officially it expressed its open attitude toward the TPP. In the summer of 2013, China went a step further and hinted at the possibility of joining the negotiation. However, the United States clearly sent the message in November 2013 that the TPP would not accept any new members until the current negotiation was finished. With the decision that China would be excluded from the negotiation no longer uncertain, both the government and academic circles are considering tactics and strategies to deal with the new situation.

First, China had become more confident in addressing the challenges posed by the TPP when the trade deal was finally struck in October 2015. It had already developed a package of approaches for coping with the TPP and became more confident in its capacity to minimize the negative

influence it caused. China could even take advantage of the new reality brought about by the TPP to push forward its domestic economic reform.

Both academic circles and government officials displayed some positive attitudes when the trade agreement was reached. Gao Hucheng (2015), China's minister of commerce, further demonstrated China's cooperative attitude towards the TPP by saying "the United States and other 21 APEC members adopted the 'Beijing roadmap for APEC's Contribution to the realization of FTAAP,' which is an important cooperation between the US and China" and "China is willing to work with the US in the multilateral trading system under the framework of the global trade rule-making to strengthen cooperation and promoting regional and world economic development, and constantly enhance people's well-being."

The text of the TPP Agreement released on November 5, 2015, revealed some high standards, compared to traditional RTA and WTO regulations, on national treatment and market access for goods, rules of origin, trade in service, investment, intellectual property, environment, labour and so on. It also introduced a number of new rules that had not been included in previous RTAs and WTO rules such as those on "state-owned enterprises and designated monopolies," "small and medium-sized enterprises" and investor-state dispute settlement.⁹

These high-standard rules demonstrate the ambition and goals of the United States in leading the rule making for the trade and investment agreement for the twenty-first century. As the world's number two economy and with great economic influence in the Asia-Pacific, China realized it is naturally a not-present participator and the major target of the TPP's high standards. In the opinion of Chinese officials and scholars (Tu 2015; Liu and Gao 2015; Jia 2015; Chu and Sha 2015), a TPP without China's participation is a half-baked trade agreement and its full potential for making and spreading rules for twenty-first-century trade and investment could only be completed when China joins it. China sees the TPP's agenda is setting a new trade agreement model and does not want to challenge it, as China did not see it as a mechanism to contain China.

Second, China regards the pressure that comes with the TPP as a challenge as well as an opportunity for its further market-oriented reform and opening up. China's positive attitude toward the TPP partly reflects the fact that the agenda of the trade agreement matches that of China's reform. Some influential scholars in China such as Hu Shuli (2011) and Long Yongtu (Phoenix International Think Tank 2015) have discussed the fact that the pressure brought

⁸ See: www.cnn.com/TRANSCRIPTS/1210/22/se.03.html.

⁹ The full text of the TPP is available at: <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>.

on by the TPP could be used to further push market-oriented reform and opening up since the trade agreement was formally launched in 2011. They argue that many high standards in the trade agreement coincide with the direction of China's ongoing market-oriented reforms. The road map for China's reform under President Xi Jinping, the Decision on Major Issues Concerning Comprehensively Deepening Reforms adopted at the Third Plenary Session of the 18th CPC Central Committee, stipulates that it will "establish fair and transparent market regulations...[and] implement unified market access systems on the basis of negative lists"¹⁰ and proposes the "implementation of a management model for foreign investment with pre-entry national treatment plus the negative list."¹¹ These principles and goals are basically the same as the ones in the TPP text, specifically, chapter 2 on National Treatment and Market Access and chapter 9 on Investment.¹²

Other measures in the Chinese reform guidelines, such as "strive to eliminate market barriers" and "strictly punish and penalize all sorts of unlawful acts of extending preferential policies, oppose local protection, oppose monopolies and unfair competition" echo the rules in chapter 5 on Customs Administration and Trade Facilitation and chapter 8 on Technical Barriers to Trade in the TPP text. As for other high standards in the TPP — in terms of intellectual property, environment, competition, even state-owned enterprises (SOEs), to name a few — similar regulations or principles can also be found in the China's reform road map. Assuming that China can push through its market-oriented reforms with great determination, all the specific high standards in the TPP can be used to boost China's reform. In other words, the TPP will not be a problem for China because it is pushing through similar market-oriented reform measures set out in its reform road map.

