

CIIS Report

**New Progress of the TPP
Negotiations and Strategic
Considerations of the Parties
Concerned**

No. 8
October
2015



中国国际问题研究院
CHINA INSTITUTE OF INTERNATIONAL STUDIES

About CIIS

China Institute of International Studies (CIIS) is the think tank of Chinese Foreign Ministry. Founded in 1956, CIIS is one of the oldest research institutions specialized in international studies in China. It conducts research and analysis focusing primarily on medium- and long-term policy issues of strategic importance to China, particularly those concerning international politics and world economy. It also makes comments and policy recommendations on major world events and hot international issues.

About *CIIS Report*

Contributed by researchers at CIIS and published aperiodically, *CIIS Report* brings forth a series of research papers on hot issues of international relations as well as on major aspects of China's diplomacy. Presented with clear-cut views based on detailed and substantive information and in-depth analysis, *CIIS Report* aims at offering a comprehensive picture of assessment of the situation, academic studies and policy evaluation in clear and precise language. *CIIS Report* is published both in Chinese and English and downloadable on the website of CIIS (<http://www.ciis.org.cn>). The views expressed in *CIIS Report* are those of the author(s) or their research group only and do not necessarily reflect the official position of CIIS.

CIIS Report

New Progress of the TPP Negotiations and Strategic Considerations of the Parties Concerned

Jiang Yuechun

Zhang Mei

Li Xiaoyu

No. 8 - October 2015

中国国际问题研究院
CHINA INSTITUTE OF INTERNATIONAL STUDIES

CONTENTS

Acronyms	iv
SUMMARY	v
I. New Progress of the TPP Negotiations	1
A. Progress of the TPP Negotiations	1
1. About market access	2
2. About intellectual property rights	3
3. About rules of origin	5
4. About labor standards	6
5. About environmental protection	7
6. About state-owned enterprises	8
B. Main characteristics of the TPP negotiations	10
1. High-standard and wide-ranging, aiming to set new rules for international trade	10
2. Member states with varying expectations are wide apart in development level	11
3. U.S.-Japan bilateral talks are crucial for the TPP negotiations	12
4. The TPP agreement might become a new Spaghetti Bowl in the Asia-Pacific region	13
II. TPP's Implications for Future International Economic and Trade Landscape	15
A. Impact on the existing international trade pattern	15
B. Affecting and shaping future international economic rules	16
C. Guiding the direction of future Asia-Pacific regional cooperation	18
III. Domestic and External Background for the United States to Join the TPP Talks	20
A. A strategy to revitalize the U.S. economy and redouble its foreign trade	20
B. Pivoting to Asia and striving for leadership in regional cooperation	21
C. Containing China's growing influence in the Asia-Pacific	22
D. Reshaping international trade rules and the global economic order	23
IV. Japan's Strategic Considerations for Joining the TPP Negotiations	25
A. Tying up with the United States politically, economically and security-wise	25
B. Maintaining Japan's leadership in Asia-Pacific regional cooperation	26
C. Having a head start in setting new international economic rules	27
V. Different Choices of ASEAN Countries in Joining the TPP Negotiations	28
A. Different judgments of participating ASEAN countries on the TPP negotiations	28
1. Singapore is optimistic about the prospect of the TPP talks	28
2. Brunei emphasizes that it will offer appropriate protection for SMEs	29
3. Vietnam is firm in joining the TPP negotiations	30

4. Malaysia is both expectant and worried about the TPP	30
B. Different considerations of other ASEAN members in joining the TPP talks	32
1. The Philippines had to give up after unsuccessful endeavors	32
2. Thailand's accession process stalled due to political instability	33
3. Indonesia is still cautiously weighing the pros and cons of joining the TPP negotiations	34
4. Myanmar, Laos and Cambodia are currently unable to join	35
C. Different judgments of ASEAN countries on the TPP negotiation process	35
1. Participating ASEAN countries have full confidence in reaching a final agreement	36
2. The United States and Japan hold the key to the success of the TPP negotiations	36
3. The TPP brings true economic benefits to participating ASEAN countries	37
4. Interested ASEAN countries still need time to join the TPP	38
D. TPP's limitations and its impacts on ASEAN	38
1. ASEAN's participation and influence in the TPP negotiations are limited	39
2. Uncertainty exists in the economic benefits that TPP could bring to participating ASEAN countries	39
3. The TPP talks has challenged the centrality of ASEAN in the framework of regional economic cooperation	40
4. Increasing difficulty in coordinating ASEAN members' economic and political interests	41
E. ASEAN hopes TPP and RCEP can coexist so as to bring more choices	41
1. Main considerations of ASEAN in proposing RCEP	41
2. TPP and RCEP are two mechanisms different in member composition and level of liberalization	42
3. ASEAN hopes to benefit from the coexistence and complementarity of TPP and RCEP	42
VI. China's Policy Options	45
A. Continue to underline the "opening" concept and attach importance to multilateral economic cooperation	45
B. Promote the construction of FTAAP and achieve "inclusive" development of regional cooperation	46
C. Vigorously promote the Belt and Road Initiative and create a new landscape in opening-up	47
D. Actively participate in the RCEP negotiations and upgrade East Asia regional cooperation	47
E. Actively implement China-R.O.K. FTA to advance regional cooperation in Northeast Asia	48
F. Vigorously enforce domestic reforms and keep abreast with the trend of the world development	49

Acronyms

AAFA	American Apparel & Footwear Association
ASEAN	Association of Southeast Asian Nations
CSR	Corporate Social Responsibility
DPJ	Democratic Party of Japan
FTA	Free Trade Agreement
FTAAP	Asia-Pacific Free Trade Area
GIC	Government of Singapore Investment Corporation
HDI	Human Development Index
ILO	International Labor Organization
IP	International Property
IPR	Intellectual Property Rights
ISDS	Investor-State Dispute Settlement
MCAS	Marine Corps Air Station
MoU	Memorandum of Understanding
NEI	National Export Initiative
QE	Quantitative Easing
RCEP	Regional Comprehensive Economic Partnership
R.O.K.	Republic of Korea
ROO	Rules of Origin
RTA	Regional Trade Agreement
SME	Small and Medium-sized Enterprise
SOE	State-Owned Enterprise
TPA	Trade Promotion Authority
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TTIP	Transatlantic Trade and Investment Partnership
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WTO	World Trade Organization

SUMMARY

Since the United States proclaimed its participation in the Trans-Pacific Partnership (TPP) Agreement negotiations in 2008, the number of countries participating in the TPP talks has increased rapidly and the influence of TPP has been rising swiftly.

Till now, more than 20 rounds of negotiations have been completed covering 29 chapters, concerning issues of trade in goods, rules of origin, trade remedies, sanitary and phytosanitary measures, technical barriers to trade, trade in services, intellectual property rights (IPR), government procurement, competition policy, etc. The TPP has the following characteristics: First, establishing unprecedentedly high standards for new rules governing international trade; Second, diversified claims by negotiating parties due to their great disparity out of each others' different economic development level; Third, with the United States and Japan being two leading players in the agreement, the progress of TPP negotiations hinges on the success of their bilateral negotiations. After several years of negotiation, progress has been made in some chapters. But with the deepening of negotiation and increased membership, the TPP talks are bogged down with some difficulties in the negotiations altering the initial goal and the deadline for completion being postponed time and again.

The U.S. participation in the TPP talks is mainly driven by the following considerations. First, the United States wants to gain greater access to Asia-Pacific markets so as to achieve its National Export Initiative (NEI) goals and share the dividends of the rapid growth of Asian emerging economies. Secondly, the United States intends to influence or even lead the direction of economic cooperation in the Asia-Pacific region. Recent years have witnessed the rapid growth of various forms of Asia-Pacific economic cooperation independent of the United States, leaving the U.S. in a bleak situation of being unengaged in the regional affairs. Thirdly, with the Doha Round negotiations at a standstill, the United States believes that the current international economic order and rules under the WTO framework have be-

come increasingly unfavorable for its economy and that new rules governing international trade in favor of western economies must be formulated through the TPP, thereby maintaining the U.S. leadership in future global economic order.

Japan's main consideration in joining the TPP negotiations is to further strengthen its alliance with the United States. In East Asia, at a time when China-Japan relations deteriorate after the 2010 Diaoyu Islands (or Senkaku Islands) Boat Collision Incident and tension persists between the North and the South in the Korean Peninsula, Japan has welcomed U.S. "rebalance" toward the Asia-Pacific. By joining the TPP talks, Japan has tried to show its support to the United States and mend the rift with the latter over the relocation of Marine Corps Air Station Futenma (MCAS Futenma), so as to completely align itself with the United States politically, economically and security-wise. Secondly, it contributes to the maintenance of Japan's leading role in Asia-Pacific regional cooperation. With its rapid economic growth, China has been exerting increasingly great influence on Asia-Pacific regional cooperation. On the contrary, Japan's role in the regional economic cooperation has become less noticeable. Due to its economic weight, Japan has become a natural leader together with the United States to dominate the TPP negotiations after its accession to it. And that is conducive not only to maintaining Japan's economic superiority over China and curtailing China's influence, but to safeguarding Japan's leadership in Asia-Pacific regional cooperation. Finally, as a regional economic cooperation framework that adopts higher standards than the WTO and a high-level FTA, the TPP aims at establishing a set of new rules on the trade system reflecting the interests and concerns of developed countries. Therefore, it is in Japan's interests to join the TPP talks in the initial stage so as to enhance its voice and influence in the formulation of new international rules and avoid becoming disadvantaged in the new international trade order.

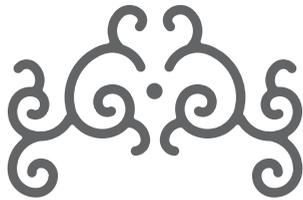
The Association of Southeast Asian Nations (ASEAN), as a regional organization, is often able to enhance the competitiveness and say of its member states through collective action. But due to their disparities in economic development and diverse interests, ASEAN member countries have maintained their independence and autonomy via individual participation in regional economic cooperation. Their positions differ greatly with diverse views on the question of joining the TPP ne-

gotiations. In the foreseeable future, they are unlikely to join the TPP talks as an integral whole. Therefore, ASEAN expects to enhance its cohesion through the cooperative framework of Regional Comprehensive Economic Partnership (RCEP), to offset the impact of the TPP and to consolidate its centrality in East Asia regional cooperation.

Since the TPP has been taken by the United States as a tool to achieve integration of various economic cooperation mechanisms in the Asia-Pacific, it is sure to produce a great impact on the region's existing cooperation frameworks. As one of U.S. foreign economic strategies, the TPP will play a leading role in the formulation of new international trade rules and bring about a profound impact on the international trade pattern and future world economic order.

China, as a major economic power in the Asia-Pacific, should play its role in the regional cooperation process. History has shown that without China's participation, no Asia-Pacific regional economic cooperation in whatever form will achieve sound development. Therefore, China should watch the TPP talks closely and deepen its domestic institutional reform while promoting the realization of a Free Trade Area of the Asia-Pacific (FTAAP), so as to create conditions for its participation in Asia-Pacific regional economic integration in the future.





I. New Progress of the TPP Negotiations

A. Progress of the TPP Negotiations

The prototype of the TPP emerged during the exploration for Asia-Pacific trade liberalization by Singapore, New Zealand and Chile since 2003. With Brunei's participation, the four countries formed the Trans-Pacific Strategic Economic Partnership (P-4) in 2006, in which members committed themselves to offering preferential policies to each other and strengthening cooperation in trade in goods and services, intellectual property rights (IPR), investment, etc. The Agreement adopted an open approach and welcomed all APEC members to join in. In March 2008, the United States first joined the P-4 negotiations on investment and financial services and soon announced its complete participation in the talks and renamed the P-4 as Trans-Pacific Partnership as today's TPP. Countries participating in the TPP talks have grown from the initial 4 to today's 12 (plus the United States, Australia, Peru, Vietnam, Malaysia, Mexico, Canada and Japan). Potential participants include Thailand, Costa Rica, Columbia, China's Taiwan, Republic of Korea (R.O.K.), the Philippines, Indonesia, India and Bangladesh. So far, more than 20 rounds of negotiation have been completed, covering nearly 30 chapters on a host of topics such as trade in goods, rules of origin, trade remedies, sanitary and phytosanitary measures, technical barriers to trade, trade in services, IPR, government procurement and competition policies.¹ The TPP is regarded as a high-standard, wide-ranging and "next-generation" free trade agreement (FTA), aiming at providing a model of trade liberalization for the Asia-Pacific region and the rest of the world. Progress has been made in some chapters over the past years. However, as the negotiations focus on more detailed issues and the number of negotiating parties increases, the TPP talks are bogged down with some difficulties in the negotiation altering the initial goals and the deadline for concluding the talks being postponed time and again.

1 Ian F. Fergusson, Mark A. McMinimy, Brock R. Williams, "The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress", CRS Report, March 20, 2015, Summary. (www.fas.org/sgp/crs/row/R42694.pdf)

1. About market access

Goods, services and agricultural market access have always been core issues of free trade negotiations, and the TPP talks are no exception. Market access mainly concerns access of goods and services, and that of investment and agricultural produce. Great disparities in the development level among TPP negotiating countries have landed the negotiations on the chapters of market access in great difficulties. At the beginning of TPP negotiations, it was asserted that the TPP will ultimately achieve extensive market access, and comprehensive reduction of tariff and non-tariff barriers among members. However, as the negotiations went on further, differences among parties gradually surfaced. Especially after Japan joined the negotiations, dramatic changes took place, making across-the-board tariff cut a castle in the air, and turning the prospects for achieving that goal gloomy.

