Few developments in the Asia-Pacific region have simultaneously harbored such opportunity and risk as the Trans-Pacific Partnership (TPP). The TPP is the centerpiece of the U.S. "rebalance" to the Asia-Pacific, and its twelve members account for 35 percent of global trade. No prior multilateral proposal has set its sights so far "behind the borders" of signatories to regulate investment, capital flows, intellectual property, and state owned enterprises (SOEs). Its wide-ranging implications for labor standards, social services, and freedom of online data portend a comprehensive blueprint for future agreements. And yet, the TPP’s assertive vision of Asia-Pacific integration may harbor the seeds of regional disintegration.

The TPP’s core goal is also its greatest liability: it seeks to expand the role of markets in the delivery of healthcare, housing, foreign investment, and services in a region where government programs have long underpinned social welfare, national development, and international cooperation. Vietnam stands out among TPP members for its high level of state intervention, but more significant for the region’s trajectory is China, where the encompassing role of the state in practically all aspects of national and foreign affairs preempts TPP membership. As Eric Stadius and Elizabeth Briggs (2012) write, "Beijing’s policy of sustaining state run enterprises, the difficulties surrounding land purchase in China, the Chinese Central Bank’s intentional undervaluation of the currency, and various barriers to free trade all violate the principles of the TPP.”

China watchers, national and foreign, have painted a somber picture of the TPP, noting that trade is already relatively open between its members and that it is therefore likely to harbor ulterior motives. According to the Director of the APEC Research Center at the Shanghai Academy of Social Sciences, Cai Penghong, "It seems that the U.S. is using the TPP as a tool as part of its Asia Pacific Strategy to contain China" (Cai 2011). The agreement is also described as a U.S.-led plan to undermine ASEAN+3, an institution that has leveraged China’s growth to consolidate East Asian economic integration (Li 2012). A prominent foreign contributor to Chinese official media, John Ross (2011), argues that the TPP aims “to reorient trade discussion in the Pacific away from the most dynamic market, China, to the less dynamic one of the U.S. by setting terms which exclude China.” Similarly, according to K.V. Kesavan and Kartikeya Khanna (2012), “the partnership serves to compete with China’s economic interests rather than be complementary.”
Introduction

Trade patterns have changed dramatically in the last two decades. The intensity of economic growth has shifted from the West to the East. Increasingly supply chains encircle the globe linking developed and developing countries in recognition of the fact that today emerging economies account for a majority of global growth. Regional trade arrangements have proliferated worldwide, but nowhere more so than in Asia. A decade ago there were roughly 60 trade agreements in the region; today there are five time that many. Negotiations involving multiple nations continue.

But the world’s two largest economies, namely China and the United States, are proceeding separately: the United States in TPP and China in RCEP. That raises questions of whether the parallel trade efforts will help bring the parties together or pull them apart. Some Western scholars have suggested that China is promoting RCEP to create regional economic integration in East Asia that will exclude the United States, whereas some Chinese scholars have suggested that U.S. efforts in negotiating TPP are motivated by a desire to reduce China’s influence in East Asia. While arguments can be made that neither suggestion is well grounded in facts underlying the origins of the respective negotiations, perceptions matter.

The following report results from cooperation between Margaret Myers, China and Latin America program director at the Inter-American Dialogue, and Adrian H. Hearn, Australian Research Council (ARC) fellow at the University of Melbourne. It originated from a public event entitled “China, Latin America, and the Changing Architecture of Trans-Pacific Engagement,” co-hosted in Washington, D.C. in May 2013 by the Latin American Studies Association (LASA) Section for Asia and the Americas and the Inter-American Dialogue’s China and Latin America program. The analysis that follows elaborates on the themes covered in the event and ensuing exchanges.

Hearn and Myers will soon publish a co-edited volume on this topic, in which they and a group of authors describe the differing perceptions that exist regarding the merits of these two trade negotiations; they also assess the likely impact these agreements could have in terms of political and economic integration in Asia and Latin America.