After the TPP deal was reached on October 5, the voices suggesting the TPP be used as a driver for China's further market-oriented reforms became increasingly loud among the flood of suspicious opinions that the TPP would exclude and contain China. Long Yongtu, then chief representative for China's WTO entry negotiation, clearly expressed this opinion (Phoenix International Think Tank 2015). The *Study Times*, the mouthpiece of the CPC's Party School, claimed, surprisingly, that due to the similarities between the high standards in the TPP and China's reform agenda, China should join the TPP at an appropriate point in time that matches China's reform process (Xu and Gu 2015).

10 All sectors are open to all sorts of market entities unless non-conforming measures are noted in particular areas on the list.

11 The full text of the Decision on Major Issues Concerning Comprehensively Deepening Reforms is available at: www.china.org.cn/china/third_plenary_session/2014-01/16/content_31212602.htm.

12 See the TPP full text.

The views actually reflected Chinese reformers' expectation of further market-oriented reforms on the basis of rule of law. Since 2008, the pace of market-oriented economic reform has slowed down — in some areas, such as SOEs, they have stagnated, or even gone backward. Both top leaders (see Hu Jintao 2008; Xi Jinping 2012) and some renowned economists, such as Wu Jinglian, Zhou Qiren and Xu Xiaonian (see Hu and Wang 2013) warned that stagnation and regression would lead to a dead end on the path to reform. Government officials still hold too many resources and leverages, which they use to intervene heavily in the economic activities out of a consideration for their personal interests. The rule of law still lags far behind and it needs to be promoted. The transitioning of the economic growth model faced great difficulties and has not been moved forward for years. Under the circumstances, and encouraged by the positive, open-minded official Chinese view on the TPP, reformers are hopeful that the TPP can be used as a propeller to spur China's domestic reforms. This seems more likely as it is consistent with Chinese top leaders' intention to further push reform and the opening-up policy.

One thing that should be noted is that just because the high standards of the TPP can be used as a driver to push through China's reform doesn't mean China would completely follow the TPP standards. China will still adhere to its own agenda and its reform schedule will depend substantially on its practicalities, only with the specific TPP standards as reference.

Third, China has promoted its own RTA agenda, the RCEP, which excluded the United States. A number of ongoing bilateral FTA negotiations with TPP members and the BIT negotiation with the United States will push China to further assimilate into the global economy and neutralize the impact brought on by the TPP. China has already signed FTAs with seven members of the TPP (Singapore, Vietnam and Malaysia within the China-ASEAN Free Trade Area, and Chile, New Zealand, Peru and Australia¹³) and it will continue to promote its favourite bilateral FTA talks with its major trading partners, in particular those in the TPP, such as Japan and Canada. Among all the TPP members, only Mexico is not on China's agenda for either a FTA or BIT negotiation. China is also pushing other regional FTAs, and the negotiation on the China-Japan-South Korea FTA is one of the priorities. It was formally announced at the trilateral summit in November 2012.

As for the TPP's possible negative economic impact on China, a number of economists within and outside China have made their predictions. Based on model analysis, Peter Petri, Michael Plummer and Fan Zhai (2012, 41, 44, table 4.1, 4.2) estimate that the TPP could lead to a 1.2 percent decline in China's export because of trade

13 The Australian Senate approved the China-Australia FTA on November 9, 2015 and it went into effect on December 20, 2015.

diversion and 0.3 percent loss in China's GDP. Ma Jun, the chief economist from the Research Bureau at the People's Bank of China, and Xiao Mingzhi, a researcher from Shanghai, estimate China's income loss caused by the TPP could reach 2.2 percent of its GDP, based on a quantitative analysis (Ma and Xiao 2015). This presents the most serious estimate of income loss that China could suffer from being excluded from the TPP. In any case, China can dilute or offset the negative trade diversion caused by the TPP via promoting the RCEP, bilateral and other regional FTA negotiations. Theoretically, the RCEP alone can bring China an income gain of 1.4 percent of its GDP, according to the calculation by Petri, Plummer and Zhai (2012).

