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China's Possible Strategy towards the Trans-Pacific Partnership Agreement *

Abstract: The Trans-Pacific Partnership (TPP) Agreement has concluded, but still faces the challenge of ratification in each of the 12 member countries. China is the world's second largest economy, but is out of TPP, which has provoked a lot of debate in China on the best strategy in light of TPP. This paper analyzes China's possible strategy towards the TPP agreement. We make three points relevant. The first one is that security of market access should be China's main concern in any free trade agreement negotiation but the TPP does not include. The second one is that present TPP agreement is somewhat less than the high-standard and ambitious agreement as claimed. We suggest four strategies for China. The first is to promote the development of China's remaining regional and bilateral FTAs. The second is instead to negotiate a bilateral FTA with the US. The third is to promote deep domestic reform and opening via an enlargement of coverage of TPP. The last is negotiating to entering TPP as soon as possible so that terms of entering do not worsen.

Keywords: Trans-Pacific Partnership, China, Free Trade Agreement

JEL Classification: F15, F53, F68

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1. Introduction

The Trans-Pacific Partnership (TPP), also known as the Trans-Pacific Strategic Economic Partnership Agreement (TPPA), has announced the conclusion of negotiations and reached a five-year long-awaited agreement on October 5, 2015. TPP is the world's biggest regional free trade agreement (excess the EU), with all 12 members together encompassing around 40% of world GDP. The summary document of TPP issued by the United States Trade Representative (USTR) on October 5 suggests that a declared high-standard, ambitious, comprehensive and balanced agreement has been born and TPP aims to promote economic growth, support the creation and retention of jobs, enhance innovation, raise living standard, reduce poverty, promote transparency, and enhance labor and environmental protections. We argue and view TPP largely as yet another agreement which largely restates WTO disciplines, with only a few new contents in E-commerce, Competition Policy and State-owned Enterprises.

China is the second largest economy in the world, but is not in the TPP. So the question of what does TPP mean for China is an important topic for discussion. We make three points on the relationship of TPP to China. The first is that present TPP agreement does not include contents when deal with China's main trade policy concern of security of market access. There is guaranteed market entry which avoids trade policy interventions like antidumping, rather than unbalanced preferential tariff reductions. The second is that present TPP agreement is actually not the high-standard and ambitious agreement as announced. The agreement has much little in progress in agriculture and service sector liberalization, and focuses on conventional goods liberalization. Meanwhile many contents in this TPP agreement just restate WTO disciplines already agreed. Lastly, TPP still needs to be approved by all member countries' governments, which may imply a long time to implementation.

Under such circumstances, we have four suggestions for China's strategy. Firstly, China could promote the development of regional and bilateral free trade agreement negotiations, like the Regional Comprehensive Economic Partnership (RCEP), the China-Japan-Korea free trade agreement (CJK), and bilateral free trade agreements with TPP member countries. Secondly, China could think about negotiating a China-US bilateral FTA, although it may be impossible at the present stage. The China-US bilateral investment treaty (BIT) is a good basis for a bilateral FTA. Thirdly, if China wants to take part in the TPP, she should negotiate entrance as soon as possible before other countries, and China should promote going beyond TPP to include more contents which China are interested in (such as antidumping). Lastly, China should promote further deep domestic reform and opening to offset the influence of TPP.

2. Developments and Contents of TPP Agreement



TPP is a multilateral free trade agreement (FTA) that aims to further liberalize the economies in the Asia-Pacific region. Current member countries include Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States, Vietnam, Japan, Canada and Mexico, a total of twelve countries. Although all involved 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 towards the proposed Free Trade Area of the Asia Pacific (FTAAP). The country member difference between TPP and APEC are shown in [Figure 1](#).

