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CHINA AND THE TRANS-PACIFIC PARTNERSHIP AGREEMENT

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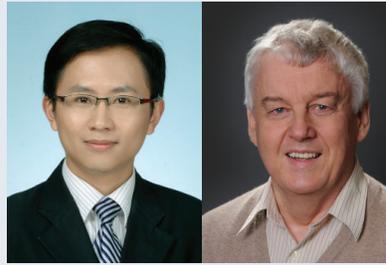
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Through its research, collaboration and publications, the Global Economy Program informs decision makers, fosters dialogue and debate on policy-relevant ideas and strengthens multilateral responses to the most pressing international governance issues.

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ACRONYMS

APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BIT	bilateral investment treaty
CEPA	Closer Economic Partnership Arrangement
ECFA	Economic Cooperation Framework Agreement
FTA	free trade agreement
FTZ	Free Trade Zone
GATS	General Agreement on Trade in Services
NAFTA	North American Free Trade Agreement
NTB	non-tariff barrier
P4	Pacific Four
RTAs	regional trade agreements
RCEP	Regional Comprehensive Economic Partnership
SMEs	small and medium-sized enterprises
SPS	sanitary and phytosanitary
SOEs	state-owned enterprises
TPP	Trans-Pacific Partnership
TRIPS	Trade-Related Aspects of Intellectual Property Rights
USTR	United States Trade Representative
WTO	World Trade Organization

EXECUTIVE SUMMARY

The Trans-Pacific Partnership (TPP) Agreement has now been concluded, but it still faces the challenge of ratification in each of the 12 member countries that are partners to the agreement. China is the world's second-largest economy, but is not part of the TPP Agreement, which has provoked a great deal of debate in China on the best strategy for China to deal with the TPP. This paper analyzes China's possible trade strategy, raising three issues for consideration, given the TPP Agreement. First, security of market access should be China's main concern in any free trade agreement (FTA) negotiation, but the TPP does not include content that is particularly relevant to this issue. Second, the final TPP Agreement is somewhat less than the high-level, ambitious agreement that has been proclaimed. Third, the ratification process in all 12 member countries will be slow and may possibly not even happen. This paper sets out four strategies for

China: to promote the development of China's remaining regional and bilateral FTAs; to negotiate a bilateral FTA with the United States; to promote deep domestic reform and opening up by enlarging the coverage of the TPP; and, finally, to negotiate its entry in the TPP as soon as possible, so that the terms of entering the agreement do not degenerate for China.

INTRODUCTION

The TPP, also known as the Trans-Pacific Strategic Economic Partnership Agreement, concluded a multi-year negotiation on October 5, 2015. Although China is the second-largest economy in the world, it is not part of the TPP, which makes the issue of China's reaction to the TPP important. This paper raises three points that China should consider when deciding on its strategy to respond to the TPP. The first is that the present TPP Agreement does not include content that deals with China's main trade policy concern of security of market access — in particular, anti-dumping. The second is that the present TPP Agreement does not appear to be the high-standard and ambitious agreement that was proclaimed when it was announced. The agreement has made little progress in agriculture and service sector liberalization, and focuses on conventional goods liberalization, which is already liberalized both multilaterally and bilaterally among TPP members. Much of the content of the TPP is, in reality, close to a restatement of World Trade Organization (WTO) disciplines that have already been agreed. Finally, the TPP still needs to be approved by all member countries' governments, which implies that it will take a long time until implementation.

A summary document on the TPP issued by the United States Trade Representative (USTR) on October 5, 2015 (USTR 2015), suggests that a high-standard, ambitious, comprehensive and balanced agreement has been created and emphasizes that the TPP aims to promote economic growth and support the creation and retention of jobs, and will enhance innovation, raise living standards, reduce poverty, promote transparency and enhance labour and environmental protection. However, this paper views the TPP basically as yet another agreement that largely restates WTO disciplines, with only some new marginal content in e-commerce, competition policy and state-owned enterprises (SOEs).

Given this perspective, the paper discusses four possible approaches for China's strategy toward the TPP. First, China could promote the development of regional and bilateral FTAs, such as the Regional Comprehensive Economic Partnership (RCEP), the China-Japan-Korea FTA, and bilateral FTAs with TPP member countries. Second, China could think about negotiating a China-US bilateral FTA, although it may be difficult at the present time. The China-US bilateral investment treaty (BIT) would be a good basis for a bilateral FTA. Third, if China wants to take part in the TPP, it should negotiate its entrance

as soon as possible, before other countries that plan to enter the TPP (as more countries in the TPP will increase the difficulty of negotiating), and China should promote going beyond the present TPP to include more content that China is interested in (such as anti-dumping). Lastly, China should promote further deep domestic reform and opening up to offset the influence of TPP.

THE DEVELOPMENT AND CONTENT OF THE TPP AGREEMENT

The TPP is a multilateral FTA that aims to further liberalize the economies in the Asia-Pacific region. Current member countries are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam — a total of 12 countries. Although all of these countries are members of the Asia-Pacific Economic Cooperation (APEC), the TPP is not an APEC initiative. Instead, it is considered to be a step toward the proposed Free Trade Area of the Asia-Pacific. The difference in the country membership between the TPP and APEC are shown in Figure 1.