The RCEP, the FTA that evolved from ASEAN+6 and excludes the United States, was regarded by China as an effective counterbalance to the TPP. Under the pressure of ongoing TPP negotiations, China endorsed the possible members of the RCEP extending membership to all FTA partners of ASEAN and agreed to include investment and services into RCEP negotiation, the two areas it previously opposed. China was eager to use the RCEP to compete with the TPP, which was at a critical stage of negotiation since 2011. Japan supported the establishment of the RCEP with the intention of playing the "China card," to ask a higher price for it joining the TPP negotiation (Hamanaka 2014). The joint efforts by China and Japan finally helped to initiate the RCEP, which was formally launched in November 2012.

Unlike the TPP, the RCEP still mainly focuses on traditional issues such as tariff cuts, investment, trade in services and so on. Issues such as labour, the environment, government procurement, SOEs, and small and medium-sized enterprises are not included in the RCEP negotiation. Generally speaking, the TPP has higher standards in almost each aspect than the RCEP. For instance, the TPP has higher standards in the minimum years of protection for an intellectual property asset. The TPP approaches services and investment on a negative-list basis, which opens all sectors except those explicitly noted on the list, while the RCEP is likely to adopt a positive list (Petri and Abdul-Raheem 2014).

In short, the RCEP is a strengthened version of traditional RTAs based on the further reduction of tariffs at the best of times, with a higher level of openness in terms of trade in goods, services, investment, competition and intellectual property than the previous FTAs between ASEAN and its main trade partners in Asia-Pacific regions such as China, Japan, South Korea, India, and Australia and New Zealand. Compared to the high standards of the TPP in zero-tariff, more coercive rules and fewer exceptional cases, the RCEP is more inclined to show flexibility on the openness issue in almost all sectors and will allow certain exceptions to some least-developed ASEAN countries, based on the different level of development for each member of the RCEP.

The RCEP is an ideal platform for China to lead Asia-Pacific economic integration and strengthen its dominant role in the region. It also constitutes an important countermeasure to the TPP. Strategically it gives China more leverage to dilute the negative impact caused by the US-led TPP when it comes to trade rules making. It is supposed to reduce possible trade diversion and income loss for China caused by being excluded from the TPP, and boost the economic growth, further intensify integration and foster its relations with ASEAN and other neighbouring countries. China also hopes it can interface with China's One Belt, One Road Initiative and, finally, contribute to promoting its good-neighbour policy in the East Asian region, one of the priorities of China's foreign policy.

Fourth, and most important to counter the negative impact of the TPP, from China's perspective, is further pushing through the BIT negotiation with the United States and the European Union. On one hand, the high standards in the US-China BIT talks, once successfully completed, will cover almost all the core high standards in the TPP. In addition, the TPP is more like a bundle of bilateral deals, which means tariff concessions and schedules at the trade agreement will be decided on a bilateral basis, and there is not a common single tariff schedule. It is not a real regional agreement and its accession of future members has to be negotiated separately with each TPP member. (Hamanaka 2014; Devadason 2014). China's BIT talks with the United States, if finished, will be good enough for China to offset the possible economic loss caused by the TPP.

The investment chapter constitutes the core of the TPP as it stipulates the high standards on investment. Other chapters on SOEs, government procurement, intellectual property, the environment, labour rights, financial services, competition, investor-state dispute settlement and so on are all investment-related and serve to protect or facilitate the investments by transnational corporations. The TPP is essentially an investment agreement. Both the TPP chapter on investment and the US-China BIT negotiation are based on the same template, the 2012 US Model Bilateral Investment Treaty (Ren 2015). A successful US-China BIT agreement will make China more comfortable with accepting most of the rules at the TPP.

On the other hand, China always prefers bilateral talks to multilateral negotiations and China could have more leverage in the BIT talk with the United States. It would be more convenient for China to take the initiative and arrange the schedule for the talks and try to align the measures in the talks with its domestic agenda.

