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# China can Consider Joining Trans-Pacific Partnership (TPP) Agreement



## Executive Summary:

On Jan. 23, 2017, the newly sworn-in US President Donald Trump signed an executive order withdrawing the United States from TPP. A strong advocate against free trade, he has adopted a series of protectionist policies since his inauguration, causing massive concern from the international community. Although the Sino-US relations remain in calm, the two governments have been cautiously observing each other's moves. It is a mutual belief that the maintaining the cooperative relations serves the interest of both countries and all the differences can be resolved peacefully over time.

In the meantime, China has entered into another historic era with new diplomatic dimension and mission. China needs to integrate the consideration about domestic and international situation in its strategic thinking and prioritize security and development. More efforts are needed to improve regional geopolitical situation, in order to create a more favorable external environment and prolong strategic period for China's development, and economic diplomacy is one of the best tools to achieve this goal.

China's rapid economic development in the past years has laid a solid foundation for economic diplomacy. A TPP membership can present a new opportunity for China to push forward its economic diplomacy agenda. Therefore, China should seize the moment to join TPP.

It was announced that the ministers from the other 11 TPP member states would meet in mid-March in Chile to discuss the next steps after the US withdrawal. Currently, some of the members are proactively engaging China to join TPP to fill in the vacancy left by the United States and improve its international environment through economic diplomacy. Becoming a TPP member is also conducive to China to construct a more comprehensive regional economic mechanism. In view of US President Trump's intention to build an ally with Russia and create diplomatic frictions in East Asia, China, if as part of TPP, can improve the relations with East Asian and Southeast Asian countries and accelerate regional integration through the promotion of the Confucius culture and implementation of the "One Belt, One Road" initiatives. As the world's second largest economy, China has been always put under the spotlight. If taking initiatives to join TPP, China can demonstrate its commitment to building an open economy and advancing the world development.

## **Economic diplomacy is one of the most effective methods to improve China's regional geopolitical situation as China enters into new diplomatic dimensions**

### **China's diplomatic strategies have been evolution over time since the establishment of PRC.**

In the 1950s, the main strategy was depending on the ally with Soviet Union to fight against "imperialism"; in the 1960s, it changed to "anti-imperialism and anti-revisionism"; the decade of the 1970s featured the strategy of anti-hegemony represented by Soviet Union and improving relations with the United States; moving on, China adopted the stance of non-alliance in the 1980s and then the policy of "hiding one's light and biding one's time and taking action when it is time" in the 90s. Since then, China has improved the relations with all major powers in the world and become more actively involved in global affairs. Nowadays, China has become the world's second largest economy with power stronger than ever. China is compelled to reposition itself in the international community diplomatically that matches its regional and global influence.

**The increasingly complicated world political and economic situation pushes China to enter new diplomatic dimensions.** The Trump administration has caused a major shift in the US diplomatic strategies – leaning towards Russia with intention to form an ally to counter China. The US government has imposed more pressure on China to solve the Korean Peninsula situation and sent signal that he would support Japan and South Korea's nuclear weapon ambition. It also recognized Japan's authority over the Diaoyu Island and the Treaty of Mutual Cooperation and Security between the US and Japan, with an intention to create frictions over the South China Sea. Trump has made a direct call to the leader of Taiwan authority and posed to challenge the fundamental principle of the Sino-US diplomatic relations in the past 40 years. The recent visit of the US newly-appointed Secretary of Defense to Japan and South Korea, as the first overseas visit of the Trump cabinet, signalized his intention to strengthen the alliance with these two countries to contain China.

Overall, Trump administration's policies will create more uncertainties and challenges in reality. Therefore, China should adjust its diplomatic strategies based on the judgment of the new situation, and use all available tools to improve the relations in East Asia and Southeast Asia and create a stable environment, which is crucial to China's development in the next 10 to 20 years.

### **China's economic development has laid a solid foundation for the employment of economic diplomacy.**

According to official statistics, the average contribution of China to the world economic growth between 2013 and 2015 is 26%. The IMF data shows 35% of the global economic growth in the past five years came from China, and this rate will remain at 30% till 2020. Currently, China is forming partnership with many developing countries and emerging economies in Asia Pacific and other regions along the "One Belt, One Road" route to create more economic bonus and push forward globalization.

For its strong economic power and leading role in the global economy, China can utilize economic diplomacy as one of the most effective tools to improve geopolitical environment. It has become a long-gone history that China needed to ally with one big power or a group of countries to advance its diplomatic strategies. As President Xi said during the World Economic Forum, China has made a sizable contribution to the world economic development and demonstrated the commitment to sharing responsibilities with human development and construction of a community of common destiny.