Figure 1: Member Countries of the TPP and APEC

APEC Members Not in the TPP		Present TPP Countries in APEC	
China			
Hong Kong			
Indonesia		Australia	Singapore
South Korea		Brunei	United States
Papua New Guinea		Chile	Vietnam
Philippines		Malaysia	Canada
Russia		New Zealand	Mexico
Taiwan		Peru	Japan
Thailand			

Source: Compiled by authors.

The history of the TPP can be traced back to the Pacific Three Closer Economic Partnership. Its negotiation was launched on the sidelines of the 2002 APEC Leaders' Meeting in Los Cabos, Mexico, by Chilean President Ricardo Lagos, and Prime Ministers Goh Chok Tong of Singapore and Helen Clark of New Zealand. Brunei first took part as a full negotiating party in the fifth round of talks in April 2005. After that, the trade bloc became known as the Pacific Four (P4). The objective of the original agreement was to eliminate 90 percent of all tariffs between member countries by January 1, 2006, and reduce all trade tariffs to zero by 2015. It was also to be a comprehensive

agreement covering all the main components of an FTA, including trade in goods, rules of origin, trade remedies, sanitary and phytosanitary (SPS) measures, technical barriers to trade, trade in services, intellectual property, government procurement and competition policy (Li and Whalley 2014).

After the P4 negotiations concluded in 2005, its parties agreed to begin negotiating on financial services and investment, which were not covered by the original agreement, within two years of its entry into force. When these negotiations began in March 2008, the United States joined the group pending a decision on whether to participate in a comprehensive negotiation for an expanded TPP Agreement. In September 2008, the United States announced it would participate fully in the negotiations, and Australia, Peru and Vietnam also joined (Williams 2012).

In November 2009, US President Barack Obama affirmed that the United States would engage with TPP countries. Negotiations for an expanded agreement began in March 2010. During the third-round negotiation held in Brunei in October 2010, Malaysia also joined the negotiations. In June 2012, it was announced that Canada and Mexico would also join TPP negotiations. Mexico's interest in joining was initially met with concern among TPP negotiators about its customs policies. Canada and Mexico formally became TPP negotiating participants in October 2012, following completion of the domestic consultation periods of the other nine members. Japan joined as an observer in the TPP discussions, which took place on November 13-14, 2010, on the sidelines of the APEC summit in Yokohama. Japan declared its intent to join the TPP negotiations on March 13, 2013, and formally become a full negotiating partner in August 2013 (Wikipedia 2015).

After years of negotiations, the 12-member TPP Agreement was concluded on October 5, 2015. The deal now faces the challenge of ratification in each of the 12 countries.

The TPP is declared to be a landmark twenty-first century agreement. The summary of the TPP Agreement from the USTR says that it has five defining features that will set a new standard for global trade. The first "claimed" feature is comprehensive market access. The TPP eliminates or reduces tariffs and non-tariff barriers across substantially both trade in goods and services, and covers the full spectrum of trade, to create new opportunities and benefits for business, workers and consumers in member countries. The second claimed feature is a regional approach to commitments. The TPP is expected to facilitate the development of production and supply chains, and seamless trade, enhancing efficiency and supporting the goal of creating and supporting jobs, raising living standards, enhancing conservation efforts, and facilitating cross-border integration, as well as opening domestic markets. The third claimed feature is addressing new trade challenges. The TPP is anticipated to promote

innovation, productivity and competitiveness by addressing new issues, including the development of the digital economy and the role of SOEs in the global economy. The fourth benefit touted is inclusive trade. The TPP includes new elements that seek to ensure that economies at all levels of development and businesses of all sizes can benefit from trade. The last claimed feature is that the TPP is intended to be a platform for regional economic integration and is designed to include additional economies across the Asia-Pacific region (USTR 2015). However, according to the summary of detailed TPP Agreement content from the USTR, the TPP is not really the high-standard and ambitious agreement claimed, since much of its content appears to be largely a restatement of WTO disciplines, or the same content can be found in other regional trade agreements (RTAs) such as the North American Free Trade Agreement (NAFTA).

The TPP Agreement includes 30 chapters covering trade and trade-related issues, beginning with trade in goods and continuing through customs and trade facilitation; SPS measures; technical barriers to trade; trade remedies; investment; services; electronic commerce; government procurement; intellectual property; labour; environment; “horizontal” chapters meant to ensure that TPP fulfills its potential for development, competitiveness and inclusiveness; and dispute settlement, exceptions and institutional provisions. The 30 chapters are each briefly outlined below, according to the USTR summary (USTR 2015) of the TPP Agreement.

Chapter 1 is Initial Provisions and General Definitions. This chapter recognizes that the TPP can coexist with other international trade agreements between the parties, including the WTO Agreement and bilateral and regional agreements.