Figure 1: Country Members of TPP and APEC

| APEC Members Not In TPP | |
|-------------------------|--|
| China | |
| Hong Kong, China | |
| Indonesia | |
| South Korea | |
| Papua New Guinea | |
| Philippines | |
| Russia | |
| Taiwan, China | |
| Thailand | |

| Present TPP Countries In APEC | |
|-------------------------------|-----------|
| Australia | Singapore |
| Brunei | USA |
| Chile | Vietnam |
| Malaysia | Canada |
| New Zealand | Mexico |
| Peru | Japan |

Source: Compiled by authors.

The history of TPP can be traced back to the Pacific Three Closer Economic Partnership (P3-CEP). Its negotiation was launched on the sidelines of the 2002 APEC Leaders' Meeting in Los Cabos, Mexico, by Chilean President Ricardo Lagos, 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-4 (P4). The objective of the original agreement was to eliminate 90% 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 a free trade agreement, including trade in goods, rules of origin, trade remedies, sanitary and phytosanitary measures, technical barriers to trade, trade in services, intellectual property, government procurement, and competition policy ([Li and Whalley, 2014](#)).

After the P4 negotiations finished 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 US joined the group pending a decision on whether to participate in a comprehensive negotiation for an expanded TPP agreement. In September 2008, the US announced it would participate fully in the negotiations, and Australia, Peru, and Viet Nam also joined ([Williams, 2012](#)).



In November 2009, US President Obama affirmed that the US would engage with TPP countries. Negotiations for an expanded agreement began in March 2010. During the third round negotiation in Brunei in October 2010, Malaysia joined the negotiations. In June 2012, it was announced that Canada and Mexico would 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 13–14 November 2010, on the sidelines of the APEC summit in Yokohama. Japan declared its intent to join the TPP negotiations on 13 March 2013 and formally become a full negotiating partner in August 2013 ([Wikipedia, 2015](#)).

After five years of hard and tight negotiations, the 12-member TPP agreement was concluded on October 5th 2015. The deal now faces the challenge of ratification in each of the 12 countries.

TPP is declared to be a landmark 21st century agreement. The summary of TPP agreement from USTR says that the TPP has five defining features which will set a new standard for global trade. The first feature is comprehensive market access. The TPP eliminates or reduce tariffs and non-tariff barriers across substantially all trade in goods and services and covers the full spectrum of trade, including goods and services trade and investment, so as to create new opportunities and benefits for business, workers and consumers in member countries. The second feature is regional approach to commitments. The TPP facilitates the development of production and supply chains, and seamless trade, enhancing efficiency and supporting 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 feature is addressing new trade challenges. The TPP promotes innovation, productivity, and competitiveness by addressing new issues, including the development of the digital economy and the role of state-owned enterprises in the global economy. The fourth is inclusive trade. The TPP includes new elements that seek to ensure that economies at all levels of development and business of all sizes can benefit from trade. The last feature is platform for regional integration. The TPP is intended to be a platform for regional economic integration and designed to include additional economies across the Asia-Pacific region ([USTR, 2015](#)). But according to the summary of detailed agreement contents from USTR, the TPP is not a high-standard and ambitious agreement as announced since much of its content appears to be largely restatement of WTO discipline, or these contents can be found in other regional trade agreement like 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; sanitary and phytosanitary measures; technical barriers to trade; trade remedies;



investment; services; electronic commerce; government procurement; intellectual property; labor; environment; ‘horizontal’ chapters meant to ensure that TPP fulfils its potential for development, competitiveness, and inclusiveness; dispute settlement, exceptions, and institutional provisions. We briefly introduce the 30 chapters one by one according to the USTR summary of TPP agreement.

Chapter 1 is Initial Provisions and General Definitions. According to the TPP agreement summary from USTR, this Chapter recognizes that the TPP can coexist with other international trade agreements between the Parties, including the WTO Agreement, bilateral, and regional agreements.

Chapter 2 is Trade in Goods. The USTR summary states that 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 timeframes 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. We argue that import tariffs of TPP member countries now are small and many of these member countries have already formed bilateral FTAs or regional FTAs.