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Co-Chair, Inter-American Dialogue
Chair & CEO, Hills & Company, International Consultants

A DECADE AGO THERE WERE ROUGHLY 60 TRADE AGREEMENTS IN THE ASIA-PACIFIC REGION; TODAY THERE ARE FIVE TIMES THAT MANY.
Interviews conducted in Beijing between 2012 and 2015 by the authors of this report confirm that Chinese researchers and policy advisors are uncomfortable with the TPP. For instance, Han Feng, deputy director of the Asia-Pacific Institute at the Chinese Academy of Social Sciences, described a concern among Chinese foreign policy advisors that the TPP may seek to eventually incorporate Taiwan and therefore pose a threat to Chinese sovereignty. Wang Honggang, deputy director of U.S. Studies at the China Institute of Contemporary International Relations, noted a widely shared suspicion that the U.S. government is using the TPP negotiations to limit China’s international expansion. Similarly, Di Dongsheng, deputy director of the Renmin University Center for Chinese Foreign Strategy Studies, suggested that the TPP’s high but unrealistic standards are supportive of U.S. economic goals and afford China only a “take it or leave it” option. Pan Wei, director of the Center for Chinese and Global Affairs at Peking University, asserted that influential TPP signatories such as Australia should advocate the redrafting of controversial chapters of the agreement to facilitate China’s membership. In general, Chinese officials are worried that the TPP will entrench divisions between Asia-Pacific nations favorable to U.S. interests on the one hand and those sympathetic to China on the other.

Despite these concerns, economist Jianmin Jin finds in our forthcoming book that the TPP may not be entirely problematic for China because it coincides somewhat with the Xi administration’s efforts to introduce market reforms into the Chinese economy. These efforts are evident in the Shanghai Free Trade Zone, the State Council’s announcement that a negative list will be applied to foreign investors in China’s health services sector, and nascent Chinese investment agreements with the United States and the European Union. The TPP therefore constitutes an external justification for the government to carry out its domestic reform agenda. The end-game for Beijing is a robust domestic economy that underpins a regional leadership position capable of withstanding prospective foreign challenges. Jin notes the resulting paradox: “cooperating with the United States over the long term will reduce the capacity of a U.S.-led alliance to contain China.”

We find no hard evidence that the TPP seeks to contain China, though its unusually broad remit and apparent resonance with U.S. strategic priorities have understandably provoked suspicions in Beijing. Prior to visiting Japan and South Korea, U.S. Secretary of Defense Ashton Carter stated that, “Passing TPP is as important to me as another aircraft carrier…it would help us promote a global order that reflects both our interests and our values” (2015). Intentionally or not, the statement implies coercive unilateralism, playing into the hands of TPP critics. As Sam Roggeveen of the Lowy Institute for International Policy writes, “It’s a sound-bite tailor made for those Beijing sceptics who see the TPP as a device which deliberately excludes them, and which functions as the economic component of a US-led China containment strategy” (2015).

The “securitization” of trade agreements finds recent precedence in the post-9/11 Security and Prosperity Partnership negotiated by the NAFTA countries, and its subsequent evolution into Plan Mexico, or the Merida Initiative. Resulting in augmented U.S. military presence in...
Many of the tensions generated by overseas Chinese finance and investment can be traced to a core disagreement over the merits of free-market and state-led development. The TPP sits at the epicenter of this debate.

Mexico, the emerging trade-security nexus was articulated by former U.S. Assistant Secretary of State for Western Hemisphere Affairs Thomas Shannon: “We have worked through the Security and Prosperity Partnership to improve our commercial and trading relationship, we have also worked to improve our security cooperation. To a certain extent, we’re arming NAFTA” (quoted in Fitzpatrick Behrens 2009). Nobody has formally advocated “arming the TPP,” but the prospect is plausible as China stakes increasingly assertive maritime claims and races to install “multi-use” landing strips and port infrastructure in contested neighboring territories.

Power and Money in the Asia-Pacific

While Chinese strategic capabilities in East Asia do not (yet) rival those of the United States, the financial picture is changing more quickly. The China Development Bank and the Export Import Bank of China now provide more loans to the region than the World Bank and the Asian Development Bank combined. Research from the Inter-American Dialogue shows that Chinese loans to Latin America have surpassed $119 billion since 2005 (Gallagher and Myers 2014).

Kevin Gallagher (2015) compares the significance of China’s global distribution of finance to U.S. investment in European reconstruction after World War II: “China-backed finance has the potential to be nothing short of a 21st century Marshall Plan.” Supporting this conclusion, the China-led Asian Infrastructure Investment Bank—criticized by the United States for its questionable governance standards but widely embraced in Europe and Asia—has established an initial fund of $50 billion for regional development. It sits alongside China’s Silk Road Fund, which has earmarked $46 billion for Central Asian port development, rail and road links, and power generation (coal, wind, solar and hydro); and the BRICS New Development Bank, which China launched with Brazil, Russia, India and South Africa in 2014 with initial capital of $100 billion.