Chapter 2 is Trade in Goods. The USTR summary states that the TPP parties agree to eliminate and reduce tariffs and non-tariff barriers on industrial goods, and to eliminate or reduce tariffs and other restrictive policies on agricultural goods. Most tariff elimination in industrial goods will be implemented immediately, although tariffs on some products will be eliminated over longer time frames, as agreed by the TPP parties. On agricultural products, the parties will eliminate or reduce tariffs and other restrictive policies, which will increase agricultural trade within the region, and enhance food security. It is argued in this paper that import tariffs of TPP member countries are now small and many of these member countries have already formed bilateral or regional FTAs.

Chapter 3 is Textiles and Apparel. The USTR says the TPP parties agree to eliminate tariffs on textiles and apparel, while these industries are important contributors to economic growth in several TPP parties’ markets. Most tariffs will be eliminated immediately, although tariffs on some sensitive products will be eliminated over longer time frames, as agreed by the TPP parties. As stated earlier

in this paper, this content resembles a restatement of WTO disciplines.

Chapter 4 is Rules of Origin. The USTR says the 12 parties have agreed on a single set of rules of origin that define whether a particular good is “originating” and therefore eligible to receive TPP preferential tariff benefits. The TPP provides for “accumulation,” so that, in general, inputs from one TPP party are treated the same as materials from any other TPP party, if used to produce a product in any TPP party. With already-low tariffs, the quantitative importance of this chapter seems small.

Chapter 5 is Customs Administration and Trade Facilitation. The USTR summary of the agreement says that the TPP parties have agreed on rules to enhance the facilitation of trade, improve transparency in customs procedures and ensure integrity in customs administration. TPP parties have agreed on transparent rules, including publishing their customs laws and regulations, as well as provision for release of goods without unnecessary delay and on bond or “payment under protest,” where customs has not yet made a decision on the amount of duties or fees owed. They agree to advance rulings on customs valuation and other matters, and also agree to disciplines on customs penalties and provide expedited customs procedures for express shipments. The authors of this paper argue that this content also seems like a restatement of WTO rules.

Chapter 6 is Sanitary and Phytosanitary (SPS) Measures. According to the USTR summary, the TPP parties have advanced their shared interest in ensuring transparent, non-discriminatory rules based on science, and reaffirmed their right to protect human, animal or plant life or health in their countries. The TPP builds on WTO SPS rules for identifying and managing risks in a manner that is no more trade restrictive than necessary. In an effort to rapidly resolve SPS matters that emerge between them, the parties have agreed to establish a mechanism for consultations between governments. It is the authors’ belief that, again, this content has made little specific progress and seems like a restatement of WTO disciplines.

Chapter 7 is Technical Barriers to Trade. The USTR says that the TPP parties have agreed on transparent, non-discriminatory rules for developing technical regulations, standards and conformity assessment procedures, while preserving the TPP parties’ ability to fulfill legitimate objectives. They agree to cooperate to ensure that technical regulations and standards do not create unnecessary barriers to trade. To reduce costs for TPP businesses, especially small businesses, TPP parties have agreed to rules that will facilitate the acceptance of the results of conformity assessment procedures from the conformity assessment bodies in the other TPP parties, making it easier for companies to access TPP markets. The authors’ comments mirror their comments on the SPS chapter.

Chapter 8 is Trade Remedies. The USTR summary says the Trade Remedies chapter promotes transparency and due process in trade remedy proceedings through the recognition of best practices, but does not affect the TPP parties' rights and obligations under the WTO. The chapter provides for a transitional safeguard mechanism, which allows a party to apply a transitional safeguard measure during a certain period of time, if increases in imports as a result of the tariff cuts implemented under the TPP cause serious injury to a domestic industry. It is the authors' opinion that this chapter not only restates WTO disciplines, but worsens the security access through new transitional safeguards.

Chapter 9 is Investment. The USTR says that the TPP parties set out rules requiring non-discriminatory investment policies and protections that assure basic rule of law protections, while protecting the ability of parties' governments to achieve legitimate public policy objectives. The TPP provides the basic investment protections that can be found in other investment-related agreements, including: national treatment; most-favoured-nation treatment; "minimum standard of treatment" for investments; prohibition of expropriation; free transfer of funds related to an investment; and freedom to appoint senior management positions of any nationality. TPP parties adopt a "negative-list" basis, meaning that their markets are fully open to foreign investors, except where they have taken an exception.

Chapter 10 is Cross-Border Trade in Services. The USTR summary states that the TPP includes core obligations that can be found in the WTO and other trade agreements: national treatment; most-favoured-nation treatment; market access, which provides that no TPP country may impose quantitative restrictions on the supply of services or require a specific type of legal entity or joint venture; and local presence. TPP parties accept these obligations on a negative-list basis meaning that their markets are fully open to services suppliers from TPP countries, except where they have taken an exception. TPP parties also agree to administer measures of general application in a reasonable, objective and impartial manner, and to accept requirements for transparency in the development of new services regulations. The content of this chapter seems to not exceed the disciplines of the WTO's General Agreement on Trade in Services (GATS), as well being very general.

