

US and China Abstain from New Trans-Pacific Partnership

By Eric Weiner - February 8, 2018



In 2011 the Obama Administration “rebalanced” its focus towards the Asia-Pacific region and prioritized the expansion of the Trans-Pacific Partnership (TPP)¹ to create new economic opportunities for American businesses and workers and to ensure the United States remained competitive with China in Asia’s rapidly growing economy.

The TPP was endorsed by 12 nations in 2015² but the proposal was never put to a vote in Congress where it faced strong opposition. President Trump used his first executive action to officially withdraw the United States from the TPP and shift the focus of United States trade policy to pursuing bilateral free trade opportunities.³ In his recent State of the Union address, President Trump made a veiled reference to the TPP when he declared “America has finally turned the page on decades of unfair trade deals,”⁴ but the TPP has lived on without United States participation.

In fact, discussions on a new TPP agreement were concluded just days before the president’s State of the Union speech and Canadian Prime Minister Justin Trudeau, used his keynote address at the World Economic Forum in Davos Switzerland to announce that Canada and the ten other remaining members of the TPP concluded discussions in Tokyo, Japan on a new Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).⁵

Japan is playing a lead role in the CPTPP process and it is significant that the discussions were concluded in Tokyo. Six years ago, Japan was reluctant to join the TPP negotiations due to domestic political opposition and the Obama Administration was unwilling to slow down the TPP process to wait for Japan.⁶ Today, Japan is fulfilling its role as the second largest economy in Asia and the third largest economy in the world.

The CPTPP contains much of the original TPP agreement including market access commitments and high-standard rules, but the new agreement omits 20 provisions from the final text including data protection and biologics.⁷ Critics argue that the CPTPP is a watered-down version of the TPP that has little significance without the United States as a member. The Asia Society Policy Institute argues that the CPTPP will still be economically meaningful and cites economic analysis done by the Peterson Institute for International Economics showing that significant gains are possible from high-quality trade agreements such as the TPP without the United States.⁸

The big question is, where does China fit into all of this?

Just to recap, China was not interested in joining the original TPP because the agreement sought removal of tariff and non-tariff trade barriers. China instead pursued strategic alternatives to the TPP, the first of which was called the Regional Comprehensive Economic Partnership (RCEP). Negotiations for the RCEP were launched in 2012 by leaders from 10 Association of Southeast Asian Nations (ASEAN) Member States (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam) and six ASEAN Free Trade Agreement (FTA) partners (Australia, People's Republic of China, India, Japan, Republic of Korea, and New Zealand). Note the absence of the United States. The goal of the RCEP negotiations is to achieve a modern, comprehensive, high-quality, and mutually beneficial economic partnership agreement among the ASEAN Member States and ASEAN's FTA partners.⁹

For its second strategic alternative to the TPP, China launched a new Asia Infrastructure Investment Bank (AIIB) to change the way regional infrastructure is financed and to compete with Western-influenced international financial institutions such as the Asian Development Bank and the World Bank.¹⁰

China's third strategic alternative to the TPP was a \$40 billion pledge to an endowment for regional infrastructure development called the Silk Road Fund¹¹ that was intended to compete with the U.S.-backed Millennium Challenge Corporation. By influencing the financial and development infrastructure in the Asia-Pacific, China seeks to maintain a competitive advantage while abstaining from the TPP.

China pursued a fourth strategic alternative to TPP by negotiating a trilateral free trade agreement (TFTA) with Japan and South Korea on the sidelines of the November 2012 East Asia Summit¹² The 12th round of TFTA negotiations concluded in April 2017 and it was at about this time that Chile invited other TPP countries as well as South Korea and China to explore the possibility of moving ahead with TPP. China declined the offer once again and continues to focus on pursuing its alternative strategies.

Earlier this week the Commerce Department released new trade figures showing that the deficit with China increased \$28.2 billion to \$375.2 billion in 2017.¹³ This should serve as a wake up call to the Trump administration to expedite its pursuit of favorable bilateral free trade opportunities. China began laying the strategic groundwork to counter the TPP

back in 2012 and it is well positioned to counter the CPTPP today. The US on the other hand has opted out of both the TPP and CPTPP and its trade strategy is left wanting.

¹ A free trade agreement among the United States, Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

² USTR Press Release, “Trans-Pacific Partnership Ministers’ Statement,” October 5, 2015.

³ White House Press Release, “President trump takes action: Signs series of presidential memoranda dealing with trade and other issues,” January 23, 2017.

⁴ Remarks by President Donald Trump in his [State of the Union Address](#) at the US Capitol, January 30, 2018.

⁵ [Keynote address](#) by Canadian Prime Minister Justin Trudeau at the World Economic Forum in Davos, Switzerland, January 23, 2018.

⁶ Interview of USTR Ron Kirk by Eric Weiner of Tokyo Broadcasting System, November 30, 2011.

⁷ Cutler, Wendy, Charles Finny, Peter Grey, Kim Jong-Hoon and Shotaro Oshima, [Shifting Trade Winds: US Bilateralism & Asia-Pacific Economic Integration](#), Asia Society Policy Institute, Issue Paper, January 2018, p5.

⁸ Petri, Peter A., Michael G. Plummer, Urata Shujiro, and Zhai Fan. “[Going It Alone in the Asia-Pacific: Regional Trade Agreements Without the United States](#).” Working Paper. Peterson Institute for International Economics, October 2017, p2.

⁹ [Regional Comprehensive Economic Partnership, Association of Southeast Asian Nations](#).

¹⁰ Curtis S. Chin and Jose B. Collazo, “Asia Infrastructure Needs Reform, Not More Development Banks,”*Nikkei Asian Review*, January 15, 2015.

¹¹ Yun Sun, “[China’s AIIB Challenges](#),” PacNet #16, Center for Strategic and International Studies, March 11, 2015..

¹² “Japan, China, South Korea trilateral FTA Advances,” Kyodo News November 22, 2012.

¹³ [US International Trade in Goods and Services, December 2017](#) - U.S. Census Bureau, Bureau of Economic Analysis, February 6, 2018.