In general, provisions for market access in the TPP are mainly negotiated bilaterally. The U.S. position is that existing market access provisions in bilateral FTAs between negotiating parties shall not be renegotiated. For example, the market access and tariff concession that have been agreed between the United States and other negotiating parties should not be readjusted under the TPP framework. Therefore, negotiations shall mainly be conducted between those countries that have not signed a bilateral FTA. Yet, Australia is seeking a market access deal in the TPP that ensure TPP trading partners reap the benefits of the lower tariffs parties commit to, even in bilateral negotiations like those between Japan and the United States.²

Now, the difficult part of TPP negotiations on market access has centered on Japan's "sacred five" agricultural products and tariffs on Japanese cars and light trucks to the U.S. market.³ The Resolution on Japan's Participation in the TPP Negotiations adopted by the House Standing Committee on Agriculture, Forestry and Fisheries in April 2013 stipulates that sensitive agriculture, forestry and fisheries products – including rice, wheat and barley, beef and pork, dairy products, sugar and starch crops - should either be excluded from the negotiations or be subject to renegotiation in order to maintain sustainable domestic production, and

2 "Australia Seeks Uniform Tariff Deals In TPP, Sees US Flexibility On Sugar", Inside U.S. Trade, Nov. 7, 2014. (www.insidetrade.com)

3 The "sacred five" agricultural products include rice, wheat, beef and pork, dairy products and sugar. See Ayako Mie, "Abe under pressure from his party to protect 'sacred five'", *The Japanese Times*, Oct. 10, 2013. (<http://www.japantimes.co.jp/news/2013/10/10/national/politics-diplomacy/abe-under-pressure-from-his-party-to-protect-sacred-five/#.VfksQdJAUzA>)

that the government should not hesitate to withdraw from negotiations if it judges that sanctuary could not be protected.⁴ In the succeeding rounds of negotiation, Japan has insisted that the “sacred five” should be treated as an exception on tariff concession, persisted in the existing environmental and safety standards in the automotive field, and insisted on U.S. cut in import tariffs on cars.

To respond to Japan, the United States wanted Japan to lower the environmental and safety standards for imported cars, a clear technical barrier to trade, and insisted on an across-the-board tariff cut on imports of agricultural products. Japan and the United States have come to a deadlock in the negotiations of agricultural market access and automobile trade. While the United States pressed hard on it, Japan held its ground. A U.S. Congressman even suggested that TPP negotiating parties should conclude the agreement by bypassing Japan. Some Congressmen even proposed to include Japan’s exchange rate control in the negotiations as leverage. Other negotiating parties adopted a “wait-and-see” approach and held their ground by refusing to make any substantive compromise before the United States and Japan could strike a deal. Consequently, negotiations dragged on. In late 2014, the U.S. Trade Representative Michael Froman said that in the U.S.-Japan negotiations on agricultural market access, good progress had been made not only in beef, but also in dairy products, nuts and wine, with only the market access for rice a tough issue to tackle.⁵

In addition to the issues of tariff cut and non-tariff barriers in the bilateral negotiations, agricultural export subsidies involving many parties have remained a difficult issue bearing on the final completion of the negotiations, and failed to achieve desirable results in last year’s negotiations.⁶

2. About intellectual property rights

Though only a few chapters of TPP working documents were leaked out, the content of intellectual property (IP) and positions of negotiating parties were made public. On October 16, 2014, WikiLeaks released on its website the TPP draft

4 House of Councillors, the National Diet of Japan, “Resolution on Japan’s participation in the Trans-Pacific Partnership (TPP) negotiations”. (<http://www.sangiin.go.jp/eng/report/standing-committee/20130617-TPP.pdf>)

5 “Froman Expects TPP Completion In 2015; Aims For Passage By Year’s End”, *Inside U.S. Trade*, Dec. 4, 2014. (www.insidetrade.com)

6 “At Ministerial, TPP Countries Remain At Odds Over Export Subsidies Rules”, *Inside U.S. Trade*, Nov. 7, 2014. (www.insidetrade.com)

documents of the IPR chapter of May 16, 2014.⁷ In the TPP negotiations on rules, the chapter on IPR has all along been the center of disputes, repeatedly prolonging the negotiating process. The text leaked out this time is up to 77 pages with 32,018 words, covering such objects of IP as patents, trademarks, domain names, geographical indications, copyrights and neighboring rights, encrypted satellite and cable signaled programs, agricultural and chemical products, pharmaceutical data, and commercial confidentiality, with detailed provisions on the administration and enforcement measures on various objects of IP protection aiming at enabling member states to enjoy the benefits of science and technology advancement while ensuring economic growth through IP protection.

The United States, Japan and other developed countries are key drivers in the IP negotiations. The United States proposed that the standards of IP protection in the U.S.-R.O.K. FTA be set as the basis for related TPP negotiations. Actually, the standards of U.S.-R.O.K. FTA are beyond the level as set in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The latest declassified draft chapter on IP showed that the United States and Japan insisted on adding provisions favorable to industries in the fields of pharmacy and patent. For example, the United States wants to expand its 12 years of data protection on new drugs to the other 11 TPP countries, which means that patients in need of such drugs will have to pay for these costly drugs during the period of data protection.⁸ In the field of copyright, the draft shows that the period of copyright protection will be extended to 50 or even 100 years after the author's death. Insiders believed that 70 years might be finally accepted. Public Knowledge, a non-profit public interest group on IP law, commented that this agreement will hinder the developing countries in the Pacific Rim from exploring their indigenous creativity and limit their knowledge acquisition. It will also threaten to confine the United States to a system of laws and policies designed for the 21st century and jeopardize the Congress capacity to carry out necessary reforms.⁹

To be specific, the bone of contention is on the IP protection of pharmaceutical products. IP protection on drugs touches on the issue whether nationals of negotiating members could get the latest drugs conveniently. In the United States,

7 "Secret TPP Treaty: Intellectual Property Chapter Working Document for All 12 Nations with Negotiating Positions", *WikiLeaks*. (www.wikileaks.org/tpp-ip2)

8 Jonathan Weisman, "Trade round breaks up with heels firmly dug in", *International New York Times*, Aug. 5, 2015.

9 *Ibid.*

there are two standards of pharmaceutical IP protection: the strict one is set in the U.S.-R.O.K. FTA; the flexible one is for developing countries (Columbia, Peru and Panama) on the basis of the May 10 Agreement. According to leaked information, the TPP negotiations will adopt a differentiated approach, either strict or flexible, according to the development level of the member country. However, the criterion of differentiation is still controversial. The United States prefers to adopt the income criterion used by the World Bank to classify countries into developing ones and developed ones, while Mexico and some others prefer to use Human Development Index (HDI) published by the United Nations Development Programme (UNDP) as the basis to categorize countries. So far, there is no conclusion for the final adoption.

3. About rules of origin

Rules of origin (ROO) are articles defining categories of products made by member countries being eligible to enjoy preferential treatment under the FTA. Article 4 of the P-4 Agreement reached in 2005 dealt with the ROO criteria with 18 sections and 4 attachments, including origin criteria, de minimis rules, accumulation rules, direct consignment rules, certificate of origin, etc. The ROO in the TPP negotiations are also based on the P-4 Agreement.

Negotiators all agree that raw materials and components made in any TPP member countries can be accumulated into proportion when their origins can be identified, so that a product produced with components made in multiple TPP countries can be claimed as originated in the TPP region, and be eligible for preferential treatment. Negotiations on ROO have centered on textiles and apparel production and remained contentious between the United States and Vietnam. For a long time, China has always been the largest exporter of textiles to the United States. However, Vietnam is likely to become a strong competitor to China after the TPP negotiations completed. As for ROO for apparel, the United States has all along insisted on the Yarn-Forward rule, requiring each process, from the yarn spinning to the ready-to-wear clothes, be done in TPP countries before being accepted as a product from the TPP zone for preferential treatment.¹⁰ Supporters to this rule included Mexico and Peru. Vietnam apparel firms, using a large amount of Chinese textile materials, are seeking less restrictive “Cut and Sew” and

10 “ROO, IP, Investment, SOEs Among Groups Meeting at Ottawa TPP Round”, *Inside U.S. Trade*, July 11, 2014. (www.insidetrade.com)

“Short-Supply list” rules, which would allow them to use materials from non-TPP countries while enjoying the preferential treatment. The United States preferred rules combined from bilateral agreements, thus causing difficulties in accumulation rules. The latest information has shown that TPP member countries have basically concluded ROO negotiations.¹¹ During the latest ministerial meeting held in Hawaii in July 2015, the definition of a car or truck from one of the TPP countries was at issue. Mexico wanted only vehicles with around 65 percent of their components made in the TPP region to qualify for lower tariff barriers, which would favor Mexican trucks made with American and Japanese parts, whereas Japan wanted that ROO threshold set closer to 50 percent, favoring its parts suppliers in China and Thailand.¹²

4. About labor standards

The TPP negotiation framework of November 2011 indicated in ambiguous wording that the agreement will have a separate labor chapter. It was only stated that the chapter will include commitments on labor rights protection and ensure the formation of mechanisms for cooperation, coordination, and dialogue on labor issues of common concern. Being highly controversial, negotiations on labor standards have been rather slow. According to the released information on the website of the Office of the U.S. Trade Representative, the first eight rounds of negotiations are merely for exchanges and dialogues. At the end of the 9th round, the United States took the lead in putting forward a draft proposal for labor standards, which are even higher than those in the bilateral FTAs negotiated and concluded between the United States and such countries as Peru, Columbia, Panama and the R.O.K. based on the new U.S. trade policy formulated in 2007. In the 11th round of negotiation, parties had an in-depth discussion on the U.S. proposal. It was planned to conclude discussion on the major parts by the end of the 15th round, however, great disparities still existed by then. In the 17th round of negotiation, Canada submitted a formal proposal on labor rules and discrepancies were found between the two proposals with regard to mechanisms for compulsory enforcement.

Labor issue has always been difficult for TPP negotiations. Disagreements exist between the United States and other developing members. Compared with

11 “TPP Leaders Say End ‘Coming Into Focus,’ But Avoid Setting New Target”, *Inside U.S. Trade*, Nov. 14, 2014. (www.insidetrade.com)

12 Jonathan Weisman, “Trade round breaks up with heels firmly dug in”, *International New York Times*, Aug. 5, 2015.

other issues, negotiation on the labor issue is still in its primary stage. In various free trade negotiations, the United States has always insisted that each party should acknowledge the five internationally accepted labor rights as contained in the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work and Its Follow-Up (1998): namely, freedom of association, collective bargaining, elimination of all forms of compulsory or forced labor, effective abolition of child labor, and elimination of discrimination in employment and occupation. According to informed sources, the United States further required TPP member countries to formulate relevant labor laws relating to minimum wages, working hours, occupational health and safety in addition to ILO core principles.¹³ Vietnam and Brunei insisted on opposing incorporation of labor rights provisions into disputes settlement mechanisms, and Vietnam has been criticized by the United States for the lack of independent labor unions. Other countries also have conflicting positions with the United States. Recent research funded by the U.S. Department of Labor revealed that widespread forced labor exists in Malaysia's electronics manufacturing¹⁴, which will widen the gap between the United States and related countries on the labor issue.

5. About environmental protection

Environmental protection is not a new topic for TPP negotiations. It is an issue dealt with in varying degrees in many earlier FTA negotiations. But most FTAs only require that the signatories enforce domestic environmental laws and fulfill their international obligations in multilateral environmental agreements to which they are parties, supplemented by disputes settlement provisions. As a 21st century FTA, the TPP raises environmental protection to a higher level. In January 15, 2014, the U.S. Trade Representative Office stated in a circular the U.S. position on environmental protection in TPP negotiations is as follows: it is one of the core values of the United States. The United States would insist that the TPP should incorporate a forceful and fully enforceable environment chapter, otherwise, the United States would not accede to it.

The report of the Chair of the TPP Environment Working Group and the consolidated text of the Environment Chapter of November 24, 2013 declassified

13 "USTR Tables TPP Labor Proposal That Goes Beyond May 10 Template", *Inside U.S. Trade*, Jan. 5, 2012. (www.insidetrade.com)

14 "Forced Labor in the Production of Electronic Goods in Malaysia – A Comprehensive Study of Scope and Characteristics", Verité, Sept. 22, 2014. (www.verite.org/research/electronicsmalaysia)

by WikiLeaks on January 15, 2014 showed that the charter contained 18 articles, among which the followings have been agreed upon: objectives, general commitments, procedural matters, opportunities for public participation, public submissions, corporate social responsibility (CSR), voluntary mechanisms to enhance environmental performance, cooperation frameworks, institutional arrangements, invasive alien species, etc.¹⁵ Some countries, like New Zealand and Chile, have jointly tabled a proposal on trade and climate change, and submitted proposals on marine fisheries and fisheries subsidies separately, while Australia proposed complete tariff exemption on environmental goods and green technology. The United States proposed that in TPP negotiations, the principles of robust environmental standards, core commitments and public participation should be upheld, covering clauses to regulate illegal logging, maritime fishery and protection of endangered species and including obligations to reinforce domestic legislation and regulations on controlling illegal trade on plants and wildlife. Member states were also requested to fulfill their commitments under multilateral environmental agreements and place stakeholders under supervision by related authorities. Despite of various proposals on environment protection put forward by parties concerned, negotiations did not go smoothly. Firstly, environmental issues are regarded as “issues within the border” under the jurisdiction of domestic laws. Multilateral trade agreements have little regulatory power on environment no matter they apply only to national governments, or to both national and local governments. Secondly, the regime for trade disputes settlement, if established to settle environment problems, may lack necessary execution power and binding force. Consequently, member parties were opposed to the U.S. proposal that signatories to TPP agreement shall be punished by disputes settlement regime if they failed to take effective measures to honor their commitments under multilateral agreements. Thirdly, member parties differ widely in their positions on environmental issues, especially so between the developed and developing economies.