Chapter 11 is Financial Services. The USTR states that the TPP financial services chapter will provide important cross-border and investment market access opportunities, while ensuring that parties will retain the ability to regulate financial markets and institutions and to take emergency measures in the event of crisis. The chapter includes core obligations that can be found in other trade agreements, including: national treatment; most-favoured-nation treatment; market access; and certain provisions under the Investment chapter, including the minimum standard of treatment. The TPP parties also set out rules that formally

recognize the importance of regulatory procedures to expedite the offering of insurance services by licensed suppliers and procedures to achieve this outcome. In addition, the TPP includes specific commitments on portfolio management, electronic payment card services and transfer of information for data processing. This chapter does not deal with the core rules of service liberalization.

Chapter 12 is Temporary Entry for Business Persons. According to the USTR summary, this chapter encourages authorities of TPP parties to provide information on applications for temporary entry, to ensure that application fees are reasonable and to make decisions on applications and inform applicants of decisions as quickly as possible. This content seems very small in terms of quantitative impact.

Chapter 13 is Telecommunications. The USTR says that the TPP parties share an interest in ensuring efficient and reliable telecommunications networks in their countries. These networks are critical to companies both large and small for providing services. The TPP parties commit to ensure that major telecommunications services suppliers in their territory provide interconnection, leased circuit services, co-location and access to poles and other facilities under reasonable terms and conditions, and in a timely manner. They also commit, where a license is required, to ensure transparency in regulatory processes and that regulations do not generally discriminate against specific technologies.

Chapter 14 is Electronic Commerce. The USTR states that the TPP parties commit to ensure the free flow of the global information and data that drive the Internet and the digital economy, subject to legitimate public policy objectives such as personal information protection. The 12 parties also agree to not require that TPP companies build data centres to store data as a condition for operating in a TPP market, and, in addition, that source code of software is not required to be transferred or accessed. This TPP content is new, but not sufficient.

Chapter 15 is Government Procurement. The USTR says that TPP parties share an interest in accessing each other's large government procurement markets through transparent, predictable and non-discriminatory rules. In the Government Procurement chapter, TPP parties commit to core disciplines of national treatment and non-discrimination. They also agree to publish relevant information in a timely manner, to allow sufficient time for suppliers to obtain the tender documentation and submit a bid, to treat tenders fairly and impartially, and to maintain the confidentiality of tenders. This chapter's content can be found in WTO disciplines and NAFTA agreement disciplines and is not new or of a high standard.

Chapter 16 is Competition Policy. The USTR states that TPP parties share an interest in ensuring a framework of

fair competition in the region through rules that require TPP parties to maintain legal regimes that prohibit anti-competitive business conduct, as well as fraudulent and deceptive commercial activities that harm consumers. TPP parties agree to adopt or maintain national competition laws that proscribe anti-competitive business conduct and work to apply these laws to all commercial activities in their territories. The authors argue that these are measures and rules that can be found in other RTAs.

Chapter 17 is SOEs and Designated Monopolies. The USTR summary says this chapter covers large SOEs that are principally engaged in commercial activities. The parties agree to ensure that their SOEs make commercial purchases and sales on the basis of commercial considerations, except when doing so would be inconsistent with any mandate under which an SOE is operating that would require it to provide public services. They also agree to ensure that their SOEs or designated monopolies do not discriminate against the enterprises, goods and services of other parties. The SOEs chapter is new compared with present FTA agreements.

Chapter 18 is Intellectual Property. The USTR summary states that the TPP's Intellectual Property chapter covers patents, trademarks, copyright, industrial designs, geographical indications, trade secrets, other forms of intellectual property and enforcement of intellectual property rights, as well as areas in which the parties agree to cooperate. The chapter establishes standards for patents, based on the WTO's TRIPS (Trade-Related Aspects of Intellectual Property Rights) Agreement and international best practices. In addition, this chapter contains pharmaceutical-related provisions that facilitate both the development of innovative and life-saving medicines and the availability of generic medicines, taking into account the time that various parties may need to meet these standards. The TPP parties have agreed to provide strong enforcement systems. This chapter's content seems to be, for the most part, restatements of the WTO's TRIPS agreement.

Chapter 19 is Labour. According to the USTR summary, TPP parties agree to adopt and maintain in their laws and practices the fundamental labour rights as recognized in the International Labour Organization 1998 Declaration, namely: freedom of association and the right to collective bargaining; elimination of forced labour; abolition of child labour and a prohibition on the worst forms of child labour; and elimination of discrimination in employment. This content has no specific measures to promote the free flow of labour.

Chapter 20 is the Environment. The USTR says that the TPP parties share a strong commitment to protecting and conserving the environment, including working together to address environmental challenges. The 12 parties agree to effectively enforce their environmental laws. They also agree to fulfill their obligations under the Convention on

International Trade in Endangered Species of Wild Fauna and Flora. This chapter's content also has few other specific measures.

Chapter 21 is Cooperation and Capacity Building. The USTR summary of this chapter states that a Committee on Cooperation and Capacity Building to identify and review areas for potential cooperative and capacity building efforts will be established. The parties' activities are on a mutually agreed basis and subject to the availability of resources. These contents are not important for trade liberalization.