China-US BIT talks did not make much progress after the breakthrough in 2013, when the two countries agreed to negotiate based on pre-entry national treatment and a negative list. It seemed the two countries could not reach a compromise on which sectors should be put on the negative list. The US-China BIT talks again failed to come

to an agreement on the key issue of the negative list at the US-China summit at the end of September 2015. The United States complained that there are still 35–40 sectors on the Chinese list (Magnier 2015), which means they still remain off-limits to the foreign investors. China's counterclaim is that the US rules limiting Chinese participation in strategic infrastructure projects were "not transparent enough" (ibid.). The two countries need to drum up wider domestic support to further advance the negotiation.

Facing the great difficulties in the China-US BIT negotiation, perhaps China should pay more attention to the BIT talks with the European Union, which is also under pressure caused by the TPP and intends to expand its influence and economic interest through participation in the thriving economic growth in the Asia-Pacific. China, as the largest economy in Asia and the target nation of the TPP, is the best partner for the European Union's further involvement in this region. In that case, the China-EU BIT deal probably possesses more opportunities to be reached before the China-US BIT agreement, which will bring more pressure on China's domestic economic reform and can, conversely, make a positive impact on China-US BIT negotiation.

Currently, the China-EU BIT talks lag far behind the US-China BIT negotiations. It has not made any substantial progress since being launched in November 2013. The best result it can achieve is, perhaps, to come to a consensus on the scope of the negotiation and to offer a common text for substantive talks by the end of 2015. Negotiations held in January 2016 in Beijing made substantial progress. The European Union and China reached a consensus on the scope of the upcoming EU-China investment agreement, and several rounds of negotiations are expected throughout 2016 in order to hammer out the details of the agreement (Delegation of the European Union to China 2016). The pressure as a result of the TPP deal being reached and the demand for investment to boost the slow economic recovery in Europe can be expected to add new stimulus to the China-EU BIT talks. China's One Belt, One Road Initiative for promoting infrastructure investment to connect China and Europe via Central Asia and the European Union's "Juncker Plan," the €315 billion European Fund for Strategic Investments (EFSI), are expected to be docked to stimulate the weak European economic growth. Some infrastructure investment projects in Eastern Europe have begun, accompanying the implementation of the Belt and Road initiative, and China has confirmed it will pump billions of dollars to the newly established EFSI.

China hopes the new realities in the China-EU relations will help promote the BIT negotiation between the two sides. The China-EU BIT talks constitute the foundation for the China-EU free trade talks, which can only be initiated when the China-EU BIT talks are finished. The China-EU free trade talks are supposed to contain high-standard investment-related rules, which will be the crucial part of the China-EU free trade negotiation.

CHALLENGES FACING CHINA'S COUNTERMEASURE TO THE TPP

The high standards of the TPP pose a huge challenge to China if it wants to join the trade agreement. In general, implementation of a management model for foreign investment with the pre-entry national treatment and the negative list are two key issues. It is a totally new model and the reform faces resilient and powerful opposition, as the problems facing the Shanghai Free Trade Area trial illustrated.¹⁴ Specifically, China faces great difficulties when it pushes through reform in a variety of fields. Take the example of the TPP high standards of investments in financial services and telecommunication — the market access for international investors in these two areas will be very hard to achieve because of the existing high-entry barriers and the powerful interest groups within the two fields in China.

Both the China-US and China-EU BIT talks are extremely difficult negotiations. Determination from both sides is required and it will take years to finish them. The TPP's high standards in terms of "behind the border" issues including the environment, SOEs, government procurement, intellectual property, labour and electric commerce, however, posed even greater challenges to China. The SOEs and labour rights issues, in particular, concern the values and ideology of the Chinese government and it is hard to reach compromises. They constitute the most difficult issues, which could eventually prevent China from joining the TPP in the future, even if China can reach a deal with the United States on the BIT negotiation.

There is currently a wide gap in China's making and implementation of environmental protection standards, transparency requirements and environmental data monitoring, compared with the TPP standards. These gaps are difficult to bridge because they require institutional changes to the way the Chinese government governs and implements its environment policy. As for the SOEs, the TPP rule of competing fairly that requires SOEs compete on the basis of quality and price, not on the basis of discriminatory regulation, subsidies or favouritism, will really touch the core of China's SOE reform if China joins the trade agreement. The latest SOE reform package, revealed in September 2015, still emphasizes the core role of SOEs in serving China's strategy and industry policy.¹⁵ SOEs constitute the critical foundation for the CPC and Chinese government's rule.