6. About state-owned enterprises

Over the past decade, state-owned enterprises (SOEs) have enjoyed unprecedentedly rapid growth. Emerging economies represented by China have

15 See “Secret Trans-Pacific Partnership Agreement (TPP) - Environment Consolidated Text”, WikiLeaks, Jan. 15, 2014. (<https://wikileaks.org/tpp-enviro/>) Also see Li Liping, Zhang Bin, Chen Chao, “TPP huanjing yiti dongxiang, yuanyin ji dui woguo de yingxiang” (Trend of TPP negotiations on the environment issue, reasons and its impact on China), *Duiwai Jingmao Shiwu (Practice in Foreign Economic Relations and Trade)*, Issue 7, 2014.

created economic miracles through domestic reform and opening to the outside world, while developed economies headed by the United States have all along worked to bring SOEs into the system of rules governing existing international trade so as to achieve fair competition between SOEs and private companies. The definition of SOE has a bearing on the scope of the regulatory regime, so it becomes the center of arguments. There exists a great disparity between China and the United States on the definition of “state-owned”. According to available information, the United States preferred to use the definition as one referring to the Singaporean SOEs in the U.S.-Singapore FTA in the TPP regulations¹⁶, wherein SOEs are referred to enterprises with “effective state influence”.¹⁷ According to the attachment 12A of that agreement, “effective state influence” means that the government controlled over 20% of the voting power. In case the government does not have direct ownership, indirect voting power from state holding companies or other SOEs should also be accounted for, which is a very complicated process.

Although the regulation on SOEs was taken up occasionally in previous FTAs, no comprehensive free trade regulation on SOEs is available today and the TPP intends to make a breakthrough in this regard by adopting the principle of “competitive neutrality” in the agreement. By “competitive neutrality”, the government in its business activities is not entitled to enjoy competitive advantages over private competitors just because of its public ownership. The purpose of “competitive neutrality” is to avoid distorted allocation of resources because of public ownership so as to obtain better results from competition. If this principle is not applied, allocation of resources will be distorted by government business activities, thus negatively affecting private investment and market order. In the TPP negotiations, Vietnam is the country that will be affected most by the SOE rules because SOEs contribute to over 40% of the country’s GDP. Malaysia and Singapore, with important state-owned economic sectors, will also be affected. In previous FTA negotiations, the United States insisted on applying national treatment, non-discrimination and transparency clauses to SOEs, and supported the rights of all parties to set up and keep SOEs. The bone of contention in TPP negotiations on SOE rules is the applicable level of SOEs (national, federal, or the local level) and specific enterprises or departments for exceptional protection.

16 Xu Xin, “TPP guoyou qiye guize dui woguo de yingxiang jiqi yingdui” (TPP SOEs rules’ impact on China and China’s response), *Lilun Tansuo (Theoretical Exploration)*, Issue 5, 2014.

17 See U.S.-Singapore Free Trade Agreement, Chapter 12, Article 3.8.

Countries with mostly state and local SOEs, like the United States, insists that TPP regulations on SOEs should be applicable on the national and federal levels, while Vietnam wants to exclude certain SOEs from the regulations. It is reported that the consensus reached among parties include a 3-to-5 year transitional period for removing preferential treatment for SOEs, during which emerging economies will be urged to further open their markets, and the number of SOEs enjoying exceptional clauses will be strictly controlled.¹⁸

B. Main characteristics of the TPP negotiations

1. High-standard and wide-ranging, aiming to set new rules for international trade

The TPP has been negotiated among 12 countries, including New Zealand, Singapore, Brunei, Chile, the United States, Australia, Peru, Malaysia, Vietnam, Canada, Mexico and Japan, boasting to set up next-generation rules that cover all aspects of international trade and achieve zero tariff in a comprehensively way. In extension, the TPP negotiations cover 12 member countries across the Pacific with economic aggregate accounting for about 40 percent of the world's GDP, ranging from Vietnam ranking 124th in terms of per-capita GDP to the United States, the world's most developed country. The TPP negotiations has touched upon not only traditional issues of free trade, such as market access for goods and services, IP, ROO, technical barriers to trade, investment, competition policy and trade remedies, but new and cross-cutting issues like labor standards, environmental protection, SOEs and regulatory coherence. From an in-depth perspective, the TPP negotiations aim at zero tariff for all trade and maximization of trade liberalization. Consequently, the TPP negotiations have attracted global attention from the very beginning. As a useful attempt to promote trade liberalization against the background of the financial crisis, the TPP negotiations have raised criteria on trade liberalization higher than that of the WTO and other multilateral trade mechanisms and brought many "super-WTO issues" into negotiation, thus having the potential to change international economic and trade landscape.

¹⁸ "Froman: US Engaging in Bilateral Talks with TPP Parties on SOE Exceptions", *Inside U.S. Trade*, Oct. 3, 2014. (www.insidetrade.com)

2. Member states with varying expectations are wide apart in development level

In view of the great disparities in terms of economic development level existing among negotiating parties, full enforcement of free trade and zero tariff would mean huge economic and social cost for some countries. For example, as the least developed economy among TPP members, Vietnam enjoys comparative advantages in labor cost and labor-intensive industries, such as textiles and apparel. Therefore, Vietnam's demand in the negotiations is an open market to the maximum in the United States and other developed economies. Contrary to this, the United States has enjoyed advantage in capital and technology. To protect small and medium-sized enterprises (SMEs) and the jobs they have created, a major concern of the United States is to ward off the impact of cheap textiles imported from other TPP members on its own textile industry. Therefore, the United States has insisted on the strict "yarn-forward" rule on the question of ROO, which requires every component starting from the yarn to be completed in the TPP region. As Vietnam relies heavily on the import of textile materials from China, the application of "yarn-forward" rule would certainly raise its export cost of textiles and the benefit of tariff cut under the TPP will be offset. For that reason, Vietnam opposes the U.S. proposal in the negotiations. Other chapters in the TPP negotiations like IP, labor standards, environment standards, competition policy which form new rules governing international trade have also remained difficult areas and negotiating parties are sharply divided on specific standards of the new rules.

The TPP negotiations covered 29 chapters in 30 working groups to negotiate related topics. One of the motivations for the United States to push the TPP negotiations is to create a set of new rules governing international trade, which will cover areas not yet dealt with by existing FTAs. As a result, disparities of positions on various issues do exist among negotiating parties. Take the competition policy as an example, the United States readvanced the concept of "competitive neutrality" to regulate SOEs' business activities. However, the largest enterprises in TPP members like Malaysia, Mexico, Singapore and Vietnam are all SOEs. The same for Japan's second and third largest enterprises. Two largest sovereign wealth funds in Singapore, Temasek Holdings (Private) Limited and Government of Singapore Investment Corporation (GIC), are both globally influential companies. These

countries are sure to engage the United States in a “sword-play” on the principle of “competitive neutrality”. Besides, the proposed Investor-State Dispute Settlement (ISDS)¹⁹ in the TPP draft agreement is strongly opposed by Australia and some other countries. Compared with other issues, environment standard is much more complex, upon which no party finds it easy to push forward the negotiation. The U.S. position on strict IP protection and extended protection of patents and copyrights were strongly opposed by most of the developing parties.

3. U.S.-Japan bilateral talks are crucial for the TPP negotiations

As two largest economies in the TPP region, the United States and Japan account for 77% of the region’s total GDP and 70% of its total trade volume.²⁰ And none of the other ten TPP countries has global influence. Therefore, it is understandable that the U.S.-Japan bilateral talks have become the focus and the most important part of the TPP negotiations.

The main disagreements between the United States and Japan in TPP negotiations are related to agricultural products and automobiles. In agricultural products, the United States asked Japan to open its domestic market for rice, wheat, beef, pork, dairy products and sugar, while Japan demanded exceptional clauses or postponement for opening these markets. In automobiles, Japan wants the United States to eliminate its tariffs imposed on the light bus (2.5%) and the light trucks (25%) imported from Japan once the TPP agreement takes effect, whereas the United States demands Japan accept its safety and environmental standards and verification programs on imported vehicles.²¹

In May 2014, the U.S. Trade Representative Michael Froman said in his testimony at the Senate Committee on Finance hearing that during Obama’s visit to Japan in April 2014, the United States and Japan made significant progress in their bilateral market access discussions, and the two sides had identified a path forward on agriculture and autos.²² However, judged from the information released

19 Investor-State Dispute Settlement (ISDS) is a mechanism which, according to international laws or investment agreements, grants an investor to make an appeal to sue the host country government on the International Arbitration Court to settle investment disputes.

20 Ge Cheng, “Kua taipingyang huoban guanxi xieding: mei ri zhanlue de fen yu he” (Similarities and Differences over Strategic Interests between the United States and Japan in Trans-Pacific Partnership Agreement Negotiations), *Yatai Jingji (Asia-Pacific Economic Review)*, Issue 3, 2015, p. 9.

21 Ibid.

22 “Testimony of the Honorable Michael Froman, United States Trade Representative, at the Senate Committee on Finance Hearing”, May 1, 2014. (<http://www.finance.senate.gov/imo/media/doc/Ambassador%20Froman%20-%20>

after the successive meetings at various levels between the United States and Japan, we cannot see any remarkable changes either in U.S. stance on the TPP's high standards and zero-tariff objective or Japan's resolve to protect its domestic agricultural producers.

Despite a revolt by leftist Democrats, the U.S. Congress voted in June 2015 to give President Obama Trade Promotion Authority (TPA), a "fast-track" mandate to pursue trade pacts which Congress may not later re-open and amend.²³ That eliminated a major obstacle for TPP talks, because with TPA, the U.S. negotiators are more likely to get best offers from other negotiating parties and TPP negotiations have a better chance to conclude.

4. The TPP agreement might become a new Spaghetti Bowl in the Asia-Pacific region

The term "spaghetti bowl phenomenon" originates from Bhagwati's *U.S. Trade Policy: The Infatuation with FTAs* published in 1995. It means under FTAs and RTAs (Regional Trade Agreements), different preferential treatments and ROOs are crossed and tangled up, hard to be sorted out. The Asia-Pacific region is one of the world's most dynamic regions in terms of trade and Asian countries have particular interests in concluding FTAs due to their export-oriented economic model. From 2000 to 2005, the number of FTAs in Asia increased from 3 to 22 and reached 71 in 2012. Among those agreements, 64 have come into effect and bilateral FTAs accounted for 76% of the total FTAs. Numerous and complicated bilateral FTAs have caused a dilemma for different countries and companies in actual application. To find a way out of the "spaghetti bowl phenomenon", TPP and other multilateral talks on free trade have come into being. It is clearly stated in the TPP negotiations framework that the goal of the talks is to achieve complete zero-tariff and comprehensive market access among all negotiating parties. But Japan's position has greatly eroded this goal. The Japanese negotiators made it clear that the concessions on tariff-cut and market access between Japan and the United States would not be automatically applied to other members. The TPP agreement acceptable to Japan later should be a combination of various bilateral FTAs concluded separately between Japan and other negotiating parties. And the United States insisted in TPP negotiations that the existing FTAs would not

Trade%20Agenda%20Hearing%20Testimony%20-%2005012014.pdf)

23 "Fair wind blowing: What a trade deal with Asia could most usefully include", *The Economist*, June 27th 2015, p. 32.

be renegotiated. For example, the United States refused Australia's request to renegotiate market access for sugar and related products. The bilateral FTAs signed between the United States and other six TPP negotiating parties, namely Australia, Singapore, Canada, Mexico, Peru and Chile, have shown different standards on ROO, market access and tariff reduction. In view of the current progress of negotiation, the possibility of concluding a single unified TPP agreement applicable to all members looks dim. If the final TPP agreement is composed of a series of bilateral agreements, its status as "next-generation FTA" will vanish and those bilateral agreements will significantly aggravate the "spaghetti bowl phenomenon" in the Asia-Pacific region.



II. TPP's Implications for Future International Economic and Trade Landscape

A. Impact on the existing international trade pattern

Following its high-profile participation in TPP talks, the United States initiated the Transatlantic Trade and Investment Partnership (TTIP) negotiations which were echoed by Europe. Japan and Europe also officially inaugurated their bilateral FTA negotiations. The United States, Europe and Japan's active engagement in fostering multilateral and high-standard FTAs has mainly reflected their intention to reshape the international trade pattern and gain the upper hand in it. The Doha Round negotiations of the WTO, which commenced in 2001, has lasted for a decade or so without much progress, while numerous FTAs emerged, exemplified by those between the EU and more than 80 countries as well as over 20 free trade areas the United States has established together with its trading partners. If TPP and TTIP, the two pillars of Obama's "Two-Ocean Strategy", were to materialize on schedule, the Asia-Pacific region and Europe will become two major "battle fields" for the United States in global trade and have a great impact on the international trade pattern. TPP would bind together a group of countries that represents 40% of global GDP and about a third of world trade.²⁴ And TTIP is potentially the world's largest free trade area, accounting for approximately 46% of global GDP and a third of global trade.²⁵ A combination of these two colossal FTAs will take up around 60% of global GDP and about two thirds of global trade.²⁶ With the completion of the two FTAs, there will emerge "trade expansion" and "trade transfer" effects across the two oceans. It means that trade and export between the United States and Europe will be visibly promoted and increased while the non-TPP and non-TTIP

24 USTR, "Remarks by Ambassador Michael Froman at the Council on Foreign Relations: The Strategic Logic of Trade", June 16, 2014, <https://ustr.gov/about-us/policy-offices/press-office/speeches/transcripts/2014/June/Remarks-USTR-Froman-at-Council-Foreign-Relations-Strategic-Logic-of-Trade>.