Chapter 22 is Competitiveness and Business Facilitation. The USTR summary says this chapter creates formal mechanisms to review the impact of the TPP on the competitiveness of the parties, through dialogues among governments and between government, business and civil society, with a particular focus on deepening regional supply chains, to assess progress, take advantage of new opportunities and address any challenges that may emerge once the TPP is in force. This chapter's contents are valuable, but do not include core liberalization subject matter.

Chapter 23 is Development. The USTR says the TPP parties seek to ensure that the TPP will be a high-standard model for trade and economic integration, and, in particular, to ensure that all TPP parties can obtain the complete benefits of the TPP, are fully able to implement their commitments and emerge as more prosperous societies with strong markets. The Development chapter includes three specific areas to be considered for collaborative work once the TPP enters into force for each party: broad-based economic growth; women and economic growth; and education, science and technology, research, and innovation. This chapter's content seems too general to significantly promote trade liberalization or to set new rules.

Chapter 24 is Small and Medium-Sized Enterprises (SMEs). The USTR summary states that the TPP parties have a shared interest in promoting the participation of SMEs in trade and to ensure that SMEs share in the benefits of the TPP. This complements the commitments in other chapters of the TPP on market access, paperwork reduction, Internet access, trade facilitation, express delivery and others. This chapter's content is too general to accomplish much.

Chapter 25 is Regulatory Coherence. The USTR says this chapter aims to facilitate regulatory coherence in each TPP country by promoting mechanisms for effective interagency consultation and coordination for agencies. It encourages widely accepted effective regulatory practices, such as impact assessments of proposed regulatory measures, communication of the grounds for the selection of chosen regulatory alternatives and the nature of the regulation being introduced. The chapter also includes provisions to help ensure regulations are written clearly and concisely. This chapter's content uses significant trade liberalization measures that are not effective given their lack of severity.

Chapter 26 is Transparency and Anticorruption. The USTR states that the TPP parties need to ensure that their laws, regulations and administrative rulings of general application with respect to any matter covered by the TPP are publicly available and that, to the extent possible, regulations that are likely to affect trade or investment between the parties are subject to a period of notice and comment. They also agree to adopt or maintain laws criminalizing offering or soliciting of undue advantages by a public official, as well as other acts of corruption affecting international trade or investment. The parties also commit to effectively enforce their anticorruption laws and regulations. This chapter's contents are too general to achieve much progress.

Chapter 27 is Administrative and Institutional Provisions. The USTR summary says the Administrative and Institutional Provisions chapter sets out the institutional framework by which the parties will assess and guide implementation or operation of the TPP, in particular by establishing the TPP Commission, composed of ministers or senior-level officials, to oversee the implementation or operation of the TPP Agreement and guide its future evolution. The content in this chapter does not have strong measures.

Chapter 28 is Dispute Settlement. The USTR says that the TPP parties will make every attempt to resolve disputes through cooperation and consultation, and encourage the use of alternative dispute resolution mechanisms when appropriate. The public in each TPP party will be able to follow proceedings, since submissions made in disputes will be made available to the public, hearings will be open to the public unless the disputing parties agree otherwise and the final report presented by panels will also be made available to the public. This content can already be found in WTO and NAFTA agreement disciplines.

Chapter 29 is Exceptions. The USTR summary says this chapter incorporates the general exceptions provided for in Article XX of the General Agreement on Tariffs and Trade 1994 to the goods trade-related provisions. The chapter also contains the similar general exceptions provided for in Article XIV of the GATS with respect to the services trade-related provisions. The chapter includes a self-judging exception, applicable to the entire TPP, which makes clear that a party may take any measure it considers necessary for the protection of its essential security interests. This chapter is not significant for trade liberalization.

Chapter 30 is Final Provisions. The USTR states this chapter defines the way the TPP will enter into force, the way in which it can be amended, the rules that establish the process for other states or separate customs territories to join the TPP in the future, the means by which parties can withdraw and the authentic languages of the TPP. It also designates a Depository for the Agreement responsible for receiving and disseminating documents (USTR 2015).

THE TPP IS NOT A MAJOR THREAT TO CHINA

The TPP Agreement is important, not only because the 12 member countries encompass about 40 percent of world GDP, but also because it has an important rule-setting target. The TPP has been seen as a restraining strategy for the United States toward China, since China is not a partner of the trade deal. However, the present TPP Agreement is actually not a major threat to China since its new content is limited.

The TPP Has Not Dealt with China's Main Concerns on Trade Policy

China has experienced high trade growth after its accession to the WTO in 2001, and now it is the largest exporting country in the world. Among China's trade, unsecured risks such as anti-dumping, countervailing and some other environmental and technical barriers are the main obstacles and threats. Therefore, security of market access and guaranteed market entry in order to avoid trade interventions are China's main concerns in trade agreements, but the TPP has made little progress on these.

The TPP is not a High-Standard RTA as Declared

The TPP has declared itself to be a high-standard, ambitious, comprehensive and balanced agreement. Is the TPP really such a big and high-standard deal? According to the summary of the TPP Agreement from the USTR, it does not set many high-standard rules. Much of the TPP content and rules have not gone beyond the WTO rules and other regional or bilateral deals. The focus of the TPP rules is in the field of goods trade. The content of each chapter discussed above demonstrates that the TPP Agreement has somewhat limited new content.