Chapter 3 is Textiles and Apparel. The USTA 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 timeframes as agreed by the TPP Parties. We want to point out that these contents are just the 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.

Chapter 5 is Customs Administration and Trade Facilitation. 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. We argue that these contents are just the restatement of WTO rules.



Chapter 6 is Sanitary and Phytosanitary (SPS) Measures. According to 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, they have agreed to establish a mechanism for consultations between governments. We point out that the contents have no specific progress and are the restatement of WTO disciplines.

Chapter 7 is Technical Barriers to Trade (TBT). The USTR says the TPP Parties have agreed on transparent, non-discriminatory rules for developing technical regulations, standards and conformity assessment procedures, while preserving 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 agree 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. Our comments are the same as to the SPS chapter, the contents have no specific progress and just are the restatement of WTO disciplines.

Chapter 8 is Trade Remedies. The USTR summary says the Trade Remedies chapter promotes transparency and due process in trade remedy proceedings through 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. We want to say that these contents are not effective and are restatement of WTO disciplines.

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. TPP provides the basic investment protections which can be found in other investment-related agreements, including national treatment; most-favored-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 TPP includes core obligations which can be found in the WTO and other trade agreements: national treatment; most-favored 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. We need to say that these contents have not exceed the disciplines of GATS in WTO, as well they are 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 which can be found in other trade agreements, including: national treatment; most favored nation treatment; market access; and certain provisions under the Investment chapter, including the minimum standard of treatment. 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. We must say these contents have not referred to core rules of service liberalization.

Chapter 12 is Temporary Entry for Business Persons. According to 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. We want to say that these contents nearly have no change to the present situation.

Chapter 13 is Telecommunications. The USTR says that 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. 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. Contents in this chapter are new and fit for the reality.

Chapter 14 is Electronic Commerce. The USTR states that TPP Parties commit to ensure free flow of the global information and data that drive the Internet and the digital economy, subjecting to legitimate public policy objectives such as personal information protection. The 12 Parties also agree not to require that TPP companies build data centers 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 chapter contents are also new but are not effective to achieve deep liberalization.

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 confidentiality of tenders. This chapter contents can be found in WTO disciplines and NAFTA agreement disciplines and are not high standard rules.

Chapter 16 is Competition Policy. The USTR says 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 anticompetitive 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 anticompetitive business conduct and work to apply these laws to all commercial activities in their territories. We argue these are soft measures and rules can be found in other regional trade agreements.

Chapter 17 is State-Owner Enterprises (SOEs) and Designated Monopolies. The USTR summary says this chapter covers large SOEs that are principally engaged in commercial activities. 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. This SOE chapter contains some new contents.

Chapter 18 is Intellectual Property. USTR summary states that TPP's Intellectual Property (IP) chapter covers patents, trademarks, copyrights, industrial designs, geographical indications, trade secrets, other forms of intellectual property, and enforcement of intellectual property rights, as well as areas in which Parties agree to cooperate. The chapter establishes standards for patents, based on the WTO's TRIPS 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. TPP Parties agree to provide strong enforcement systems. This chapter contents are mostly restatements of WTO's TRIPS agreement.

Chapter 19 is Labor. According to USTR summary, TPP Parties agree to adopt and maintain in their laws and practices the fundamental labor rights as recognized in the



International Labor Organization (ILO) 1998 Declaration, namely freedom of association and the right to collective bargaining; elimination of forced labor; abolition of child labor and a prohibition on the worst forms of child labor; and elimination of discrimination in employment. We want to point out that these contents have no specific measures to promote free labor flow.

Chapter 20 is Environment. The USTR says that 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 fulfil their obligations under the Convention on International Trade in Endangered Species of Wild Fauna and Flora. The chapter contents are also have no specific measures.