25 Manuel MANRIQUE GIL and Marika LERCH, "The TTIP's potential impact on developing countries: A review of existing literature and selected issues", Directorate-General for External Policies, European Parliament, April 2015, pp. 4-5, [http://www.europarl.europa.eu/RegData/etudes/IDAN/2015/549035/EXPO_IDA\(2015\)549035_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2015/549035/EXPO_IDA(2015)549035_EN.pdf).

26 Calculated from the World Development Indicators of the World Bank.

countries will suffer from a clear drop in trade and export. Obviously, the “double-barreled strategy” of the United States for accelerating TPP and TTIP negotiations will have a significant impact on the world’s political and economic landscape. The impact in particular on emerging economies such as China should not be underestimated.

The “Two-Ocean Strategy” of the United States has mainly reflected the U.S. desire to reshape the order of international trade. Full co-operation by Japan and Europe has also shown that western countries have shifted their focus in trade development from advancing the WTO Doha Round talks to forging cross-regional FTAs. The U.S. “globalization” strategy, which focuses on the future global economy, serves as the fundamental basis for advanced economies such as the United States, the EU and Japan to secure their dominance in global trade. On the horizon is a new type of global trade pattern dominated by developed economies, who try to “exclude” emerging ones.

B. Affecting and shaping future international economic rules

TPP is a comprehensive agreement covering trade in goods and services. It is inevitable that negotiations concerning trade in services and some superior goods will unavoidably involve domestic policy making of member countries such as government subsidies, and IPR protection rules.

At present, TPP has given full expression to the strategic concept of the Obama administration to regain its dominance over the multilateral cooperation in the Asia-Pacific by imposing American trade, market and technology standards. In the wake of the financial crisis, the predominance of the United States and Europe in the world has been weakened due to lingering economic downturn, while emerging economies have been on the rise as a major force in the world economy. The United States believes that existing global trade rules are increasingly less favorable to the developed countries and it is time to set new international standards in favor of western countries, especially in areas the United States has unparalleled advantages such as the service industry, environment, and intellectual property rights, etc. By doing so, the United States will be able to maintain current welfare for its citizens while regaining a competitive edge for its home-grown manufacturing industry.

With international polices and regulations for environment protection at its disposal, the United States will also be able to revitalize its manufacturing sector by impelling TPP signatories to use U.S.-made energy-saving and emission-reducing equipment or new energy products. These new standards, of course, will be good restraints on emerging economies including China.

TPP overlaps with conventional FTA in terms of development goals and paths for trade and export, but TPP focuses more on formulating the “next-generation” trade rules. New applicant countries have to conduct “one-on-one” negotiations with all member countries and accept related TPP clauses. It is noteworthy that TPP also spans a wide range of topics such as ROO, trade remedy, sanitary and phytosanitary measures, technical barriers to trade, trade in services, IPRs, government procurement and competition policies as well as two memoranda of understanding (MoUs) concerning labor standards and environment respectively, with clauses for financial services and investments still under negotiations. All these of the TPP negotiations have gone far beyond the scope of conventional FTAs. In terms of negotiation progress, TPP, by no means a mere regional development strategy aimed at regional economic integration, is an important component of the U.S. global strategy for leading and dominating the new round of international rule-making on trade.

The development path as well as the disclosed information and major contents of the TPP have shown that future global trade rules will feature three directions: First, trade in goods will be subject to developed countries’ domestic standards on environment, labor, etc. Second, trade in services and investment protection will be the core and focus of a new round of global trade rule-making. Third, in negation of the differentiated treatment principles upheld by developing countries, the American “market supremacy” will set the basic tone for the new round of global trade rules formulation. A review of the history of global trade rule-making after the WWII also reveals that it is habitual American practice to turn its domestic laws into regional trade rules and use them as point of departure for multilateral trade negotiations. It is the same case with the TPP that the United States intends to make it the springboard and prelude in its attempt to dominate a new round of global trade rule-making. The TPP does pose challenges and has exerted certain pressure on China and the vast number of developing counties, but it has also brought them

with new opportunities. China should embrace the challenges with composure and look actively for opportunities so as to merge itself deeper and broader in the torrents of economic globalization.

C. Guiding the direction of future Asia-Pacific regional cooperation

For the United States, the European economic integration has taught it a lesson, and it will never allow an exclusive regional economic cooperation organization like the EU to emerge in East Asia. Before the 1990s, proposals for regional economic cooperation put forward by Japan, Malaysia, Australia and other countries were all aborted due to American objection. Driven by the United States, the first APEC leaders' meeting was held in Seattle, USA in 1993. The United States wanted APEC to consolidate collaboration efforts in the Asia-Pacific, but APEC was gradually marginalized for failing to address problems during the 1997 Asian financial crisis to the disappointment of many Asian countries. To score a fresh breakthrough in Asia-Pacific regional cooperation, the Bush Jr. administration announced joining the TPP negotiations during its last few months in power. The then U.S. Trade Representative Susan Schwab was explicit about the TPP's potential as a platform for reshaping regional trade order in the Asia-Pacific. She said, "We are particularly interested in this high-standard agreement potentially serving as a vehicle for advancing trade and investment liberalization and integration across the Trans-Pacific region and perhaps beyond".²⁷

As an important strategic regional arrangement, the TPP negotiations have been accelerated by the United States mainly for substantiating its "pivot" to Asia. TPP's current negotiating parties include not only Australia and New Zealand from Oceania, but also Canada from North America. Some ASEAN countries have been in it for quite some time. Following Japan's participation, TPP's economic aggregate increased by 7 percentage points. The United States and Japan alone account for 91% of TPP's GDP, which has facilitated the United States to the greatest extent to manipulate Asia-Pacific affairs and undermine existing cooperation frameworks such as "10 + 3" "10 + 6" and "10 + 1" in East Asia. In the past two decades, APEC has been the largest regional organization for economic

²⁷ Office of the United States Trade Representative, "Schwab Statement on Launch of the U.S. Negotiations to Join the Trans-Pacific Strategic Economic Partnership Agreement", September 2008, <https://ustr.gov/schwab-statement-launch-us-negotiations-join-trans-pacific-strategic-economic-partnership-agreement>.

cooperation in the Asia-Pacific. Once TPP comes into effect, APEC members will split into two camps: TPP members and non-TPP ones. Since its member commitments are non-binding, APEC will become less influential in regional collaboration and less attractive to non-TPP members, unless some members request joining TPP via APEC. What's more important is that TPP's ultimate goal is to forge an Asia-Pacific free trade agreement covering all APEC members. The realization of this goal means the majority of APEC members will become TPP parties, which leaves the continuation of APEC questionable. Existing East Asian economic cooperation mechanisms will also be adversely affected. In the past decade or so, regional powers have made progress under the "10 + 1" mechanisms with ASEAN at the center. However, "10 + 3" (ASEAN plus China, Japan and South Korea) and "10 + 6" (ASEAN plus China, Japan, South Korea, India, Australia and New Zealand) cooperation mechanisms will be negatively affected by Japan's participation in the TPP talks. And the joining of Japan and some ASEAN countries in the TPP negotiations will further compromise the need for "10 + 3" and "10 + 6" cooperation mechanisms, which may bring regional cooperation in Asia to a standstill.



III. Domestic and External Background for the United States to Join the TPP Talks

The TPP represents a new concept and program of the United States for future international trade rules against the backdrop of Doha Round negotiations being in a deadlock and the relative decline of American power against China's economic rise. The simultaneous implementation of TPP and TTIP between the United States and Europe are bound to exert a great impact on global trade rules and the Doha Round negotiations. It will also have long-lasting impact on the external environment for China's future economic growth.

A. A strategy to revitalize the U.S. economy and redouble its foreign trade

Since the end of WWII, the global trade system has been dominated by the United States and Europe who have also taken the lead in regional cooperation. Great changes, however, have taken place in the international economic and trade landscape since the turn of the century. With G7's share in global trade declining, western countries' status in global trade has dropped remarkably while the share of emerging economies and developing countries in global trade is on the rise. China, in particular, has become the largest exporter in the world, with its total trade in goods approaching and even surpassing that of the United States. It has occurred to the United States that in the existing world economic order where the WTO Doha Round is deadlocked and western countries including the United States itself losing their supremacy, it has become increasingly difficult for America to promote its global trade strategy through the WTO. Therefore, the United States hopes to rebuild an international economic order favoring the U.S.-led developed economies by revising international trade rules.

Western economies, being still plagued by the last financial crisis for years, are on the whole in slow recovery and a period of uncertainties. With "the Third

Industrial Revolution” yet to peak and large-scale industrialization and new pillar industries yet to emerge, western economies such as the United States, Europe and Japan are still suffering from fiscal constraints. They have almost exhausted their economic stimuli with quantitative easing (QE) underperformed. They have no choice but to pin their hopes on the external market in order to lift itself from the crisis. The United States has attempted to share the high-growth dividend of emerging economies worldwide especially in Asia via TPP and TTIP, and strengthen its linkages to the Asia-Pacific market so as to redouble its export. To further open external market and facilitate its export growth, the United States deems it one of the game changers to promote the “liberalization standards” in its own favor in the Asia-Pacific and even the rest of the world.

In fact, many American multinational enterprises have completed their industrial distribution in the East Asia market. Once the TPP comes into effect, the United States will be the biggest beneficiary. Asian countries, though enjoying the same tariff reduction and exemption, only stand to gain less due to increased transaction costs resulting from transportation cost to the United States and inefficient industry clusters.

In addition, distinctive comparative advantages in terms of technological innovations and capital management would allow the United States to make rules for the external market and snatch the biggest profits from the global market after the financial crisis. Therefore, on the one hand, the United States needs to gain market access for its products and services and win time and opportunities for industrial adjustment; on the other hand, it needs to maintain its technological and financial advantages by establishing new standards, so as to create a more “liberal” and pro-American trade environment for its enterprises. Pushing forward TPP negotiations in the Asia-Pacific region and TTIP talks across the Atlantic Ocean has thus constituted an important proposition of the U.S. foreign economic strategy in recent years.

B. Pivoting to Asia and striving for leadership in regional cooperation

For the past four decades, the Pacific Rim region has been the most dynamic area

in terms of economic growth globally. Consequently, regional economies have enjoyed great economic prosperity and remarkable progress has been achieved in regional economic cooperation in East Asia. However, the U.S. influence over the region has somewhat declined and the United States is in danger of being marginalized. With major strategic interests in Asia, a region with the most dynamic economic growth, the United States can't afford to be ostracized from Asia. It has realized that losing predominance in shaping regional economic pattern in Asia will turn into reality the bleak prospect of being ostracized. This constitutes one of the important reasons behind the U.S. decision to join and push forward the TPP negotiations. The United States intends to utilize its military and strategic superiority to strengthen its economic ties with Pacific Rim countries so as to maintain its hegemony in the Asia-Pacific region. From a broader historic perspective, changes in global economic landscape are without doubt the major driving force for changes in regional and global balance of power. Losing the capability to shape and guide economic discourse is naturally indicative of fading strategic influence over the region. The important rationale behind U.S. high-profile participation in the TPP talks is to disrupt existing cooperation mechanisms in East Asia and reshape the trade landscape in the Asia-Pacific so as to reinforce its dominance in global economy.

C. Containing China's growing influence in the Asia-Pacific

Since the beginning of this century, the world economy features prominently the rise of emerging economies as a whole. During this process, the most geostrategically important change is China's growing influence in the Asia-Pacific regional economy and even in the world economy. The rise of China has made the United States better aware of fact that once it lost its predominance in shaping the regional economic pattern, the gloomy prospect of the United States being excluded from the regional economic integration would become a reality. Particularly in the west Pacific region, the U.S. overall capability to control and sway regional affairs based on its military edge is likely to be challenged. Though China and the United States have developed common interests different from those between the Soviet Union and the United States during the Cold War era and have tried to engage in a series of dialogue mechanisms, the two countries lack on the whole mutual trust

and a reliable framework for strategic partnership as well as a platform to jointly manage future strategic risks and control regional crises. This is another critical factor behind the U.S. strategic cognition of China. The structural deficiency has also directly given rise to the preventive strategic thinking on the part of the United States. It has sensed the uncertainty as to how China will wield its newly acquired power, therefore it needs to get prepared for the worst-case scenario. It is crystal clear to all that, from the economic perspective, there is no basis for military confrontation between China and the United States. On the contrary, the two countries enjoy an ever expanding foundation for collaboration. The American decision-makers must realize that neither military confrontation nor arms race could solve the immediate and future problems facing each other's economy, or lay the groundwork to secure each other's future. As the American advocacy to advance its Asia-Pacific strategy, the TPP can not only help the United States gain predominance over the regional economy, but also serve as an important tool to exert pressure on China for greater economic concessions.