It was announced that the TPP incorporates new and emerging trade issues and crosscutting issues. These include issues related to the Internet and the digital economy, the participation of SOEs in international trade and investment, the ability of small businesses to take advantage of trade agreements and other topics. But these rules are not "high standard" as stated.

Additionally, in the trade liberalizing section, the TPP does not look very impressive. Six of its members already have FTAs with the United States; therefore, any improvement in market access for these countries is likely to be limited. Liberalization is apt to be phased in gradually. Therefore, it is expected that trade may be a bit freer between the TPP members, but it will be far from completely free. This means that the negative impacts of the TPP on China will be limited.

Table 1: The Effects of the TPP on China and Some Other Large Countries (%)

Items	Country	Δ Welfare	Δ Production	Δ Export	Δ Import	Δ Imbalance
Only tariff elimination	China	-0.0671	0.0107	0.2111	-0.1649	3.3944
	United States	0.0175	-0.0520	3.7242	2.4495	-0.1537
	EU	-0.0191	-0.0031	0.1024	0.0227	-0.3593
	Japan	-0.0103	-0.0791	1.6662	1.6984	2.4255
	Korea	-0.0528	0.0125	0.0330	-0.0981	2.4446
	Canada	0.1533	-0.0407	4.8577	5.4138	22.8273
50% NTB elimination	China	-0.1758	0.0273	0.3077	-0.4351	6.5965
	United States	0.2676	0.1941	7.8922	5.3079	0.0303
	EU	-0.0477	-0.0024	0.1094	0.0039	-0.5013
	Japan	0.5891	0.3491	9.4239	8.8443	-4.2433
	Korea	-0.1379	0.0277	-0.0062	-0.2646	4.7482
	Canada	0.5385	0.2726	7.1674	8.1742	39.6966
Trade cost elimination	China	-0.2004	0.0078	0.8774	-0.5738	13.1647
	United States	0.6679	0.5567	13.8591	10.7280	4.3336
	EU	0.0600	-0.0648	0.1612	0.9579	4.7753
	Japan	1.7761	1.0960	19.7910	22.7881	90.4559
	Korea	0.9290	-0.2749	-2.8899	1.9918	-92.7179
	Canada	1.8883	0.7342	8.2223	16.3648	271.3036

Source: Li and Whalley (2014).

Member Country's Domestic Approval Process May Last a Long Time

The TPP Agreement has concluded negotiations, but has not yet been approved and ratified by the domestic governments of each of the 12 member countries. This domestic approval process will be challenging and may last a long time, especially in the situation facing countries such as the United States and Australia, which are in an election year.

In the United States, congressional Republicans and a few of their business allies now pose the biggest threat to the TPP. When the TPP Agreement was concluded on October 5, 2015, neither a single Republican leader in Congress nor any broad business federation in the United States could be found to support the TPP. In Japan and Australia, it will also not be easy for the TPP to be approved.

Numerical Simulation Results Show the Impacts of the TPP on China are Limited

An earlier research paper by Li and Whalley (2014), uses an 11-country numerical Armington-type global general equilibrium model to explore the impacts of the TPP on China. The model captures trade costs and uses a monetary structure of inside money, both to endogenously determine trade imbalance effects from the trade initiative and allow calibration to a base case capturing China's large

trade surplus. It captures endogenously determined trade imbalances by incorporating both current consumption and expected future incremental consumption from saving into the model using an analytical structure. The model was calibrated to 2011 data and used counterfactual simulations to explore TPP effects.

Table 1 shows the main effects of the TPP on China and some other large countries. Simulation results show that China's welfare will be adversely affected by the TPP. In the under 50 percent non-tariff barrier (NTB) elimination case, China's welfare will decrease 0.1758 percent. China's production will increase due to export increase and import decrease, then trade imbalance increases. For some other large countries, the effects are different under non-tariff elimination cases. Under the 50 percent NTB elimination case, some countries' welfare will increase, including the United States, Japan and Canada, but some countries' welfare will decrease, including the European Union and Korea. Almost all countries' production will increase except the European Union. Most countries' exports and imports will increase except Korea. Most countries' trade imbalance will increase except the European Union and Japan.

The simulation results show, not surprisingly, that the TPP initiative will hurt China in welfare, but these effects are relatively small under the present TPP, and China's exports and total production will increase because of increased

outside demand. China's welfare loss is due to a decline in consumption induced by increased exports and decreased imports. Most TPP member countries will gain in nearly all aspects including welfare, production and trade. Other non-TPP member countries will be mostly hurt in welfare as well, but some of these countries' production will increase.

From the view of the global value chain, it is actually impossible to leave China out of the world's biggest trade deal. Given China's investment in the TPP's developing country members such as Brunei, Chile, Malaysia and Vietnam, China has the capability to design, develop and produce products that can easily make their way into the US market via TPP intermediaries.