¹⁴ The Shanghai Free Trade Area tried for the first time to establish the management model based on negative lists, but it turned out too many areas and sectors were put on the list.

¹⁵ The full text of the SOEs reform guideline is available at the website of the Chinese government (in Chinese): http://www.gov.cn/zhengce/content/2015-09/24/content_10177.htm.

China's government procurement, continually criticized for its high price and tedious procedure, is still miles apart from the TPP standards in terms of transparency, openness to foreign companies and supervision from a third party. In the area of IPR, China's efforts on IPR protection showed its determination and realization of the importance of IPR to China's economic development. The TRIPS-plus high standards on IPR in the TPP, however, constitute a great challenge to China. The Chinese pharmaceutical industry, in particular, will be under great pressure with a longer protection period for drug patents. For years the industry has been producing generic medicine,¹⁶ copies of brand-name drugs owned usually by foreign companies, without paying patent fees.

Labour poses another type of challenge to the Chinese government, and it will touch one of most sensitive issues concerning the Chinese government's rule. Broad commitments in the TPP will require all TPP parties to adopt and maintain in their laws and practices the fundamental labour rights as recognized by the International Labor Organization, including freedom of association and the right to collective bargaining, and the elimination of forced labour. Substantially implementing the labour standards in China will touch the bottom line of the Chinese government. Two commitments in particular — freedom of association and the right to collective bargaining — are beyond the scope that the Chinese government can tolerate. Compromise needs to be reached on the issue. E-commerce concerns the rules that keep the Internet free and open, which, like the labour issue, will go against China's way of ruling, that is, keeping a stable society through control of the media and exerting constraints on the Internet.

In summary, China is forging a high-level, global FTA network through promoting the RCEP and the bilateral FTAs and RTAs. China has signed 14 FTA agreements with 22 countries including ASEAN, South Korea, Australia, New Zealand, Switzerland and Chile. Most of them are in the Asia-Pacific region. All of these moves by China can be considered as countermeasures to the TPP. The global FTA network is a crucial component of China's goal of promoting an open world economy, which has been emphasized by President Xi in different international stages such as the G20 and APEC since he came to power in 2012. Domestically, scholars are advocating using the TPP as a booster to push through difficult economic reform, based on the similarities between China's reform agenda and the requirements of the TPP in terms of investment, SOEs and other rules that require further opening up in China's market.

16 Generic drugs account for 80 percent of the Chinese pharmaceutical market (Sun and He 2015).

CONCLUSION: CHINA'S POLICIES TOWARD THE WTO AND RTAs IN THE FUTURE

The TPP is a game changer that has profoundly affected China's policy toward the WTO and RTA negotiations. Although it is the second-largest economy, China continues to identify itself as a developing country, which has made a significant impact on China's policies and practices in global trade governance. In both the WTO or RTA negotiations, China's relations with the largest economy and the sole superpower, the United States, greatly affects its policies toward the multilateral trade talks and RTA negotiations.

China's policies toward the WTO and RTAs, the TPP in particular, are closely connected with its implementation of domestic market-oriented reform and opening-up policy. Its hesitance and reluctance in playing a leading role in the WTO and joining the TPP can be traced to the stagnation — or even regressive steps — of the market-oriented reform domestically. While China has played an increasingly important role in the Doha Round negotiation, voices suggesting that the market-oriented reform has gone too far and China should not go any further have gotten louder since 2010. China showed more reluctance to further pushing through its opening up in sectors such as financial services. Foreign investors in China complained they were not given national treatment,¹⁷ and their operations have been constrained. Their resentment at being excluded from the government procurement is at the centre of the complaints. China still has not signed the plurilateral agreement on government procurement in the WTO as it is worried that powerful American multinationals would push aside China's domestic suppliers (Cling 2014). Even though China's mainstream policy still prefers further reform and opening up, the stagnation of reform has already affected China's policy in the WTO negotiation.