D. Reshaping international trade rules and the global economic order

As mentioned above, stagnant WTO Doha Round negotiations have led the United States to believe that the international economic order and rules under the WTO framework have become increasingly unfavorable for its economic growth. In addition, due to the absence of common rules in areas like environment, labor, investment, government procurement, technology standards and SOE's position in the global economic growth, many problems and frictions have emerged in international trade. It is no easy job to unify country-specific rules such as those of the EU, China and Japan. In recent years, the contention for international dominance in shaping new international rules has been on the rise. Only by uniting more partners and forging effective multilateral agreements ahead of others can one take the helm of shaping future "international standards". Through the TPP cooperation mechanism, the United States hopes to take the lead in formulating "next generation" trade rules and thereby gain predominance in the formulation of future international trade rules, with an aim to contain the rise of emerging economies such as China and reverse its declining tendency in international trade.

The TPP framework agreement proposed by the United States is characterized from the beginning by two basic features: first, open regionalism, which means the TPP is open to all 21 members of the APEC; second, a high-quality FTA in line with the 21st century context. The emphasis is laid on “high quality”. The so-called “high quality” advocated by the United States is based on a series of new trade and investment rules different from those of the past, aiming essentially at consolidating and magnifying U.S. competitive edge and minimizing the advantages of emerging economies, China in particular.



IV. Japan's Strategic Considerations for Joining the TPP Negotiations

A. Tying up with the United States politically, economically and security-wise

Since the Democratic Party of Japan (DPJ) came to power in 2009, Japan ushered in an era of “double-winged diplomacy” in its foreign policy. It improved relations with China and the Republic of Korea (R.O.K.), continued to strengthen relations with ASEAN countries and vigorously advanced the concept of East Asian Community. Hatoyama Diplomacy came under serious questioning from opposition parties and incurred displeasure of the United States due to its veiled expression on the U.S. participation in the East Asian Community. It is commented that Hatoyama's downfall is attributable to his “disregard of the United States”. Therefore, when he came to power, Naoto Kan handpicked pro-U.S. personages such as Seiji Maehara to the cabinet in an obvious attempt to “rectify the deviation” in Japan's U.S. and China policies. Meanwhile, reinforcing Japan-U.S. alliance has been an important factor in Japan's foreign policy. In face of China's rise and deterioration of Sino-Japanese relations due to the boat collision off the Diaoyu Islands as well as continued tension in the Korean Peninsula, Japan welcomed the U.S. pivot to Asia, and intended to show its support to U.S. Asian strategy and Asia-Pacific free trade strategy through joining the TPP talks with the hope of mending its relations with the United States, which has been strained by the dispute over the relocation of the Futenma marine base, and rebuilding and consolidating Japan-U.S. alliance to better counterbalance China. In addition, the United States has been Japan's second largest trade partner and an important export market for Japan. For years, Japan had tried to start FTA talks with the United States but failed to get the latter on board due to Japan's closed agricultural products market. Joining the TPP talks means an opportunity to enter into negotiations on FTA with the United States

and tie up with the latter economically, thus being conducive not only to upgrading Japan's status in Asia, but also gaining the initiative in the brand new Asia-Pacific cooperation framework.

Though Japan-U.S. alliance is the axis of Japan's foreign policy, the recent years have witnessed increasing frictions between Japan and the United States over marine bases and other issues. With escalation of the Sino-Japanese tension over the Diaoyu Islands, it becomes all the more important for Japan to secure U.S. "protection" for its security. Therefore, participation in the TPP negotiations will not only benefit Japan economically, but also enable Japan to play a larger role in regional security affairs through strengthened Japan-U.S. alliance, and render Japan a bigger voice and greater influence in the region.

B. Maintaining Japan's leadership in Asia-Pacific regional cooperation

China's rise is a major event in the world economy since the beginning of this century and also weighs heavily on Japan, one of the major powers in Asia. Particularly in recent years, China has become increasingly influential in Asia-Pacific regional cooperation, overshadowing Japan to some extent. Though attracted by China-Japan-R.O.K. FTA in the north and RECP in the south, Japan has shifted its strategic focus to the disputable TPP. This is because the combined GDP of Japan and the United States accounts for 77% of the TPP total,²⁸ thus turning the TPP into a de facto "U.S.-Japan FTA". The U.S.-Japan joint leadership naturally brought about by the TPP will enable Japan to maintain its economic supremacy over China thanks to the U.S. rebalancing toward the Asia-Pacific, thus rendering China being overwhelmed and less influential in the region. All these shall help Japan maintain its leadership in Asia-Pacific regional cooperation. Certainly, Japan will not give up the Chinese market easily but will hedge its bets on both China-Japan-R.O.K. FTA and the TPP. It will make use of both bilateral and multilateral FTA arrangements to gain advantages and minimize risks.

28 Ge Cheng, "Kua taipingyang huoban guanxi xieding: mei ri zhanlue de fen yu he" (Similarities and Differences over Strategic Interests between the United States and Japan in Trans-Pacific Partnership Agreement Negotiations), *Yatai Jingji (Asia-Pacific Economic Review)*, Issue 3, 2015, p. 9.

C. Having a head start in setting new international economic rules

The TPP is both a cross-regional economic cooperation framework and a high-standard FTA beyond the WTO. Once concluded, it will most likely become the predominant framework of the Asia-Pacific Free Trade Area (FTAAP) and represent the basic trend of international trade rules in future. With the advancement of TPP and TTIP, the right to set global trade rules is shifting westward. Advanced economies headed by the United States are trying to establish, via TPP and TTIP, a new trade system and trade rules representing their interests and concerns outside the existing multilateral trade system and then apply the new rules to the construction of FTAAP, thus influencing global trade order and disregarding the interests and concerns of developing countries. The TPP is aimed at shaping a new U.S.-centered order in the Asia-Pacific, while the TTIP seeks to connect the world's two largest economies in an unprecedented way. All these indicate feverish desire on the part of the United States and Europe to join hands to maintain their predominance in global economic governance. Japan wants to join the negotiations at the initial stage so as to have a bigger voice and influence in setting international rules and gain the strategic edge in shaping future global economic order.



V. Different Choices of ASEAN Countries in Joining the TPP Negotiations

Due to different national conditions as well as the hindrance associated with high standards, only Singapore, Brunei, Malaysia and Vietnam among the 10 ASEAN countries have joined the TPP negotiations. Of the others, the Philippines recently renounced its request to join after unsuccessful efforts. Thailand announced its readiness to join, but its request was suspended due to its domestic political instability. Indonesia is still doing a feasibility study while Myanmar, Laos and Cambodia are not yet ready to join at present.

A. Different judgments of participating ASEAN countries on the TPP negotiations

Singapore and Brunei are members of the Trans-Pacific Strategic Economic Partnership Agreement (P4) along with Chile and New Zealand, which was the predecessor of TPP. In March 2009, the four original contracting parties agreed to include Vietnam into the P4 as an associate member. Malaysia formally joined the TPP negotiations in October 2010 in the third round of the talks. Among ASEAN members, Singapore is the only country that has signed a bilateral FTA with the United States. Although the United States has made efforts to sign bilateral FTAs with some other ASEAN countries, it has not succeeded till now for different reasons. Since the other three ASEAN countries involved in the TPP negotiations, Brunei, Vietnam and Malaysia, have no bilateral FTAs with the United States, the TPP negotiations will become more difficult because of their participation.

1. Singapore is optimistic about the prospect of the TPP talks

As early as 2004, Singapore concluded with the United States a bilateral FTA, which coincides closely with the TPP. The “high-standard” target of the TPP negotiations fall in line with the concept of trade liberalization upheld by Singapore. From a founding member of the P4 to an active participant of the TPP

talks, Singapore has all along played a positive role in advancing the negotiations. It has hosted several ministerial meetings, including those held in 2013 and 2014. Singapore does not agree with the idea that the United States has controlled the TPP negotiations. In his talk in July 2014, Singaporean Prime Minister Lee Hsien Loong emphasized that he does not think that the TPP is a way for the United States to take control. Singapore also believes that the SOEs should not be an obstacle for a country to join the TPP negotiations. In an interview with Caixin, a well-known Chinese financial and business media, Second Minister for Trade and Industry of Singapore Mr. S. Iswaran said, “If a country joins a FTA, actually the entire economy, both private and public sectors, will be affected to some extent. People should realize that the ultimate goal of joining a FTA is to create a more equitable competition environment for all enterprises, including private, state-owned, and foreign-funded ones, not to make negative impact on a certain type of enterprises.”²⁹ Singapore is fairly optimistic about the progress of the TPP negotiations. Prime Minister Lee Hsien Loong said in November 2014 that “If the TPP talks cannot be concluded at the end of this year, it should be done early next year.”³⁰

2. Brunei emphasizes that it will offer appropriate protection for SMEs

Brunei has participated in the TPP negotiations since the very beginning. The country has always pursued an economic policy based on trade. With an economy largely dependent on oil and gas exports, Brunei’s consumer goods and production materials are almost entirely dependent on imports. Therefore, joining the TPP negotiations is conducive to diversifying the country’s import and export markets. Brunei’s Second Minister of Foreign Affairs Lim Jock Seng said in the Legislative Council held in March 2014 that “Brunei’s negotiators will not succumb to pressure from any negotiating parties to make a commitment detrimental to national interest, and that to protect the interests of SMEs is the basic premise for Brunei’s participation in the TPP negotiations.”³¹ To achieve that, Mr. Lim said, “Some

29 “Xinjiapo maogongbu Yihuaren: Guoqi bu ying chengwei TPP zhangai” (S. Iswaran of the Singaporean Ministry of Trade and Industry: The SOEs should not be an obstacle for China to join the TPP), Caixin website, Feb. 25, 2014. (<http://special.caixin.com/2014-02-25/100642713.html>)

30 “TPP liao jiang bi RCEP xian dacheng” (The TPP is supposed to reach agreement earlier than the RCEP), Caixin website, November 10, 2014. (<http://international.caixin.com/2014-11-10/100748849.html>)

31 “Wenlai di er waizhang cheng jue buhui wei TPP tanpan xiusheng guojia liyi” (Brunei’s Second Minister of Foreign Affairs and Trade says that Brunei will never sacrifice its national interest to promote TPP negotiations), Economic and Commercial Counselor’s Office of the Chinese Embassy in Brunei, March 14, 2014. (<http://bn.mofcom.gov.cn/article/jmxw/201403/20140300517564.shtml>)

small-scale economic fields will be exclusively reserved for competition among domestic enterprises, not open to other countries.”³² With limited economic scale, Brunei is actually a free rider of the TPP.

3. Vietnam is firm in joining the TPP negotiations

Vietnam is the country with the lowest GDP per capita among the TPP members, and it is also the latest member to join the WTO (2007). Believing that its accession to the WTO did not achieve its goals, Vietnam regards the TPP as a strategic opportunity to promote the comprehensive development of the country. In his speech in June 2014, Tran Quoc Khanh, Deputy Minister of Industry and Trade and head of Vietnam’s TPP negotiating team, said that the TPP was an opportunity for the entire Vietnamese economy. One of the strategic objectives of Vietnam’s import and export policies is to achieve greater diversification of markets and trading partners, so as to avoid heavy reliance on a particular market. The TPP members include the United States, Japan, and Canada, etc. The zero-tariff treatment could help Vietnam create both new opportunities to expand exports to these big countries, and improve its export market structure. In addition, joining the TPP negotiations would also be conducive to transforming Vietnam’s growth pattern and improving its productivity. However, to open its domestic market to foreign goods, services and enterprises, Vietnam shall face the pressure of competition and prominent difficulties in some sectors, such as agriculture.