CHINA'S FUTURE STRATEGY TOWARD THE TPP

After the conclusion of the TPP Agreement, a lot of discussions have been focused on China's future strategies as it is not part of the TPP. From the reaction of its government, China is now taking a wait-and-see approach, as the Ministry of Commerce has called it, an "open-minded attitude." There are four possible approaches that China can take to deal with the challenges of the TPP.

Promoting China's Involvement in Regional and Bilateral FTAs

China clearly sees both regional and bilateral FTAs as an increasingly key element of its integration into the global economy, a broader strategy that still underpins its overall growth strategy. The current focus of these agreements is mainly within Asia, and to a further degree in the Pacific. The idea is to use RTAs to further open up the economy to the outside world and speed up domestic reforms. RTAs are seen as strengthening economic cooperation with other economies, as well as providing a supplement to the WTO-based multilateral trading system at a time when, given the post-Doha Round's impasse, major progress in the WTO on access seems unlikely (Li, Wang and Whalley 2014a).

As Table 2 indicates, China now has 14 FTA partners (with 35 separate economies) with which it has signed 13 agreements. These 14 partners are: the Association of Southeast Asian Nations (ASEAN), Australia, Chile, Costa Rica, Hong Kong, Iceland, Macao, New Zealand, Pakistan, Peru, Singapore, South Korea, Switzerland, and Taiwan.

Table 2: China's FTAs

1. Existing FTA		Date Concluded
China-Pakistan FTA	Bilateral — with developing countries	November 2006
China-Chile RTA		November 2005
China-Peru FTA		April 2009
China-Costa Rica FTA		April 2010
China-New Zealand FTA	Bilateral — with developed countries	April 2008
China-Singapore FTA		October 2008
China-Iceland FTA		April 2013
China-Switzerland FTA		July 2013
China-Australia FTA		June 2015
China-South Korea FTA		June 2015
China-ASEAN FTA	Multilateral	November 2004
CEPA	Domestic FTAs	March 2003
ECFA		June 2010
China Pilot Free-trade Zone		September 2013
2. FTAs under Negotiation		Negotiations Started from
China-Norway FTA	Bilateral	September 2008
China-Sri Lanka FTA		September 2014
China-Maldives FTA		September 2015
China-GCC FTA	Multilateral	July 2004
RCEP		May 2013
China-Japan-South Korea FTA		August 2013
China-ASEAN FTA upgrade		September 2014
3. FTAs under Consideration		Joint Feasibility Study Started from
China-India RTA	Bilateral	2003
China-Columbia FTA		May 2012
China-Moldova FTA		October 2014
China-Georgia FTA		March 2015
China-US FTA		Not yet
China-TPP FTA	Multilateral	Not yet

Source: China FTA Network website, <http://fta.mofcom.gov.cn/topic/chinaasean.shtml>.

Most of the existing FTAs are bilateral and most partners are from Asia and belong to developing countries or country groups. Within the group of existing agreements, the China-ASEAN FTA, Closer Economic Partnership Arrangement (CEPA) (Hong Kong and mainland China) and Economic Cooperation Framework Agreement (ECFA) (China and Taiwan) are important FTAs since they involve partners with whom there are large trade volumes (Li, Wang and Whalley 2014b).

China should negotiate the RCEP within the ASEAN plus Six framework and the China-Japan-South Korea FTA. For China, the RCEP is an important instrument to counterbalance the TPP. It may exert greater pressure on its neighbours, or even offer attractive concessions, to ensure the completion of the RCEP negotiation.

Up until now, China has created its own FTAs with many of the TPP members, such as Brunei, Chile, Malaysia, New Zealand, Singapore, Peru and Vietnam. China should accelerate this step and negotiate bilateral FTAs with TPP member countries and thus weaken the TPP effects on China.

In the FTA negotiations, China should emphasize its main concern of trade and security of market access. For example, China could include an anti-dumping clause into the agreement and use FTAs to solve the anti-dumping problem (Sun and Whalley 2015).

Negotiating a Bilateral FTA with the United States

There are as yet no official statements or discussions concerning a China-US FTA, but at the research level, a China-US FTA has been discussed. Although there will be many difficulties in concluding such an agreement, the two biggest countries in the world should be able to initiate an FTA negotiation in the future. Trade and investment between the United States and China have continued to grow at a substantial rate. As with any relationship between major powers, there are frictions and concerns on both sides about how the trade relationship will be conducted. US concerns would likely focus on more than negotiating tariffs, with such issues as alleged currency manipulation and its effects on the trade surplus, and SOEs and their trade impacts. Chinese objectives could potentially focus on security of access to US markets and restrictions on foreign ownership and investment. A China-US BIT negotiation is in process, and could lay a foundation for a possible FTA negotiation.

If China can conclude a bilateral FTA with the United States, the effects of the TPP on China will be largely weakened or diminished. The China-US FTA will also be an important transition for China to enter the TPP in the future.