Chapter 21 is Cooperation and Capacity Building. The USTR summary states in this chapter to establish a Committee on Cooperation and Capacity Building to identify and review areas for potential cooperative and capacity building efforts. Parties' activities are on a mutually agreed basis and subject to the availability of resources. We need to say this chapter contents do not have helpful measures.

Chapter 22 is Competitiveness and Business Facilitation. The USTR summary says this chapter creates formal mechanisms to review the impact of the TPP on 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 contents do not have main or important trade liberalization measures.

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 TPP enters into force for each Party: (1) broad-based economic growth; (2) women and economic growth; and (3) education, science and technology, research, and innovation. We must say that these contents are too general to largely promote trade liberalization or to set new rules.

Chapter 24 is Small and Medium-Sized Enterprises. The USTR summary states that TPP Parties have a shared interest in promoting the participation of small and medium-sized enterprises in trade and to ensure that small and medium-sized enterprises share in the benefits of the TPP. This complements the commitments throughout other chapters of the TPP on market access, paperwork reduction, Internet access, trade facilitation, express delivery and others. This chapter contents are general.



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 good 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 contents are not corn trade liberalization measures.

Chapter 26 is Transparency and Anti-Corruption. The USTR states that 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 notice and comment. They also agree to adopt or maintain laws criminalizing offering to, or solicitation of, undue advantages by a public official, as well as other acts of corruption affecting international trade or investment. Parties also commit to effectively enforce their anticorruption laws and regulations. This chapter contents are not main liberalization disciplines.

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 Trans-Pacific Partnership Commission, composed of Ministers or senior level officials, to oversee the implementation or operation of the Agreement and guide its future evolution. The contents in this chapter do not have strong measures.

Chapter 28 is Dispute Settlement. The USTR says that 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 otherwise agree, and the final report presented by panels will also be made available to the public. We must point out that these contents can 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 General Agreement on Trade in Services 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 contents are not core clause 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).

3. TPP is Not a Threat to China

The TPP agreement is important, not only because the 12 member countries encompass about 40% of world GDP, but also because the TPP has an important rule-setting target. TPP has been seen as one of restrain strategies of the US to China for China is not a partner of the trade deal. But actually the present TPP agreement is not a threat to China.

3.1 TPP Has Not Referred to China's Main Concerns on Trade Agreement

China had gained a very high trade growth after its accession to WTO in 2001, and now is the largest exporting country in the world. Among China's trade, unsecured risks like antidumping, countervailing and some other environmental and technical barriers are main obstacles and threats. Therefore, security market access and guaranteed market entry in avoid of trade interventions are China's main concerns on trade agreement, but TPP has no progress on it.

3.2 TPP is not a High-Standard Regional Trade Agreement as Declared

TPP has declared 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 US trade representative, it does not set many high-standard rules. Most of the TPP contents 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. We have discussed each chapter contents to argue that the agreement is not completely new.

It is announced that the TPP incorporates new and emerging trade issues and cross-cutting issues. These include issues related to the Internet and the digital economy, the participation of state-owned enterprises 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 part, the TPP also does not look so impressive. Six of its members already have FTAs with the US, any improvement for them in market access are likely to be limited. Liberalization is likely to be phased in gradually either.



Therefore, we can see that trade may be a bit freer within the TPP, but it will be far from completely free. This means that the negative impacts of TPP to China will be limited.

3.3 Member Country's Domestic Approval Process May Last Long

The TPP agreement has just concluded in negotiations, but not yet approved by member country's domestic governments. The deal still faces the challenge of ratification in each of the 12 countries. This domestic approval process is not easy and may last long, especially under the situation that some countries like the US and Australian Senate are facing an election year.