4. Malaysia is both expectant and worried about the TPP

Malaysia started bilateral FTA negotiations with the United States, which were stalled in 2008. The main obstacle was that the United States believed that the Malaysian Government adopted a procurement policy in favor of the Malays and Malayan companies. And the expiry of the U.S. president’s Trade Promotion Authority (TPA) in 2007 was also an important reason why Malaysia suspended its FTA negotiations with the United States. Malaysia officially joined the TPP negotiations in October 2010, with the hope of deepening its participation in regional economic integration of the Asia-Pacific and gaining greater access to the U.S. market. Malaysia has fairly high evaluation and expectations for the TPP talks. It believes that the “traditional tariff and trade negotiations can in no way be comparable to the TPP talks.” At a time when the world economy is in the grip

32 Ibid.

of slow growth and in view of Malaysia's heavy dependence on external markets, Malaysia needs TPP even more to further open foreign markets and boost its economy. In June 2014, Malaysian Prime Minister Najib Razak said that with a small internal market, it is difficult for Malaysia's domestic demand to support its national economy. He further said that joining the TPP to rely on the support of the global market can bring more investment, create jobs and improve the quality of Malaysian workers. However, Mr. Razak also said that the Malaysian government will not sacrifice national interest for joining the TPP.³³

On the other hand, as an emerging manufacturing nation with a large presence of SOEs in its economy, Malaysia has adopted a cautious and even opposing approach towards some provisions related to sensitive areas like SOEs and government procurement, which have been pushed hard by the United States. Former Malaysian Prime Minister Mahathir Mohamad publicly criticized the United States in July 2013 before the 18th round of TPP negotiations that "the TPP is another attempt by America to let their huge corporations penetrate the markets of the small countries, in particular, government procurement."³⁴ Malaysia's International Trade and Industry Minister Moose Thapa Mohammed said that he was worried that the United States would press the Malaysian government to relax its control on SOEs.³⁵ Recent progress in the negotiations has indicated that the United States has shown some flexibility in certain areas that are of concern to Malaysia. The U.S. has agreed to integrate indigenous policies of Malaysia into the TPP agreement with flexibility. During his visit to Malaysia in July 2014, the U.S. Trade Representative Michael Froman said that "the United States has acknowledged the importance of Malaysia's indigenous policies, and agrees, in conformity with the overall aim of the TPP, to discuss with flexibility the integration of indigenous policies into the agreement."³⁶ Froman also said in August 2014 that access to affordable medicines had become an important part of the TPP talks, and that TPP parties were working together to ensure that small economies

33 "Ma zongli cheng bu wei jiaru TPP xieding xisheng guojia liyi", Economic and Commercial Counselor's Office of the Chinese Embassy in Malaysia, June 23, 2014. (<http://my.mofcom.gov.cn/article/sqfb/201406/20140600635721.shtml>)

34 "Di 18 lun tanpan shouwei qian, riben jijin TPP" (Japan joins the TPP negotiations before the end of the 18th round), Xinhuanet, July 25, 2013. (http://news.xinhuanet.com/world/2013-07/25/c_125061367.htm)

35 "TPP tanpan niandi hen nan wancheng, yuanchandi yuanze shi maoyi tanpan zhongdian" (The TPP negotiations are not likely to conclude by the end of this year, the rules of origin are the focus of the negotiations), *Huanqiu Shibao* (*Global Times*), August 28, 2013. (<http://finance.huanqiu.com/world/2013-08/4294191.html>)

36 "Meifang tongyi jiang ma tuzhu zhengce linghuo rongru TPP xieyi" (The U.S. agrees to incorporate Malaysia's indigenous policies into the TPP agreement in a flexible way), Economic and Commercial Counselor's Office of the Chinese Embassy in Malaysia, July 24, 2014. (<http://my.mofcom.gov.cn/article/sqfb/201407/20140700673649.shtml>)

like Malaysia would have time to make necessary adjustments.³⁷

B. Different considerations of other ASEAN members in joining the TPP talks

Among the other six members of ASEAN, the Philippines has decided to give up, due to the difficulty and complexity involved in joining the TPP negotiations. The Thai government expressed interest in joining, but affected by domestic political instability, there has been little progress so far. Indonesia is still in the period of review on the TPP talks. And Myanmar, Laos and Cambodia are currently only spectators.

1. The Philippines had to give up after unsuccessful endeavors

The Philippines has used a variety of channels to talk with the main participating countries about joining the TPP negotiations. In the meeting under the Trade and Investment Framework Agreement held in March 2014, the Philippines and the United States began technical consultations on the possibility of the Philippines' entry into TPP talks and provided detailed information for the Philippine government to consider. The Philippine Secretary of Trade and Industry Gregory Domingo said in April 2014 after Obama's visit to the Philippines that he believed the United States was quite positive towards the Philippines' joining in TPP talks. Studies so far available have shown that the TPP would bring tremendous benefits to the Philippines. The country's accession into the TPP negotiations should be sooner rather than later, and the United States and other TPP prospective members have expressed their willingness to provide assistance. The Philippine Undersecretary of the Department of Trade and Industry Adrian S. Cristobal Jr. said in August 2014 that the Philippines would send a delegation to Japan and Canada to assess the feasibility of joining the TPP, and that technical consultations with relevant TPP member countries would be finalized by the end of the year, thus offering reference for the Philippines' final decision on whether to join the TPP talks or not.

But for the Philippines, joining the TPP means it has to face a host of obstacles because its restructuring measures are not possible to be implemented quickly.

37 "TPP tanpan jujiao kefudan yaopin zhunru wenti" (TPP negotiations focus on the access to affordable medicines), Economic and Commercial Counselor's Office of the Chinese Embassy in Malaysia, August 5, 2014. (<http://my.mofcom.gov.cn/article/sqfb/201408/20140800686979.shtml>)

The Philippines is among the Asian countries with the toughest restrictions on foreign investment and share-holding by foreign enterprises in key areas. A leading member of the U.S. Chamber of Commerce told reporters that if the Philippines wishes to join the TPP, it should start liberalizing [its economy] as quickly as possible and look into the Constitution's restrictions on foreign ownership.³⁸ In July 2014, the Philippine Congress passed a new Republic Act, an amendment allowing the full entry of foreign banks in the Philippines, and full-scale opening of business to foreign banks. President Benigno Aquino signed the amendment. But the Philippines must promote the same opening strategies in many other areas in addition to banking. Minister Domingo stated in late March 2015 that the Philippines would not take part in negotiations on the TPP under its current government. He said that to join the TPP, the Philippines would be required to abolish restrictions on foreign investment in related fields, and even the Constitution needs to be amended. As the Aquino government's term of office will end in June 2016, time is too short to complete law revision.³⁹

2. Thailand's accession process stalled due to political instability

The United States and Thailand have held discussions on establishing a bilateral free trade agreement, but the military coup in 2006 in Thailand triggered a political crisis that aborted the FTA negotiations. Thailand has free trade agreements with most of the TPP negotiating parties except the United States and Chile. The Thai government was once very active in joining the TPP negotiations. In November 2012, Thai Prime Minister Yingluck Shinawatra expressed the country's desire to join the TPP in her talks with the U.S. President Barack Obama. In the joint statement issued after the talks, the Thai side reiterated that it would start the relevant review process to get ready for joining the TPP negotiations. Thai Deputy Prime Minister and Minister of Commerce Niwatthamrong Boonsongpaisan stated in September 2013 that Thailand was considering its entry into the TPP agreement after a review of public opinion, and would seek the approval of the House of Representatives. Thailand hoped to receive continued support from the United States on its accession to the TPP. But the end of 2013 saw the beginning of Thailand's persistent political turmoil which brought about heavy losses to

38 Louella D. Desiderio, "Phl must liberalize economy if it wants to join TPP", *The Philippine Star*, March 21, 2014. (<http://www.philstar.com/business/2014/03/21/1303287/phl-must-liberalize-economy-if-it-wants-join-tpp>)

39 "Feilvbin fangqi jiaru TPP" (The Philippines has given up its attempt to join the TPP), Economic and Commercial Counselor's Office of the Chinese Embassy in the Philippines, April 1, 2015. (<http://www.mofcom.gov.cn/article/i/jyj/j/201504/20150400930236.shtml>)

its economy. In May 2014, the Prime Minister Prayuth Chan-ocha led a military coup which ousted the Yingluck government. Thailand's effort to join the TPP negotiations was thus disrupted.

Public opinion in Thailand was concerned that Thailand could be disadvantaged if its competitors like Malaysia and Vietnam were in the TPP while Thailand was an outsider. Voices against Thailand's accession to the TPP were heard in the academic circle, arguing that the TPP's high standards, especially in services, labor, environment, IPR and other fields, would be difficult for Thailand to meet and benefit from. Moreover, if Thailand joins the TPP, some industries will be hit hard and the country may deviate from the ASEAN integration process which it has always been involved in and committed to. Thai public opinion is also much concerned about the changes of the U.S. political landscape after the mid-term election, changes of the U.S. position in the TPP negotiations brought by the Republican Party which advocates free trade policies, and whether Thailand will be affected in its efforts to join the TPP talks by the above changes.

3. Indonesia is still cautiously weighing the pros and cons of joining the TPP negotiations

The Indonesian government made it clear that it would not consider joining the TPP negotiations for the time being, because hasty participation would render the country powerless to ward off the external shock in view of its uncompetitive industrial sector, especially the service industry. As a major country of ASEAN, Indonesia is more concerned about the progress of ASEAN integration, fearing that the TPP would undermine ASEAN's cohesion and unity. Senior officials of the Indonesian Ministry of Trade believe that relevant requirements of the TPP constitute a much too high threshold for developing countries such as Indonesia, and Indonesia will not consider joining in the talks in the foreseeable future. President Joko Widodo said in November 2014 that Indonesia did not want to be just an economic market of major countries such as the United States and China. Indonesia would not rush to join FTAAP or TPP unless they could bring real benefits to Indonesia. Compared with the goods and services of the United States or China, those of Indonesia do not enjoy obvious competitive advantages. Taking

a long-term perspective, the Indonesian Government will make a careful study and review of the two FTAs and determine its positioning and competitive products before deciding which FTA Indonesia is to join. Indonesia must be very careful not to be implicated in the interests of major countries in the process of regional economic integration.⁴⁰ But in April 2013, Indonesian Trade Minister Jeddah indicated that once significant progress was made in negotiations for multilateral and bilateral cooperation, including RCEP and Indonesia-R.O.K. Comprehensive Economic Partnership Agreement, Indonesia would then enjoy enhanced confidence and determination to carry out FTA cooperation with neighboring countries and would not rule out the possibility of joining the TPP.

4. Myanmar, Laos and Cambodia are currently unable to join

Economically underdeveloped, these three members of ASEAN are not in a position to join the TPP in their current circumstances, unless the United States and other TPP members agree to open TPP membership to non-APEC economies. TPP's terms to strictly abolish all tariffs are also prohibitive for these countries. Cambodia's Senior Minister and Minister of Commerce Sun Chanthol said that the TPP standards were too high for Cambodia to join the agreement. Therefore, these three countries can only hope to participate in regional cooperation through other mechanisms.

C. Different judgments of ASEAN countries on the TPP negotiation process

The TPP negotiations have been going on for more than five years since March 2010, but the deadline for the final agreement has been postponed time and again. Some people believe that the United States can hardly achieve its original goal, and there are estimates that the TPP negotiations need three to four extra years to reach a final agreement. But this does not seem to have dampened the confidence of the four participating ASEAN countries in the successful conclusion of the talks. As the TPP negotiations have entered the final stage with intensive bargaining, it is now difficult for new countries to join in.

40 "Yinni dui canyu yatai zimaogu he TPP chi jinshen taidu" (Indonesia is cautious about joining the FTAAP and the TPP), Economic and Commercial Counselor's Office of the Chinese Embassy in Indonesia, November 13, 2014. (<http://id.mofcom.gov.cn/article/sqfb/201411/20141100799673.shtml>)

1. Participating ASEAN countries have full confidence in reaching a final agreement

Participating ASEAN countries believe that the negotiations on a FTA usually take four to five years to complete, and that TPP is likely to take even longer time in view of its unprecedented breadth and depth of topics. The addition of negotiating parties, Japan in particular, has increased the difficulty to reach agreement. Therefore, repeated postponement of the deadline is understandable. Though the TPP negotiations are moving forward with phased progress, it is difficult to determine when to reach a final agreement and to what extent the agreement is established. However, participating ASEAN countries believe that they can benefit from the process of trade liberalization and the direction of the negotiations is in line with the target of these countries, namely to enhance the level of trade liberalization with major trading partners, the United States and European developed countries in particular, and expand export market in various directions.

2. The United States and Japan hold the key to the success of the TPP negotiations

As the United States and Japan are deadlocked in the current negotiations, Singapore believes that the domestic political factors of each country will largely determine the success or failure of the TPP negotiations. The completion of the negotiations involves a lot of work and requires strong political will to convince different domestic sectors to accept TPP and face fiercer competition from the outside.

Malaysia believes that with the Republicans controlling the U.S. Senate after the mid-term election, the fate of the U.S.-led TPP may be further jeopardized. Singaporean economists indicated that U.S. President Barack Obama's next move will determine how the U.S. mid-term election will affect Asia, while Asia will focus on Obama's move to obtain congressional "fast track" authorization and get greater autonomy in negotiating the TPP agreement. If Obama can win Republican support on the TPP issue, there may appear a turning point.

On Japan's obstruction of the TPP negotiations by refusing to open its agricultural sector, the Singaporean Prime Minister Lee Hsien Loong said,

“From a long-term point of view, it is very desirable for Japan to liberalize agricultural markets. If you want Japan to play a full role in the global economy and to revitalize its own economy, this is a reform that cannot be avoided. You can put it off for some time but ultimately, if Japan does not change its rules and become closer to the arrangements in other countries, it is not good for Japan.”⁴¹

3. The TPP brings true economic benefits to participating ASEAN countries

ASEAN countries involved in the TPP negotiations are expected to enjoy zero-tariff arrangement and to get full access to the markets of the TPP members including the U.S., Australia and other developed countries. Along with the TPP negotiations nearing completion, many transnational corporations are bullish on the future prospect of the TPP’s ASEAN members and are losing no time to snatch the market for investment in Vietnam. Some Vietnamese industries are about to benefit from this TPP expectations. Textiles and apparel enterprises are most concerned about the progress of Vietnam’s involvement in the TPP, and companies from China, Japan, South Korea, Austria and China’s Taiwan have already made plans for setting up textile and dyeing factories in Vietnam. In 2014, Vietnam’s exports to the United States boomed in the fields of fruits and vegetables, fisheries, footwear, apparel and other industries. In the first nine months, Vietnam’s seafood exports to the U.S. reached about \$1.3 billion, turning the U.S. into Vietnam’s largest seafood export market. From September 2013 to August 2014, Vietnam’s apparel exports to the U.S. grew by 14.85 percent, second only to China. A report from the American Chamber of Commerce in Vietnam published in October 2014 predicted that Vietnam-U.S. trade may reach \$34.9 billion in 2014, after hitting \$24.9 billion in 2012 and \$29.7 billion in 2013, a healthy increase of almost 20% two years in a row. Vietnam’s exports to the U.S. are likely to reach \$29.4 billion in 2014, with an increase of 19 percent. Among them, the textile and apparel products were expected to reach \$9.8 billion, accounting for 33 percent of Vietnam’s total exports to the United States.⁴² The report cited the comment of an American Apparel & Footwear Association (AAFA) official, “Overall apparel import growth used to come from China and Bangladesh, but today Vietnam is the main driver. I don’t think you

41 Tomomi Kikuchi, “TPP vital not just economically but strategically: Lee Hsien Loong”, *Nikkei Asian Review*, May 20, 2014. (<http://asia.nikkei.com/Politics-Economy/International-Relations/TPP-vital-not-just-economically-but-strategically-Lee-Hsien-Loong?page=1>)

42 AmCham Vietnam, “Vietnam-U.S. Trade Status and Outlook, Oct 2014”, October 25, 2014. (<http://www.amchamvietnam.com/30446125/vietnam-u-s-trade-status-and-outlook-oct-2014/>)

will see that trend abate in the short term.”⁴³ In addition to lower costs, the TPP agreement under negotiation is another reason for the growth of Vietnam’s exports, with foreign enterprises expanding their investment in Vietnam’s textiles, apparel and related industries.