## **TPP membership presents tremendous opportunities to China's economic diplomacy, so China should seize the moment to join the free trade initiative.**

On Jan. 23, 2017, the newly-sworn in US President Trump signed an executive order to officially withdraw from TPP, a move that caused strong impact on the other 11 member states and the future of regional economic and trade relations in Asia Pacific. Despite Trump's repeated anti-TPP statement during his presidential campaign, the signing of this executive order demonstrated his resolve in anti-free trade and de-globalization and signaled a major shift in the US trade policies. Under such circumstance, the speculation has been on that the trade protectionism will dominate the US economic policies and hinder the advancement of economic globalization. How to handle the Trump administration as the economic globalization stands at the crossroad has become a major challenge to the global economic governance in Asia Pacific.

New Zealand Minister of Trade Todd McClay said on Feb. 8 that it is still too early to say TPP comes to the end after the US withdrawal. According to him, New Zealand almost concludes the domestic political procedure of approving TPP accession. He also revealed that the ministers from the remaining TPP member states were scheduled to meet in the mid of March in Chile and discuss the future of TPP without the United States.

To China, the US withdrawal from TPP, to a certain extent, presents an opportunity to strengthen cooperation dialogue and improve relations with other countries in Asia Pacific. China should seize the moment to join TPP and leverage this opportunity to enhance economic diplomacy.

**Facing the complex attitude of other TPP member states towards China's participation, China should take more proactive actions to fill in the vacancy left by the United States and improve international relations through economic diplomacy.**

A traditional idea is that FTA, on the contrary to WTO's multilateral trade principles, has some level of exclusiveness. However, the Doha round of WTO negotiations have fallen into stalemate after 12 years of efforts, due to the irreconcilable differences in the market entry for agricultural and non-agricultural products. Therefore, many countries have to turn to regional trade agreement and bilateral trade agreement to meet their goal in global market expansion. As of 2015, among the 600 FTAs registered with the WTO, over 400 already came into force, covering not only commercial goods trade but also service trade, investment, IPR protection and labor policies. Those FTAs have even higher degree of trade liberalization and standard, and can significantly accelerate the development of regional trade.

Former US President Barack Obama initiated TPP as a flagship program of his "Pivot to Asia" strategy. Featuring "full coverage" and "high standard," the trade deal is considered a high-level FTA or a "mini WTO." It is originated from the Trans-Pacific Strategic Economic Partnership Agreement (TPSEP) launched by Chile, New Zealand, Singapore and Brunei in 2005, and renamed TPP in 2008 after the United States joined. By 2013, the free trade deal has recruited 12 countries (US, Chile, Peru, Vietnam, Singapore, Malaysia, New Zealand, Brunei, Australia, Japan, Mexico and Canada) and extended to five regions – North America, South America, East Asia, Southeast Asia and Pacific. Based on IMF statistics, the 12 TPP member countries account for nearly 40% of the world economy and close to 28% of global trade.

China's trade with its FTA partners only contributes to 27% of its total global volume, whereas the percentage for developed countries is usually above 50. As a beneficiary of globalization, China should continue to proactively create free trade areas with neighboring countries and expand global free trade networks. Therefore, joining TPP is a win-win deal for China.

Facing the US withdrawal, the remaining member states have mixed attitude. Some member states still hold high expectations on the US role in TPP, while some have already turned their attention to China

and the economic and trade initiatives that Beijing is pushing forward in the region. China's potential TPP membership has been touted.

Japanese Prime Minister Shinzo Abe once said when asked to comment on TPP negotiations that "it would contribute largely to our nation's security and Asia-Pacific regional stability, and it would have significant strategic meaning if China joined the system in the future." He hoped that President Trump could be convinced eventually to stay in TPP for its strategic and economic benefit.

Australian Prime Minister Malcolm Turnbull also told Japanese Prime Minister Shinzō Abe at a meeting that TPP should be carried on even in the absence of the United States and China can replace America in the pact. "The US withdrawal from TPP is a big loss but we will not easily give up our promise to create more job opportunities in Australia." Chilean Foreign Minister Heraldo Muñoz also proposed at a recent press conference that TPP member states should meet with China and South Korea to discuss the future of the trade initiative. Vietnam and Malaysia, as the other two major TPP member states, also carried the hope that their domestic manufacturing industries can benefit from TPP. Some other countries have sent the signal to join the China-initiated RCEP.

As the Asian Pacific countries are seeking to enhance regional economic cooperation and eager to further engage China in the mechanism, China should seize this good timing to join TPP to bring about more mutual benefits through economic diplomacy. Moreover, China can expand areas of cooperation, enhance mutual trust, and improve political relations with TPP member states. For this purpose, Foreign Minister Wang Yi has conducted a visit to Australia and New Zealand from Feb. 7 to 10 aiming to reassure them China's commitment to the cooperation in Asia Pacific.

**Given the fact that China and the United States share mutual interest in an extensive area and at a deep level, China should take initiatives to join TPP, which is conducive to the construction of FTAAP and formation of more comprehensive regional economic governance that includes the United States.**

In his speech at the APEC CEO Summit, President Xi called on Asian Pacific countries to take leadership in providing new impetus to revive the world economy and pushing forward the building of a free trade area in Asia Pacific. He emphasized the need to reboot trade and investment as the two engines for the development of an open economy.