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

3.4 Our Numerical Simulation Results Show Impacts of TPP on China is Limited

One of our research papers, [Li and Whalley \(2014\)](#), uses an 11-country numerical Armington type global general equilibrium model to explore the impacts of TPP on China. The model captures trade costs and uses a monetary structure of inside money both so as to also endogenously determine trade imbalance effects from the trade initiative and also allow calibration to a base case capturing China's large trade surplus. We capture endogenously determined trade imbalances by incorporating both current consumption and expected future incremental consumption from saving into the model using an analytical structure. We calibrate the model to 2011 data and use counterfactual simulations to explore TPP effects.

[Table 2](#) shows main effects of TPP on China and some other large countries. Simulation results show that China's welfare will be adversely affected by TPP. Under 50% non-tariff barrier elimination case, China's welfare will decrease 0.1758%. China's production will increase because of export increase and import decrease, then trade imbalance increases. For some other large countries, effects are different for different countries and different non-tariff elimination cases. Under the 50% NTB elimination case, some countries' welfare will increase including the US, Japan and Canada, but some countries' welfare will decrease including the EU and Korea. Almost all countries' production will increase except the EU. Most countries' export and import will increase except Korea. Most countries' imbalance will increase except the EU and Japan.

Table 2: Effects of 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 |
| | USA | 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 |
| | China | -0.1758 | 0.0273 | 0.3077 | -0.4351 | 6.5965 |
| | USA | 0.2676 | 0.1941 | 7.8922 | 5.3079 | 0.0303 |
| 50% NTB Elimination | 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 |
| | China | -0.2004 | 0.0078 | 0.8774 | -0.5738 | 13.1647 |
| | USA | 0.6679 | 0.5567 | 13.8591 | 10.7280 | 4.3336 |
| Trade Cost Elimination | 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).

Our 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 export 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 global value chain, it is actually impossible to leave China out of the world's biggest trade deal. Given China's investment in TPP's developing country members like 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.

4. China's Strategy

After the conclusion of the TPP agreement, a lot of discussions are focused on China's counter strategies as China is out of the TPP. From the government reactions, China is now taking a wait-and-see approach, as the Ministry of Commerce has called it an "open-minded attitude". The TPP agreement has just concluded, and it will take some time before the final agreement is adopted. We bring out four possible directions that China can take to deal with TPP challenges.

4.1 Promoting the Development of China Involved Regional and Bilateral FTAs



China clearly sees both Regional and Bilateral Free Trade Agreements (FTAs) as an increasingly key element of her integration into the global economy, a broader strategy which still underpins her overall growth strategy. The current focus of such agreements is mainly in Asia, and to a further degree in the Pacific. The basic idea is to use RTAs to further open up the economy to the outside world and speed up domestic reforms. They 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 Rounds impasse and major progress in the WTO on access seems unlikely (Li et al., 2014a).

As Table 3 indicates, China now has 14 FTA partners (and with 35 separate economies) with which 13 Agreements have already been signed. These 14 partners are the Association of Southeast Asian Countries (ASEAN), Pakistan, Chile, New Zealand, Singapore, Peru, Hong Kong, Macao, Chinese Taiwan, Costa Rica, Iceland, Switzerland, Australia and South Korea.

Table 3: China's FTAs

| 1. Existing FTA | | Date Concluded |
|------------------------------------|-------------------------------------|---|
| China-Pakistan | | November 2006 |
| China-Chile RTA | Bilateral-with Developing Countries | November 2005 |
| China-Peru FTA | | April 2009 |
| China-Costa Rica FTA | | April 2010 |
| China-New Zealand FTA | | April 2008 |
| China-Singapore FTA | | October 2008 |
| China-Iceland FTA | Bilateral-with Developed Countries | 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 | | March 2003 |
| ECFA | Domestic FTAs | June 2010 |
| China Pilot Free-trade Zone | | September 2013 |
| 2. FTAs Under Negotiation | | Negotiations Started from |
| China-Norway FTA | | September 2008 |
| China-Sri Lanka FTA | Bilateral | September 2014 |
| China-Maldives FTA | | September 2015 |
| China-GCC FTA | | July 2004 |
| RCEP | Multilateral | 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.