4. Interested ASEAN countries still need time to join the TPP

It is stipulated that any APEC member interested in joining the TPP must conduct consultations with the current TPP members on a bilateral basis and reach unanimous agreement before its accession. According to Singapore’s position, the negotiations have now entered the critical final stage before completion, and the time left for any country interested in joining the TPP to complete the aforementioned procedures is limited. About the possibility of R.O.K.’s accession to the TPP, the U.S. indicated in January 2014 that the TPP negotiations had in fact entered the final stage, so it was very difficult to have a new country involved. The U.S.-R.O.K. Free Trade Agreement has been in force for two years. It is considered to have a 90 percent similarity with the TPP, and the R.O.K. is also considered one of the potential members most likely to join the TPP next. Currently, the R.O.K. is actively engaging a number of TPP member countries, including the U.S., Mexico, Chile, Peru, Malaysia and Singapore for bilateral consultations on the possibility and specific procedures for it to join the TPP. As for non-TPP ASEAN countries, their accession to the TPP at this stage is not likely to happen simply on the ground of their unilateral wishes.

D. TPP’s limitations and its impacts on ASEAN

Through participation in the TPP negotiations, some ASEAN countries are expected to reach their goal of expanding their exports to Asia-Pacific markets and enhancing economic and trade ties with the United States. But judging from the overall perspective, ASEAN countries’ participation in TPP as a whole faces some insurmountable obstacles and economic risks, and TPP will exert a negative impact on the centrality of ASEAN in region economic integration.

43 Ibid.

1. ASEAN's participation and influence in the TPP negotiations are limited

Currently, among the 10 ASEAN members, only four are involved in the TPP negotiations. Other interested ASEAN countries find it difficult to finish the application process in the near future, and those relatively underdeveloped economies are simply excluded from the TPP talks. In the foreseeable future, the TPP is only one of the channels for part of ASEAN members to integrate themselves into Asia-Pacific regional economy. Although ASEAN countries account for one third of the total number of the TPP negotiating parties, their economic scales are far smaller than those of the U.S., Japan, Canada and Australia. And since the joining of these major economies in the TPP talks, their positions, especially those of the United States and Japan, became crucial to the success of the negotiations, while participating ASEAN countries are simply not in a position to influence the negotiating process, and can only play a limited role.

2. Uncertainty exists in the economic benefits that TPP could bring to participating ASEAN countries

Though TPP will obviously promote the exports of participating ASEAN countries, the overall impact on their economy is not that simple. According to the research done by the Peterson Institute for International Economics, TPP may not be as effective as people thought. The GDP growth of the prospective TPP members, including the United States, is unlikely to exceed 1 percent year-on-year and some Southeast Asian economies may even experience negative growth.⁴⁴ According to the Petri, Plummer & Zhai model, by 2025, TPP will have a different impact on the cumulative economic value added of ASEAN countries, among which Indonesia, the Philippines and Thailand will experience declines by 0.4 percent, 0.5 percent and 0.6 percent respectively, while Malaysia, Singapore, and Vietnam will enjoy increases of 5.1 percent, 1.9 percent and 4.4 percent respectively. Brunei remains unaffected, but other ASEAN countries will experience a fall by 0.9 percent.⁴⁵ The TPP issue is quite controversial among research institutions and industrial circles in ASEAN countries, and some of their statements have had

44 "Yatai Zimaoqu Lujingtu" (Roadmap to the FTAAP), *Caijing Guojia Zhoukan (Economy & Nation Weekly)*, Nov. 24, 2014. (<http://www.ennweekly.com/2014/1124/14720.html>)

45 "Yinni maoyi bu yu meiguo guoji kaifa shu zuzhi zhuanjia taolun RCEP zuoyong ji fengxian" (Indonesian Ministry of Trade and USAID hold a symposium on the role and risk for RCEP), Economic and Commercial Counselor's Office of the Chinese Embassy in Indonesia, July 4, 2013. (<http://id.mofcom.gov.cn/article/ziranziyuan/huiyuan/201307/20130700187270.shtml>)

broad social repercussions. An anti-TPP Malaysian organization quoted a United Nations Conference on Trade and Development (UNCTAD) report in October 2014 which claimed that once Malaysia acceded to the TPP agreement, it would face a \$300 million trade deficit every year, and its trade deficit with the United States would amount to \$900 million. The report estimated that Malaysia's imports would rise substantially with an increase of 61 percent in U.S. electronic products, a 97 percent increase in Japanese automotive products, and an increase of 90 percent in iron and steel products. All these would result in a deficit for Malaysia in the balance of trade, thus leaving those industries in direct competition with multinational companies and their situation would be more difficult.⁴⁶ Although different conclusions have been drawn by different studies, it is certain that ASEAN countries, owing to the generally small size of their economies, will face huge impacts from TPP's relatively aggressive opening of their domestic markets and related industries. And that is why the governments of ASEAN countries are making decisions with caution on this issue.

3. The TPP talks has challenged the centrality of ASEAN in the framework of regional economic cooperation

In East Asia, the existing "10 + 1", "10 + 3", "10 + 6", "10 + 8" and other cooperation mechanisms have gradually developed with ASEAN at the center. ASEAN hopes that it can continue to be in the driver's seat in future economic integration in East Asia and even in the Asia-Pacific and play a greater role in the process. The TPP, under the dominance of the United States, is gaining momentum. So ASEAN countries have misgivings that the future of East Asia and Asia-Pacific economic cooperation mechanisms will gradually shift from the current ASEAN-led model to a U.S.-led model exemplified by TPP, in which ASEAN would be marginalized. The TPP has directly broken down the East Asian FTA network which centers on ASEAN Economic Community with the existing five "10 + 1" FTAs as its main lines.⁴⁷

46 "Ma fanduzhize cheng jiaru TPP jiang shi ma meinian maoyi chizi da 3 yi meiyuan" (TPP opponents in Malaysia claim that accession to TPP will result in a \$300 million trade deficit for Malaysia), Economic and Commercial Counselor's Office of the Chinese Embassy in Malaysia, October 24, 2014. (<http://my.mofcom.gov.cn/article/sqfb/201410/20141000771815.shtml>)

47 Li Wentao, "Dongmeng canyu TPP guidao hezuo mianlin de jiyu, tiaozhan ji zhanlue xuanze" (The Opportunities and Challenges faced by ASEAN in the Cooperation of TPP Track and its Strategic Alternatives), *Yatai Jingji (Asia-Pacific Economic Review)*, Issue 4, 2012, p. 30.

4. Increasing difficulty in coordinating ASEAN members' economic and political interests

The starting point and ultimate goal of ASEAN countries' participation in regional economic integration and cooperation as a whole is to constantly enhance the internal cohesion and the overall political and economic power of ASEAN members. ASEAN countries often bring themselves greater competitiveness and a big voice through their collective action in regional economic integration. But with only some members joining the TPP, ASEAN is divided into TPP members and non-TPP members, and its "balance of power" strategy implemented by their collective action is thus hampered. So, how to continue speaking with one voice in future regional economic cooperation has become a thorny issue for ASEAN. The differentiation and centrifugal tendencies among ASEAN member countries will have a substantive impact on the unity and stability of the organization.

E. ASEAN hopes TPP and RCEP can coexist so as to bring more choices

In view of ASEAN being unable to join the TPP as a whole, it urgently needs to explore other channels of regional economic integration. This seems to be the most direct cause for ASEAN countries to lead the construction of RCEP without giving up joining TPP.

1. Main considerations of ASEAN in proposing RCEP

The RCEP is an ASEAN-led regional free trade agreement that includes the 10 ASEAN member countries together with China, Japan, R.O.K., Australia, New Zealand, and India, a total of 16 countries. The RCEP is designed to integrate the five "10 + 1" agreements already signed by ASEAN and its FTA partner countries, with the aim of eliminating barriers to trade, creating and improving investment environment, expanding trade in services, and covering such areas as IPR and competition policies. Started at the end of 2012, the RCEP negotiations are supposed to conclude in 2015.

ASEAN believes that the RCEP is the most feasible approach for it to consolidate and develop its leading role in regional cooperation. It is conducive

to ASEAN's upgrading of its international standing and playing a greater role in international affairs. Through RCEP, all 10 ASEAN countries can be involved in the economic integration with partner countries, and no ASEAN members will be excluded from the cooperation due to their low development levels. Therefore, RCEP is conducive to achieving the fundamental goal of maintaining ASEAN's overall development and stability.

2. TPP and RCEP are two mechanisms different in member composition and level of liberalization

The TPP is trying to expand its influence by adding new members, and nearly 10 potential members have expressed their interest in joining the agreement, including the R.O.K. and the Philippines. The RCEP includes the 10 ASEAN countries and six FTA dialogue partners of ASEAN. Since it was only initiated at the end of 2012, its expansion plans are not clear yet. Some members of the two mechanisms overlap, such as Australia, New Zealand, Singapore, Malaysia, Vietnam, Brunei, and Japan.

The two mechanisms have a great disparity in the scope of topics and their liberalization requirements. The TPP is symbolized by high standards and wide coverage. It has laid emphasis on the formulation of rules and standards and the abolition of all tariffs with no exception in principle. It is also coupled with a highly binding force. Its topics cover IPR, labor standards, environmental standards and other sensitive fields, representing the future direction of multilateral FTAs. But the RCEP focuses on the integration of the existing five FTAs without touching on sensitive issues, such as labor, the environment, and government procurement, which makes its negotiation objectives easier to achieve.

3. ASEAN hopes to benefit from the coexistence and complementarity of TPP and RCEP

ASEAN has all along pursued a balance-of-power foreign policy. In leading the establishment of the RCEP, ASEAN did not seek to confront the TPP, but to use the two tracks to achieve two fundamental objectives: deepening economic and trade relations with the United States and other Pacific countries through TPP; and consolidating its centrality in East Asia regional cooperation through RCEP.

The levels of economic development among ASEAN members differ greatly. Singapore's per capita income is 50 times greater than that of Laos, Myanmar and some other countries. The fact that TPP and RCEP are quite different in the areas to open and the level of liberalization has greatly reduced the likelihood of homogeneous competition between the two, but also provides different choices for ASEAN countries at different development levels to participate in regional cooperation. With one stretching across the Asia-Pacific and the other focusing on East Asia, the two FTAs cover different membership and have different enlargement prospects, which will help ASEAN to expand and tap different export markets. Both TPP and RCEP constitute important pillars to support the construction of FTAAP, and ASEAN is bound to benefit from a wider Asia-Pacific FTA.

The RCEP can serve as the direction for trade liberalization at this stage for all members of ASEAN. It has a larger proportion of developing countries, and is characterized by a progressive and transitional process. It takes into account the different development levels of the participating countries, and its negotiating principles cover special treatment and extra flexible mechanisms for ASEAN countries with the lowest development levels, such as Cambodia, Laos and Myanmar, which effectively helps narrow the development gap between ASEAN members and accelerate its economic integration.

But ASEAN members with higher levels of development will not rest content with RCEP cooperation and therefore participation in TPP will serve their goal of trade liberalization. By doing so, they can not only share the benefits of a high-level FTA, but also enhance their trade relations with the United States, Canada, Mexico, Peru and other non-RCEP members. For these countries, it is more sensible to expand their economic interests in several directions as long as the situations permit. As the Prime Minister of Singapore Lee Hsien Loong said, "It is necessary for TPP and RCEP to coexist because both are sub-regional free trade agreements and neither of them can cover all the countries".⁴⁸

To sum up, because of TPP's high standards and high threshold, ASEAN countries differ greatly in their decision-making and progress on the question of participation in the TPP talks. As the four participating ASEAN countries' economic scales cannot be compared with the U.S., Japan and other major economies, their

48 "TPP liao jiang bi RCEP xian dacheng" (The TPP is supposed to reach agreement earlier than the RCEP), Cai Xin Wang (caixin.com), November 10, 2014. (<http://international.caixin.com/2014-11-10/100748849.html>)

role and influence in the negotiations are quite limited. While watching the progress of the TPP talks closely, ASEAN countries have also realized TPP's limitations and possible negative effect on them. Therefore, they hope to take the advantages of both TPP and RCEP and participate in regional cooperation with a dual-track approach.