FIGURE 2. TPP MEMBERS’ TRADE WITH CHINA AS % OF TOTAL TRADE
Source: Comtrade.
As they contend with dominant structures of finance and governance, Chinese loans and investments have inevitably generated tensions. Many of these tensions can be traced to a core disagreement over the merits of free-market and state-led development. The TPP sits at the epicenter of this debate. At a time when Chinese government enterprises are investing overseas like never before, Derek Scissors (2013) of the Heritage Foundation argues that the TPP can ensure a competitive world market:

The TPP’s gravity, as Scissors implies, resides in its aspiration to extend prevailing market economy conditions, and the opportunities they bring for private enterprise, around the world and prospectively into China. Since China is not party to the TPP negotiations and is unlikely to meet its conditions in the foreseeable future—much less in light of the Xi administration’s defense of SOEs—the liberalization agenda focuses for the time being on China’s neighbors.

Any disruption to the flow of Chinese finance/investment, for instance through a commitment among TPP signatories to favor inbound investment from private rather than public sectors, would alter the trajectory of Asian integration.

“The outlook for Chinese investment is positive, but setbacks will continue to occur, due in part to foreign suspicion of state firms. The U.S. should formulate policy to ensure competition, with the Chinese firms that come here, in the Chinese market, and around the world through the Trans-Pacific Partnership and other agreements that liberalize market access.”

As noted above, infrastructure, industry, and social services in many Asia-Pacific nations depend on direct support from government budgets, and increasingly on investment from the Chinese state. This injection of capital also benefits China: the exports it fuels from recipient countries are increasingly bound for China, filling the lower rungs of Chinese production chains.
and propelling them into more sophisticated and profitable sectors. This symbiosis emerged in force after the 1997 Asian Financial Crisis and accelerated a decade later with the Global Financial Crisis. The latest wave of Chinese outbound finance, channeled through the AIIB and Silk Road Fund, aims to inject further capital into regional development while consolidating China’s leadership.

Any disruption to the flow of Chinese finance/investment, for instance through a commitment among TPP signatories to favor inbound investment from private rather than public sectors, would alter the trajectory of Asian integration. It stands to reason, then, that China and its neighbors are hedging against the TPP by negotiating parallel FTAs with each other. China has already signed bilateral FTAs with TPP members.
Australia, Chile, New Zealand, Peru, and Singapore; has joined a multilateral FTA (via ASEAN) with TPP members Malaysia, Brunei, and Vietnam; and is seeking further Asia-Pacific FTAs. To consolidate these networks, in 2011 China led an initiative to speed up the negotiation of two multilateral initiatives: the Comprehensive Economic Partnership for East Asia (CEPEA) and the East Asia Free Trade Area (EAFTA). The result was the combination of the two under the Regional Comprehensive Economic Partnership (RCEP), launched in 2012.

As Barbara Kotschwar suggests in our forthcoming volume, the RCEP and TPP harbor enough similarities to come together in support of APEC’s longstanding ambition to create a Free Trade Area of the Asia-Pacific (FTAAP). But for Jianmin Jin (2013), “The sudden rise of the RCEP is in fact due to the many concerns Asia has about the TPP,” and as Han Feng stated in an interview, “The RCEP agreement is based on combining ASEAN’s existing FTAs and will directly compete with the TPP...it will sustain our regional identity and sovereignty at a time when the United States is trying to reclaim dominance in the region” (interview, 24 September 2012). China’s strengthening FTA agenda appears to be its clearest response so far to the TPP (Yuan 2012).

Among China’s FTA aspirations is a trilateral deal with Japan and South Korea. The prospective advantages of integrating the three economies, whose combined GDP amounts to 70 percent of East Asia’s GDP and 20 percent of the world’s, are important enough to Beijing to balance the defensive concerns of the Chinese automobile sector. A trilateral agreement could reverse the declining share of trade that Japan and South Korea represent for China (see figure 5), and enable China to advance a much-needed improvement of political relations with the two.