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, CEPA (Hong Kong, Macro) and ECFA (Chinese Taiwan) are important FTAs since they involve partners with whom there are large trade volumes (Li et al., 2014b).

China should negotiate the Regional Comprehensive Economic Partnership (RCEP) within the ASEAN+6 framework, and China-Japan-South Korea Free Trade Agreement. For China, the RCEP is an important instrument to counterbalance the TPP, it may exert greater pressure on its neighbors or even offer attractive concessions, to ensure the completion of the RCEP negotiation.

Until now, China has already created its own free trade agreements 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 to weaken the TPP effects on China.

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

4.2 Negotiating a Bilateral FTA with the US

There are as yet no official statements concerning or discussions of a China-US free trade agreement, but at a research level, a China-US free trade agreement has been discussed. Although there will be a lot of difficulties, the two biggest countries in the world may be possible to initiate a free trade agreement negotiation in the future. Trade and investment between the US 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 is conducted. US negotiating concerns would likely focus beyond tariff with such issues as alleged currency manipulation and its effects on the trade surplus, and state owned enterprises 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 bilateral investment treaty (BIT) negotiation is in process and it could lay a foundation for possible FTA negotiation.

If China can conclude a bilateral FTA agreement with the US, the effects of TPP on China will be largely weakened or diminished. The China-US FTA will also be an



important transition for China's entering TPP in the future.

4.3 Promoting Deep Domestic Reform and Opening

The TPP will increase the pressure on China for more deep domestic reforms. China launched the Shanghai Free Trade Zone (FTZ), and then 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. TPP stimulates China to use international disciplines to underpin and support domestic reforms, including enterprise reform, reform of state owned enterprises, financial sector reform and others 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 to increase its influence and weaken the TPP impacts. These measures include the "One Belt and One Road"¹ project to extend China's economic relations with Asia countries. The Chinese-led Asian Infrastructure Investment Bank (AIIB) will provide funding for China's going abroad and supporting infrastructure construction.

4.4 Negotiating to Enter TPP As Soon as Possible

There are many debates about whether or not China should join the TPP negotiations and they are quite lively. Not only Chinese media but also some commentators from the US 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 state-owned enterprises. The TPP electronic commerce standards could also deeply affect China's censorship and information control policy. But we argue that if China want to enter the TPP in the future, it is better for China to enter the TPP as soon as possible before other potential countries take part in. The more countries involved in the TPP, the more difficult the negotiation will be. We think that the present TPP rules and provisions are not that high standard, and it is not a big challenge for China to accept the agreement. If China take part in the TPP, China should go beyond the present TPP and negotiate to cover more China interested rules, like the security market access and antidumping measures.

5. Concluding Remarks

¹ The "One Belt" is the initiation of Silk Road Economic Zone, and the "One Road" is Maritime Silk Road Economic Zone.



The 12-member TPP agreement was concluded on October 5th 2015 after five years of negotiations. The deal is waiting for all member countries' domestic approval at present stage. China is a large country in Asia Pacific region but is out of the TPP. Some researchers think that the conclusion of the TPP agreement may challenge China with negative influence on trade and production. Meanwhile, the TPP may negotiate a new set of rules and obligations. This creates the possibility that the future rules for the global economy will not reflect China's demand.

Three points were made in this paper. One is that the TPP agreement does not include security market access which should be the main concern in China's trade agreement negotiation. Another is that present TPP agreement provisions are not that a high-standard and ambitious 21 century rules as it announced since many of the contents largely restate WTO disciplines. The last is that the TPP agreement still needs to go through domestic approval processes and may take a long time.

We suggest four directions for China to respond to the TPP agreement. The first is to promote the development of China through new regional and bilateral free trade agreement, 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 US and to promote the development of China-US bilateral investment treaties (BIT). A third strategy is to negotiate entering of the TPP as soon as possible. The last strategy is promoting domestic reform and opening.



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