Although President Trump ordered the US withdrawal from TPP, he has expressed the intention to achieve a more "fair" trade mechanism. He cannot deny the fact that China and the United States share a lot of common interest in Asia Pacific. As a matter of fact, from his daughter's visit to the Chinese embassy in DC during the Chinese New Year and the call of Trump's national security advisor to State Councilor Yang Jiechi, we can see some positive signal sent from the Trump administration to cooperate with China.

Previously, the Regional Comprehensive Economic Partnership (RCEP) and TPP were the two most important multilateral economic governance mechanisms proposed in Asia Pacific. The competition between them caused political strain. China's participation in TPP can not only strengthen economic and trade dialogue with TPP member states but also promote collaboration among the signatories of the two agreements. The integration of TPP and RCEP may draw the United States back to join the effort at building the Free Trade Area of the Asia-Pacific (FTAAP) for more extensive trade and investment cooperation that can benefit more Asian Pacific countries and accelerate inclusive development.

Considering the US rising demand for infrastructure construction, we can also invite the United States to join the Asian Infrastructure Development Bank and participate in the "One Belt, One Road," which can make a significant contribution to globalization if it expands into a regional cooperation initiative.

**The Trump administration is leaning towards Russia and potentially creating friction in East Asia. China's entry into TPP is conducive to improving the relations with East Asia and Southeast Asia and accelerating Asian integration.**

The US government has made drastic changes to its diplomatic strategies since Trump became the

president with an intention to ally with Russia to counter China, and has imposed more pressure on China to solve the Korean Peninsula situation and sent signal that he would support Japan and South Korea's nuclear weapon ambition. It also recognized Japan's authority over the Diaoyu Island and the Treaty of Mutual Cooperation and Security between the US and Japan, aiming to create frictions over the South China Sea. These moves will reshape the geopolitical situation in Asia Pacific.

The other 11 TPP member states including Japan, Canada and Australia all have close trade relations with China. Official statistics show that China was the largest trade partner for eight TPP members in 2014 - Japan, Malaysia, Australia, New Zealand, Peru, Chile, Singapore and Vietnam. To the United States and Canada, China is the second largest trade partner. Out of whole TPP member states, eight have already signed bilateral or multilateral FTAs with China, except Canada, Mexico and Japan. Given that TPP is predicated on high level of trade openness, China should keep an open mind and consider becoming a TPP member for its long-term strategic interest.

China, Japan and South Korea are the most important economies in Asia and the world. Their combined GDP accounts for nearly 20 percent of the global total. Since their FTA initiative kicked off in 2012, the three countries have finished 11 rounds of negotiation about commodity and service trade as well as investment agreement, but there are still some problems that remain unsolved. However, the trilateral relations are founded on a solid ground and will become even stronger after more cooperation for mutual benefit. For example, the upcoming 2018 Winter Olympics Games in South Korea, the 2020 Summer Olympics Games in Tokyo, and the 2022 Winter Olympics Games in Beijing present many opportunities for cooperation on sport, technology, and cultural industries.

From above, we can see most TPP members are China's economic and trade partners that we have all the reasons to maintain the relations with. We should expand our economic diplomacy efforts to proactively improve the relations with East Asia and Southeast Asia, and strengthen our mutual trust through common

cultural background and economic benefit.

The TPP membership, on one hand, can help China strengthen the relations with the countries in Northeastern Asia, Southeastern Asia and around the South China Sea, enhance Asian integration, and accelerate the development of the Northeast Asia Free Trade Area and the China-ASEAN Free Trade Area. On the other hand, given the fact that some TPP member states, such as Malaysia, Singapore, Vietnam and Brunei are located along the "One Belt, One Road" route, TPP can also serve as an additional platform for China to engage them in dialogue and cooperation, as well as improve the relations with ASEAN nations.

**China's role in TPP is highly expected. Joining TPP, China can fully demonstrate its commitment to building an open world economy and enhancing global prosperity.**

In his speech at the opening session of the 2017 World Economic Forum, President Xi Jinping pledged that China would unswervingly push forward the building of an open world economy, improve connectivity around the globe, and promote free trade and investment. His remarks were well received by the international community. While unilateral protectionism is gaining momentum, China can, through joining TPP, demonstrate its strong resolve in promoting cooperation and mutual benefit, and build confidence in regional economic development in Asia Pacific.

Recently, British Secretary of State for International Trade Liam Fox announced that the UK will start Brexit process at the end of March. It is expected that China that is in the process of shifting the economy from being driven by manufacturing to by services industry, and will find many areas to work with British manufacturing and service enterprises. The mutual benefit can help UK rebuild its leadership in the new round of globalization.

Therefore, China should seize the moment to join TPP and build closer relations with Asian Pacific countries based on mutual benefit and reduce friction. This is how China should reposition itself.

## Global vision for China ,china wisdom for the world

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