Japan’s conservative government views China’s trilateral proposal with mild interest compared to the TPP, and Chinese strategists worry that Japan’s accession to the latter could diminish its interest further. The TPP would enable Japan to compete with China more effectively in U.S. markets, leading Guoyou Song and Wenjin Yuan to observe that from Beijing’s perspective, “Japan’s joining makes the TPP even more dangerous for China’s economic interests” (2012:210). While China broadens its FTA agenda to hedge against the TPP, Japan appears to be supporting the TPP to hedge against China’s growing regional influence. Simultaneously pursuing the trilateral deal with China and the TPP is a logical course for Japan, whose “strategic ambiguity” may become a regional phenomenon. Australia, another TPP member, has shown that a bilateral FTA with China leaves the door open to the rising tide of Chinese investment (especially in agriculture and infrastructure) despite prospective TPP restrictions on SOEs and government finance.

**FIGURE 5. CHINESE TRADE WITH JAPAN AND SOUTH KOREA (MILLIONS OF DOLLARS)**
Source: Comtrade.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total trade</th>
<th>Trade with Japan</th>
<th>Trade with South Korea</th>
<th>Japan+Korea as % of total Chinese trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$1.42M</td>
<td>$184,394</td>
<td>$111,928</td>
<td>20.84%</td>
</tr>
<tr>
<td>2006</td>
<td>$1.76M</td>
<td>$207,295</td>
<td>$134,246</td>
<td>19.40%</td>
</tr>
<tr>
<td>2007</td>
<td>$2.17M</td>
<td>$236,013</td>
<td>$160,184</td>
<td>18.21%</td>
</tr>
<tr>
<td>2008</td>
<td>$2.56M</td>
<td>$266,732</td>
<td>$186,070</td>
<td>17.67%</td>
</tr>
<tr>
<td>2009</td>
<td>$2.20M</td>
<td>$228,848</td>
<td>$156,232</td>
<td>17.45%</td>
</tr>
<tr>
<td>2010</td>
<td>$2.97M</td>
<td>$297,780</td>
<td>$207,106</td>
<td>16.98%</td>
</tr>
<tr>
<td>2011</td>
<td>$3.64M</td>
<td>$342,837</td>
<td>$245,637</td>
<td>16.16%</td>
</tr>
<tr>
<td>2012</td>
<td>$3.87M</td>
<td>$329,459</td>
<td>$256,402</td>
<td>15.15%</td>
</tr>
<tr>
<td>2013</td>
<td>$4.16M</td>
<td>$312,378</td>
<td>$274,238</td>
<td>14.10%</td>
</tr>
<tr>
<td>2014</td>
<td>$4.30M</td>
<td>$312,252</td>
<td>$290,440</td>
<td>14.01%</td>
</tr>
</tbody>
</table>
The Other Side of the Pacific

Like Japan, several Latin American nations see benefits in concurrent partnerships with the United States and China. For these nations, the dangers of overreliance on the prior, and benefits of deeper integration with the latter, became evident during the Global Financial Crisis. Diminishing exports to the United States were offset by Chinese demand for energy and minerals, though the “resource boom” did little for Mexico and others whose economies are oriented to manufacturing. The four members of the Pacific Alliance (PA) – Mexico, Peru, Colombia, and Chile – have articulated their common interest in more extensive engagement with China and other Asian economies, and to this end are working to harmonize their own trade and investment regulations.

As in Asia, China has pursued trade pacts with Pacific Alliance nations in recent years, although the bulk of the Chile-China (2006) and Peru-China (2009) FTA negotiations focused on the “old trade agenda,” or the quest to liberalize agriculture and markets for lower value-added manufactured goods (Wise 2012). Colombia has agreed to begin a feasibility study for a FTA with China, but Colombia’s manufacturing interests have largely stalled that process so far.

In pursuit of concurrent partnerships, the four PA countries also maintain parallel trade pacts with their traditional partners, including bilateral FTAs with the United States and the European Union. As members of APEC, three of the four – Chile, Mexico, and Peru – are party to the TPP negotiations, despite domestic concerns.

**FIGURE 6. THE PACIFIC ALLIANCE**
Source: Allianzapacifico.net.
About the TPP’s perceived effect on economic growth and relations with China. Although Chinese investment has lagged in Chile in particular, China is a critical export destination for Chile and other PA nations. The TPP countries together account for 19 percent of Chile’s exports to the world, but 23 percent of Chile’s exports are sold to China. Other Latin American nations are more concerned about the enforceability of TPP provisions. Peruvian observers have noted the erosion of local environmental standards despite provisions in the Peru-U.S. FTA intended to protect them.