However, there is no doubt that China's primary option for participation in global trade governance is to maintain the WTO as the most important multilateral trade regime. China gives great credit for its entry into the WTO to its rapid economic expansion since 2001. Although China overpaid the price for its accession to the WTO, no one, including the United States and China itself, ever predicted the rapid trade and economic growth in China since then. China understands that the WTO, the only global multilateral trade organization, has the biggest legitimacy in global trade governance with its universal membership (over 150) and the binding DSM. When the United States

17 National treatment in trade and investment agreements ensures that there is no discrimination between foreigners and nationals. It guarantees that foreign investors and their investments are treated no worse than domestic investors and their investments. Pre-entry national treatment means to provide national treatment for foreign capital during the pre-establishment stage.

pays much more attention and devotes more energy to the TPP than the WTO, it is time for China to take a leading role in the Doha Round negotiations.

At present, China is in the core circle of policy making, consisting of the trade G7 in the WTO, but still does not play a leading role as other emerging economies in the body, such as India and Brazil do. China did not take the initiative in promoting the Doha Round negotiation, but just acted as a positive participator. Faced with the restriction caused by the stagnation of the market-oriented economic reform, there are two aspects to the best course of action China should take to play a more active role to push through the Doha Round negotiations.

First, with its double identity as the world's second-largest economy and a developing country, China is in a better position than most of the trade G7 members in the WTO to coordinate with both developing members and developed countries, and to come to a consensus. After all, China had deemed that it could have signed the Doha Round agreement back in 2008 under the terms proposed in that meeting. This means China would also make further concessions to reach a deal when other members in the WTO agree to do the same. Second, China also needs to change its way of engaging with the WTO and its members. As a leader, it should allow others to take a "free ride." China then bears the responsibility to provide import markets to other countries. Combined with its domestic transitioning toward a more consumption-driven economic growth model, China needs to further foster its domestic market, which has huge potential to contain both indigenous and imported products in an enormous quantity. At the same time, China should continue to help other developing countries, for example, by relieving debts for the least-developed countries. By doing so, China can pave the way toward a leading role in the WTO and the chances for achieving the goal are higher than they were in previous years.

China's engagement in RTA negotiations was both out of worry of being excluded and marginalized by the negotiations China did not participate in, and China's intention to further promote its trade relations with its main partners. The rise of the TPP reflects the US willingness and aggressive attitude to pivot (or balance) to the Asia-Pacific region, and to lead the economic integration in the region with a model trade and investment agreement for the twenty-first century. The TPP was initiated by the US concern of being excluded by China from the economic prosperity and integration in the Asia-Pacific region.

China faced even greater pressure than the United States once the US-led high-standard TPP negotiation was formally undertaken in 2011, while China was still mainly seeking to negotiate traditional FTAs based on tariff reductions and limited market access. China then had to step up its pace to promote the more comprehensive FTAs

such as the RCEP and other regional and bilateral FTAs as counterbalancing measures to the TPP. The problem for China is it lacks the same leadership and capacity as the United States when it comes to promoting a comprehensive, high-level agreement in the pluralistic Asia-Pacific region. The more complicated membership structure in the RCEP, with the inclusion of another regional power, India, added extra difficulties to the task of finishing the deal in a short period. When the United States pushed hard on the high-level TPP and finally reached a deal, China lost its edge in the competition with the United States.

The China-US BIT negotiation bears the best hope for China to offset the negative impact brought on by the TPP. Once the deal is reached, the China-US BIT talks will sweep away most of the barriers that prevent China from participating in the TPP and global trade governance. The mistrust that stands out in US-China relations as a whole in recent years intensified the competition between the two countries in leading the economic integration in the Asia-Pacific region.

There are some positive components in the economic competition centred on the TPP and RCEP between China and the United States. The Chinese government did take an open and positive attitude toward the TPP and its domestic reformers are proposing strongly that China can take the pressure exerted by the TPP to push through its tough domestic economic reforms. They are expecting that China will be invited by the United States to join the TPP soon, considering the US intention to engage and further incorporate China into the US-led high-standard rule-based global trade and investment regimes. What is more, both China and the United States have the long-term goal of establishing the FTAAP. The United States regards the TPP as the pathway to the FTAAP and China takes the RCEP as the template of the FTAAP, which imply the hopes for the two RTAs being merged together and coordinated into a high-level FTAAP in the future. There are many overlaps between the two RTAs in terms of members and goals.

