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Is China Ready for TPP?^①

In addition to setting the goal of free trade in goods, TPP includes trade in service, intellectual property rights, environmental protection, labor standards, and fair trade. Despite the fact that the parties somehow “sacrificed” high standards and allowed transition periods for zero tariff of certain productions to reach the agreement as soon as possible, TPP can still be seen as the top standard global free trade zone treaty in terms of the parties’ promise of cutting tariff and coverage of the treaty.

The high standard TPP sets a benchmark for writing new global trade rules, for those free trade objectives under TPP have not been realized under the WTO framework. In this sense, leaving WTO behind, the US intends to write new global trade rules so as to lead and restructure global trade order and avoid challenges from other emerging economies such as China. Besides, TPP is an economic platform in which the US will be able to return to Asian-Pacific stage and prevent itself from being excluded from the East Asian regional economic cooperation. From the perspective of political economics, it is indeed an optimal choice for the US to protect and increase its own benefits and suppress rivals through new rules.

The question is what will the high standard TPP influence upon China? First of all, from the economic perspective, it will result in trade transfer from China. TPP member countries are required to cancel tariff of more than 18,000 products in a timeline, including automobiles, machine tools, information product, consumables, chemicals and such agricultural products as avocado, wheat, pork, and beef. As known to all, China plays an essential part in foreign trade in Asian-Pacific region, and in particular is a key trade partner of the US, Japan and AESEAN. Therefore, material tariff cuts will undoubtedly bring in trade transfer. For instance, the export of some labor-intensive products in China (such as clothing and apparel, shoes and hats) will transfer to Vietnam, while export of some mechanical and electrical products may transfer to Singapore and Malaysia. As for foreign investments, they will be transferred at a faster pace to Southeast Asian countries, reducing foreign direct investments in China. According to place of origin principles, exported goods may be exempted from tariff from member countries only if more than 50%-60% intermediate products are produced from such countries. However, we may not overestimate the influence of TPP upon Chinese economy. On the one hand, only 90% of zero tariff for goods become effective immediately,

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leaving some sensitive products with reserved transitional periods up to 16+ years. Besides, such member countries have reached multiple bilateral FTAs, with over 80% of zero tariff coverage, though the coverage is not as large as that of TPP. This means that free trade promised under the TPP framework for products has indeed been implemented at bilateral level. On the other hand, many TPP member countries signed FTA with China at bilateral or regional level. From the perspective of foreign investment, even without TPP, it is inevitable for the outgoing transfer of production of labor-intensive products and multinational investment, along with the diminishing population bonus and economic transformation and upgrade in China.

Secondly, from the perspective of political security, the US intends to consolidate the political and military alliance with Asian countries via enhanced economic connection through TPP. Further, the US seeks to take the lead in Asian-Pacific region again and reduce the influence of China. Therefore, TPP will limit the constructive role of China in regional political security, bringing challenges to the set Asia-Pacific strategy of China.

Thirdly, from the strategic perspective of free trade zone, more countries and regions will apply for TPP. So far ROK, Thailand and Taiwan of China have filed their applications for TPP negotiations. The high level of free trade, comprehensive market accessibility and increased participation of countries and regions will surely hinder “10+3”, “10+06” and even FATTP and other free trade process in Asia and Asian-Pacific region, posing enormous challenge to China’s Asian-Pacific free trade zone strategy. If TTIP takes shape in recent years, a new global trade system above WTO may come into being. As a result, China’s influence under the multilateral system will be compromised and even face the risk of marginalization.

As a result, facing TPP, we must judge the hour and size up the situation, and get well-prepared. We must deepen the reform and reinforce the opening-up to gradually adapt to the new international economic and trade rules, which will be centered around TPP, in the future.

First, we need to better study TPP rules and put them into practice, for they are the future of international trade rules. So far China has set up four free trade zones in Shanghai and other areas, testing the extent of China’s adaption to TPP rules. In the future, we need to increase the number and area of experimental zones step by step before we can promote well-developed and feasible rules to the whole country. To fit us in the new global trade rules, in practice we should also strengthen development and protection of labor, environment and intellectual property rights. We should crack down infringements of intellectual property rights and production and sales of fake products, and should improve system and mechanism for protection of labor and environment. These measures will help lay a solid institutional and policy foundation for China to participate in economic globalization and regional economic integration in a bigger scope and at a higher level, and realize a situation of mutual benefits with countries across the world.

Second, “Going Global” strategy must be implemented in a faster manner to deal with the possible



trade transfer and FDI loss due to the TPP rules. Along with rapid economic growth, China has not only become the most important country for receiving international industrial transfer, but also showed certain international competitiveness in such sectors as apparel, textile, home appliance, telecommunications, equipment manufacturing as well as energy and raw material. We should take full advantage of our own strength and promote overseas production expansion, particularly increase investment in member countries and potential member countries of TPP, to effectively evade from negative influences brought by “place of origin rules”.

In addition, we should accelerate implementing free trade zone strategy to promote economic cooperation in East Asia. The US initiated TPP with a purpose of weakening China’s influence upon regional economy. China needs to take respective measures to speed up regional economic and trade collaboration with Asian economies. We should promote FTA, “10+3” and “10+6” cooperative mechanisms among China, Japan and ROK, to promise steady progression of regional economic integration in East Asia. Besides, we need to encourage BIT negotiations with the US, accelerate “Regional Comprehensive Economic Partnership” (RCEP), Free Trade Area of the Asia Pacific (FTAAP) and the “Belt and Road” strategy, to help China better fit to the international trade system and play a greater role.

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