Promoting Deep Domestic Reform and Further Opening-up Policy

The TPP will increase the pressure on China for more deep domestic reforms. China launched the Shanghai Free Trade Zone (FTZ), followed by a series of domestic FTZs, including Tianjin FTZ, Guangdong FTZ and Fujian FTZ, partly as pilot measures of liberalization that would be useful in a new round of reform. The TPP encourages China to use international disciplines to underpin and support domestic reforms, including enterprise reform, reform of SOEs, financial sector reform and other reformist directions. The broad idea is that added competition from abroad in the domestic market acts as a spur to improved efficiency of domestic production.

China is using further opening up to increase its influence and weaken the TPP impacts. These measures include the “One Belt, One Road”¹ project to extend China’s economic relations with Asian countries. The Chinese-led Asian Infrastructure Investment Bank will provide funding for China to go abroad and support infrastructure construction.

Negotiating to Enter the TPP as Soon as Possible

There are several lively debates about whether or not China should join the TPP negotiations. Not only Chinese media, but also some commentators from the United States and Europe have expressed interest in this topic and published comments. On a number of occasions, Chinese spokesmen have indicated that although they were not ready to meet the demanding requirements of a potential TPP Agreement today, they might be ready and willing to join in a few years.

Some of the TPP rules will challenge China, for example, the agreement’s government procurement standards would alter the structure and operation of Chinese SOEs. The TPP e-commerce standards could also deeply affect China’s censorship and information control policy. If China wants to enter the TPP in the future, it would be better for China to enter the TPP as soon as possible, before other countries take part in the negotiation. The more countries involved in the TPP, the more difficult the negotiation will be. As discussed in this paper, the present TPP rules and provisions are not of a high standard, and it would not be a big challenge for China to accept the agreement. If China takes part in the TPP, it should go beyond the present TPP and negotiate to cover more rules for areas in which China has an interest, such as the security of market access and anti-dumping measures.

1 The “One Belt” is the initiation of the Silk Road economic zone and the “One Road” is the Maritime Silk Road economic zone.

CONCLUSION

The 12-member TPP Agreement was concluded in October 2015 after six years of negotiations. The deal is now waiting for all member countries' domestic approval. Although China is the world's second-largest economy, it is not a member of the TPP. Some researchers think that the conclusion of the TPP Agreement may challenge China, creating a negative influence on its trade and production. Meanwhile, the TPP may negotiate a new set of rules and obligations, creating the possibility that the future rules for the global economy will not reflect China's needs.

Three points are made in this paper. First is that the TPP Agreement does not include security of market access, which should be the main concern in China's trade agreement negotiation. Second is that the present TPP Agreement provisions are not the high-standard, ambitious twenty-first century rules that were announced, since much of the content largely restates WTO disciplines. Third is that the TPP Agreement still needs to go through the approval process in each of the member countries, and that process may take a long time.

Four possible approaches have been suggested for China to respond to the TPP Agreement. The first is to promote the development of China through new regional and bilateral FTAs, such as the RCEP and the China-Japan-Korea FTA. In the negotiations, a security of market access clause should be included. The second is to negotiate a bilateral FTA with the United States and to promote the development of China-US BITs. A third strategy is for China to negotiate entering the TPP as soon as possible. The last strategy is promoting domestic reform and opening up.

If China responds to the TPP with the approaches proposed and discussed in this paper, it will be able to maintain its trade objectives and ensure it is part of future TPP negotiations.

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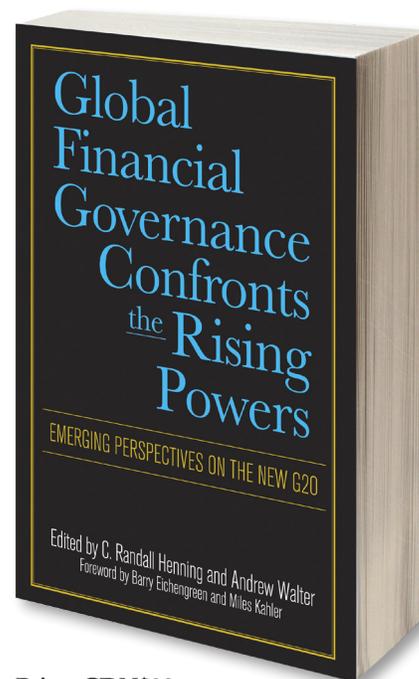
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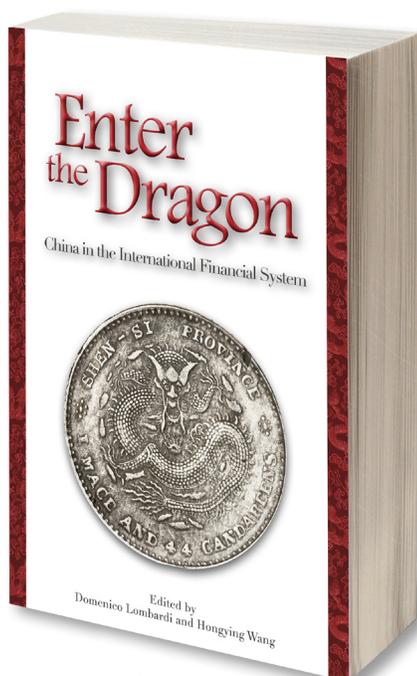
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