Despite these concerns, other Latin American nations are vying for eventual TPP membership. Costa Rica’s trade minister has called the Alliance “a stepping-stone” for small countries such as Costa Rica and Panama, which are currently candidates for PA membership, to eventually join the TPP. As Barbara Kotschwar argues in our volume, second-tier initiatives like the PA help to prepare the way for broader “mega” deals, including the TPP and the Transatlantic Trade and Investment Partnership (TTIP).

Several Latin American nations see benefits in concurrent partnerships with the United States and China. For these nations, the dangers of overreliance on the prior, and benefits of deeper integration with the latter, became evident during the Global Financial Crisis.

The U.S. Debate on Asia-Pacific Trade

The four PA members maintain close economic partnerships with the United States, and in July 2013 the U.S. government indicated its support for the initiative by becoming an observer. By comparison, the TPP has generated much greater controversy in U.S. domestic politics. The Obama administration characterizes the TPP as an effort to raise the standards of trade and investment among member nations, but Democratic lawmakers and activists argue that the TPP will hurt American workers, weaken food safety and financial regulations, and undermine environmental and labor standards. Democratic Senator Elizabeth Warren is among the TPP’s most vocal opponents, indicating that the U.S. government’s decision “to sign trade pacts and tax deals that let subsidized manufacturers around the globe sell here in America while good American jobs get shipped overseas” has “left America’s middle class in a deep hole” (quoted in Goldfarb 2015).

President Obama’s request to Congress to grant him Trade Promotion Authority (TPA), or the power to negotiate international trade agreements and speed them through Congress, has been a litmus test of U.S. resolve to advance the TPP. After much political maneuvering in both branches, Congress finally granted the president TPA in mid-June 2015. Congressional Democrats, labor unions, environmentalists, and other interest groups continue to voice concerns about the TPP, however. In the words of House Minority Leader Nancy Pelosi, Democrats are seeking “a better deal for American workers.” Others perceive dangers in granting so much decision-making authority to the executive branch in relation to economic governance. Lori Wallach of Public Citizen’s Global Trade Watch, for instance, writes that TPA should be withheld because the TPP “is basically a Trojan horse for every kind of extreme corporate proposal that could not get passed in the sunshine of public debate” (quoted in Hirschfeld Davis 2015).

If the TPP is eventually ratified the uncertainties will only multiply as the signatories roll out unprecedented regulations for business, government, and society.
ASIA-PACIFIC INTEGRATION OR DISINTEGRATION?

Sophisticated diplomacy is becoming more necessary as governments try to balance the opportunities created by China’s rise with participation in emerging international frameworks of trade and investment. Despite the ideological and practical challenges raised by the pursuit of this balance, closer integration with China’s evolving economy does not entail a zero-sum relationship with market-oriented multilateralism. The task facing Asia-Pacific nations is to formulate strategies that leverage simultaneous benefits from the distinct models of governance that are vying for regional preeminence. Such strategies must take account of several contingencies:

- Can the TPP enable members to diversify their exports in high value-adding sectors without compromising their existing exports to China?

- To what extent does China’s expanding network of bilateral FTAs, and efforts to articulate them with the multilateral RCEP, work against or overlap with the TPP?

- Would more flexible terms for TPP induction, such as country-specific processes for liberalizing trade and investment, better facilitate members’ simultaneous cooperation with China, and strengthen the prospect of eventual Chinese membership?

- How will the TPP’s free trade and investment provisions impact recent efforts in Chile, Peru, Australia, and other signatories to more closely regulate foreign investment in arable land and other sectors targeted by Chinese capital?

- To what extent can the proposed Free Trade Area of the Asia-Pacific (FTAAP) accommodate the distinct visions of integration proposed by the TPP and RCEP, and thereby avoid deepening rivalry between China and the United States?

The Eastward shift of global economic dynamism brings with it new competitive tensions and cooperative opportunities underpinned by distinct visions of regional governance. Whether these visions are flexible enough to avert antagonism or too rigid to accommodate each other will determine the meaning of “Asia Pacific” in the 21st century. How the emerging “mega-region” is defined will ultimately provide an answer to the encompassing question: is the Asia-Pacific on the cusp of integration or disintegration?
REFERENCES