VI. China's Policy Options

So far, there has existed numerous and diversified cooperation frameworks in the Asia-Pacific region. From smaller ones like the “10 + 1” to larger frameworks such as APEC, they have all contributed to the economic development of the region. The TPP, as a major channel for Asia-Pacific regional cooperation, has made great progress in recent years. As a major economic power in the Asia-Pacific, China is not yet involved in the TPP negotiations and has to adopt corresponding policies towards Asia-Pacific regional cooperation.

A. Continue to underline the “opening” concept and attach importance to multilateral economic cooperation

Economic globalization constitutes an important trend in the current and future development of the world economy against which all international economic activities would unfold. The current trend in developed countries, especially the United States, the EU and Japan, has shown a shift of their focus on trade development from promoting the Doha Round under the WTO to the development of trans-regional FTAs. The prototype of a new pattern of international trade dominated by developed economies with the exclusion of emerging economies has gradually taken shape. Thus the WTO is in danger of “being marginalized”. China, as a major trading nation in the world and a beneficiary of the WTO mechanism, should work to ensure the continued and effective operation of the WTO framework. At the current stage, China should take the opportunity of the historic breakthrough made at the ninth WTO Ministerial Conference to actively seek reform of the organization so as to overcome its shortcomings and ensure its healthy development. Meanwhile, in multilateral platforms, China should underline the concept of “opening” and the role of the WTO in multilateral trade against the background of globalization. As an advocate of free trade, China ought to keep an open mind toward the development of TPP, watch closely the topics and the progress made at the negotiations, and carry out an in-depth study

of TPP's provisions and rules. Should TPP be open to China, China may decide on an optimal occasion for joining in the agreement after weighing its overall interests in line with the world economic and political situations. Of course, during the negotiations, China should stand for a liberalization process characterized by diversification, inclusiveness and progressiveness, underline differentiation in the level of economic development and in sensitive areas, maximize overlapping interests on major disputable issues like environment and trade, labor standards, etc. and strive to have its voice heard in the rule-making.

B. Promote the construction of FTAAP and achieve “inclusive” development of regional cooperation

At present, Asia-Pacific regional cooperation is featured by fragmented development with multiple overlapping channels and complexity. The Asia-Pacific is the most dynamic region with the greatest economic potential in the world. But so far, the region still lacks a region-wide FTA. Although the existing bilateral and sub-regional multilateral free trade arrangements enjoy flexibility, none of them can play a leading role in the overall development of the whole region. The 22nd Beijing APEC Economic Leaders Meeting endorsed the “Beijing Roadmap for APEC’s Contribution to the Realization of the FTAAP”, which kicked off the process in a comprehensive and systematic manner toward the eventual realization of the FTAAP. This is a major upgrade of the Asia-Pacific regional cooperation moving from the “incubator” to real actions. The construction of FTAAP will help further merge the various bilateral and multilateral cooperation mechanisms in the region and integrate different types of free trade arrangements for mutual promotion. It will further bridge the development gap between different economies by highlighting the advantages of developed economies while attending to the demands of developing economies and giving due consideration to the comfortableness about the standards and levels of different parties, so that economies with different levels of development can share the opportunities for cooperation in the macro Asia-Pacific market and achieve an inclusive development among regional economies. In line with the consensus reached by all parties, China would coordinate related parties in the next few years to initiate a collective study on the issue and create conditions to initiate negotiations as soon as possible.

C. Vigorously promote the Belt and Road Initiative and create a new landscape in opening-up

The Belt and Road Initiative is an important proposal made by China in recent years to boost its external economic cooperation. It has integrated China's policies of deepening domestic reform, further opening up and promoting regional economic integration with the goal of achieving mutual benefit, win-win outcomes and common development of countries along the Silk Road Economic Belt and the 21st Century Maritime Silk Road. All these have fully reflected the three diplomatic concepts China has consistently advocated, namely peaceful development, win-win cooperation, and mutual support. Development of China's coastal region does not represent the whole of China's development. Without the development of its central and western regions, especially the western region, the economic development gap between eastern and western regions of China will be further widened. So the Belt and Road Initiative is an important program for achieving China's balanced economic and social development. The Initiative involves neighboring countries, mostly emerging economies which need to achieve rapid economic development as early as possible. If China's high-quality production capacity can be effectively integrated with the industrial structures of these countries, it will undoubtedly create a win-win situation. Through this strategy, China shall usher in a new situation of further opening up while neighboring countries will benefit from their interconnection with China and achieve common development together with China.

D. Actively participate in the RCEP negotiations and upgrade East Asia regional cooperation

The China-ASEAN Free Trade Area is China's first FTA built with foreign countries. It is also the largest FTA of the developing world. Currently, China is ASEAN's third-largest trading partner, while ASEAN is China's fourth-largest trading partner. Since the establishment of the FTA, trade and investment between the two sides have continued expanding. So far between China and ASEAN, about 7,000 products enjoy zero tariff treatment. As a result, China's imports of raw materials, irrespective of processing trade or non-processing trade, are now duty-free while 93 percent of the ASEAN exports to China enjoy zero tariff, a

win-win result for both sides.⁴⁹ Faced with the progress of the TPP negotiations, the mentality of ASEAN countries is very complicated. Countries that have participated in the TPP talks want closer relations with the United States and avoid overdependence on China. But they also worry about the high standards set by TPP. Non-TPP ASEAN countries fear that ASEAN's centrality in regional cooperation will be threatened. By vigorously promoting RCEP as an important framework for regional cooperation, ASEAN will play an irreplaceable role in the process of regional cooperation. Therefore, China should appropriately enhance its cooperation threshold based on the existing framework, deepen cooperation with trade partners, and upgrade East Asia regional cooperation in capital, tariffs, projects, and institutions. This will not only help keep track of the new trend of international trade, but also be conducive to maintaining ASEAN's centrality in regional cooperation. Ultimately, it will help advance China's FTA strategy toward its neighborhood and effectively avoid or reduce the pressure and challenges brought about by the progress in the TPP negotiations.

E. Actively implement China-R.O.K. FTA to advance regional cooperation in Northeast Asia

The economic aggregate of China, Japan and the R.O.K. accounts for 21.9 percent of the world's total and 70 percent of Asia's.⁵⁰ They hold an important position in the global economy. The China-Japan-R.O.K. trilateral cooperation is not only in the interests of the three countries, but conducive to the development of other cooperative frameworks in East Asia. Nevertheless, owing to China-Japan and R.O.K.-Japan disputes on history and territorial issues, especially the Diaoyu Islands issue which has plunged the Sino-Japanese relations to the lowest point since the establishment of their diplomatic ties, the trilateral cooperation has made little progress in substance. Both Japan and the R.O.K. are upgrading their investment pattern in China with the investment in export-oriented processing being gradually replaced by the investment rooted in the Chinese market for local sale. Modern service industry, high-end manufacturing, the green economy, energy-saving and environmental protection have gradually become new growth points

49 "2010 nian 1 yue 1 ri qi, zhongguo yu dongmeng jiang shixian ling guanshui" (China-ASEAN trade will enjoy zero tariff since January 1, 2010), April 3, 2009. (http://china.ec.com.cn/article/cnchanjing/cncjupdates/200904/735490_1.html)

50 Wang Jinbo, "Zhong ri han zimaoku yu dongya jingji yitihua zhi lu" (China-Japan-R.O.K. FTA and the road to East Asia economic integration), *China Report*, Issue 129, Nov. 2014, p. 20.

for their investment in China. The completion of FTA negotiations between China and the R.O.K. has brought pressure on Japan. But after China and Japan agreed on the “four principles of consensus” at the APEC Economic Leaders’ Meeting in Beijing in November 2014, the Sino-Japanese relations have shown some degree of improvement. And Japan may take a more positive approach to Northeast Asia regional cooperation, thus having a positive impact on the regional economic integration.

F. Vigorously enforce domestic reforms and keep abreast with the trend of the world development

As a high-standard FTA, TPP represents the basic course of development for future international trade liberalization and facilitation. And the TPP agreement is going to impose highest restrictions for its member states. China, after its successful accession to the WTO in 2001, has achieved rapid economic growth, and succeeded in its strategy of “promoting development through opening up”. In a long-term perspective, TPP’s requirements on many issues are in line with China’s potential benefits. For example, the TPP provisions on new trade challenges, development of SMEs, high and new technologies, and green technologies are all highly relevant to the problems China now needs to address. Therefore, China should follow the trend of the times and seek to participate in the TPP negotiations, taking it as a historical opportunity brought by the strategy of “promoting development through opening up”.

However, it should be noted that as an economic cooperation mechanism in the Asia-Pacific, TPP has many provisions and rules that China can hardly enforce or obey within a short period of time. For instance, many large Chinese SOEs enjoy industrial “privileges”, which results in unfair competition between SOEs and non-state-owned and foreign enterprises. In terms of IPR protection, there exists a big scope for reform in China on such aspects as policy transparency, government procurement, investment and regulatory harmonization. In environmental protection, China’s laws and regulations still have many imperfections and gaps, with some provisions being divorced from the reality and falling short of international standards. Therefore, China must take advantage of the pressure brought about by TPP to deepen the institutional reform of its economy, and

accelerate the reforms in such areas as SOEs, labor standards and IPR protection so as to adapt to the changes and development of the times. While realizing that the United States and Japan are trying to lead the Asia-Pacific regional cooperation process for containing China through TPP, we should not fail to acknowledge that TPP is reconstructing WTO rules and promoting trade liberalization. To follow the trend of the times, China needs to do a good job in its economic restructuring and policy alignment so as to achieve full integration of different regional cooperation mechanisms.

(This report was completed in late August 2015 in Chinese language, and translated into English by Hu Guoshun, Li Li, Peng lu, and Jiang Zhida. The translation was examined and revised by Zou Mingrong.)





List of Published CIIS Reports

- No.1 *Ruan Zongze et al.*: Toward a New Type of Major-Country Relationship Between China and the US: Challenges and Opportunities, 58 p., Beijing, December 2013.
- No.2 *Chen Xulong*: In Pursuit of the “World Dream”: The Progress and Prospects of China’s Promotion of a Harmonious World, 70 p., Beijing, December 2013.
- No.3 *Teng Jianqun / Xu Longdi*: Cyber War Preparedness, Cyberspace Arms Control and the United States, 56 p., Beijing, August 2014.
- No.4 *Cui Hongjian / Jin Ling / Wang Yi*: Changes of the EU’s International Status and Influence, 70 p., Beijing, October 2014.
- No.5 *Shi Ze / Yang Chenxi*: China’s Diplomatic Efforts to Promote Energy and Resources Cooperation Along the “One Belt and One Road”, 65 p., Beijing, May 2015.
- No.6 *Jia Xiudong et al.*: The Potential for a Win-win Cooperative Relationship Between China and the U.S. in Southeast Asia, South Asia, the Middle East, Africa and Latin America, 55 p., Beijing, July 2015.
- No.7 *Lan Jianxue*: Sino-Indian Relations in the New Era: Current Status, Development Trend and Policy Recommendations, 42 p., Beijing, August 2015.
- No.8 *Jiang Yuechun / Zhang Mei / Li Xiaoyu*: New Progress of the TPP Negotiations and Strategic Considerations of the Parties Concerned, 50 p., Beijing, October 2015.

About the Authors

Jiang Yuechun is a senior research fellow and director of Department for World Economic and Development Studies at CIIS. As an expert on world economic issues, regional cooperation in East Asia and Sino-Japanese relations, he enjoys special allowance from the State Council of China. Mr. Jiang's other academic posts include Executive Member of China International Economic Relations Association, Member of China National Committee for Pacific Economic Cooperation, and Executive Member of the Chinese Association for Japanese Studies.

Zhang Mei is an associate research fellow at Department for World Economic and Development Studies, CIIS. She joined CIIS in 1991 after graduation from Renmin University of China. Ms. Zhang participated in several research projects commissioned by the Office of Central Leading Group on Financial and Economic Affairs and the Chinese Foreign Ministry. From 1999 to 2001, she served as a diplomat in the Chinese Embassy in Zimbabwe. Ms. Zhang's main research areas are the trend of world economic development and China's economic diplomacy.

Li Xiaoyu is an assistant research fellow at Department for World Economic and Development Studies, CIIS. She joined CIIS in 2012 after graduation from Nankai University with a Master's degree in world economy. Her main research areas include regional economic cooperation, hot issues of world economy and European economy.

ABSTRACT

This report consists of six parts. The first part explains the emergence of TPP and its latest progress as well as difficulties in the course of negotiation. Till now, more than 20 rounds of negotiation have been completed, covering various topics, such as tariff reduction and exemption. The second part centers on the important implications that TPP may bring about on future international economic and trade patterns. The third part focuses on the purpose of the United States in joining the TPP negotiations, which is to lead the process of Asia-Pacific regional cooperation, shape a new order in favor of developed countries, and to set future-oriented international rules. The fourth part analyzes Japan's intention in joining the TPP talks, which is to further strengthen its alliance with the United States and to contain China's influence in East Asia. The fifth part expounds different situations and individual considerations of ASEAN member states in joining the TPP negotiations from the perspective of Asia-Pacific regional integration, and presents an analysis of the prospect of RCEP, an ASEAN-centered regional FTA. The last part mainly expounds on China's policy options in the face of the TPP.

Edited by Office of Research Management, CIIS

Address: 3 Taijichang Toutiao, Dongcheng District, Beijing 100005, P. R. China

Tel: +86 10 8511 9556 Fax: +86 10 8511 9705

Email: wangqiang@ciis.org.cn Website: www.ciis.org.cn