The biggest challenge for China joining the TPP lies in whether it can push the market-oriented reforms, in particular the SOEs reforms. It will be out of the question for Chinese leaders to agree to adopt the TPP's high standards for SOEs. The reform guideline for SOEs released in September 2015 showed Chinese leaders still can only promote limited reforms on SOEs, such as allowing some shares to be held by private investors. The CPC's control over key industries through SOEs is emphasized again in the guideline. It seems impossible for China to come to a compromise with the United States on it. However, exceptions have to be made if the United States wants to engage China with its twenty-first-century trade and investment rules and let China join the TPP. In that case, there will be a future for the FTAAP and it will provide a solid foundation for promoting stable China-US relations as a whole.

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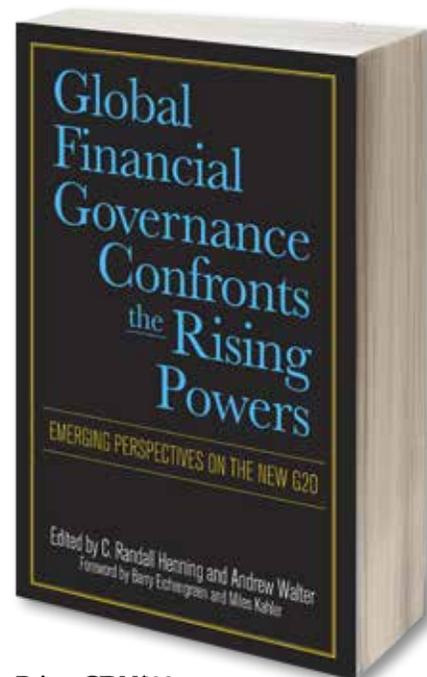
Global Financial Governance Confronts the Rising Powers: Emerging Perspectives on the New G20

Edited by C. Randall Henning and Andrew Walter

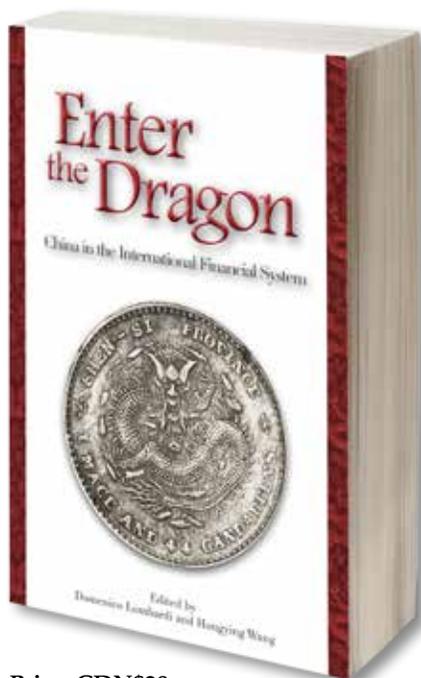
Foreword by Barry Eichengreen and Miles Kahler

Emerging market and developing countries have doubled their share of world economic output over the last 20 years, while the share of the major developed countries has fallen below 50 percent and continues to decline. The new powers are not simply emerging; they have already emerged. This will remain true despite financial turmoil in some of the rising powers. This historic shift in the structure of the world economy affects the governance of international economic and financial institutions, the coordination of policy among member states and the stability of global financial markets. How exactly global governance responds to the rising powers — whether it accommodates or constrains them — is a leading question, perhaps *the* leading question, in the policy discourse on governance innovation and the study of international political economy.

Global Financial Governance Confronts the Rising Powers addresses the challenge that the rising powers pose for global governance, substantively and institutionally, in the domain of financial and macroeconomic cooperation. It examines the issues that are before the G20 that are of particular concern to these newly influential countries and how international financial institutions and financial standard-setting bodies have responded. With authors who are mainly from the large emerging market countries, the book presents rising power perspectives on financial policies and governance that should be of keen interest to advanced countries, established and evolving institutions, and the G20.



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Edited by Domenico Lombardi and Hongying Wang

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