U.S.-China Economic Relations:

Implications of the United States' New Asia Policy

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As the largest and second largest economies in the world, the U.S. and China play key roles in the vitality and stability of the global economy. Presently, the two economies are robustly interdependent, as shown in a number of commonly used indicators such as the sheer volume of bilateral trade, flow of foreign investments, and ranking of market importance for each other. In 2012, U.S.-China bilateral trade reached $555 billon, accounting for 14% of total U.S. trade in goods and making China the second largest trading partner of the U.S. (after Canada). China is the largest source of U.S. imports and the third-largest U.S. export market. On the other hand, Chinese authorities reported bilateral trade in 2012 at $486.21 billion, ranking the U.S. as the largest trading partner as a state, or the second largest trading partner behind the European Union (EU) if the EU is treated as a trading group.[1] As for investment, by the end of 2011, the U.S. had accumulatively set up 66,500 companies in China for $70 billion worth of investment. China, as of June 2012, was the second largest foreign holder of U.S. public and private securities (after Japan) for a total of $1.6 trillion, accounting for 21.7% of total foreign holdings (Morrison, 2013: 14-15).

In retrospect, the level of economic integration achieved between the two is even more remarkable— just four decades prior, bilateral economic interactions were virtually nonexistent. In 1979, as China began economic reforms and established diplomatic relations with the U.S., the total U.S.-China trade was at $2 billion. China ranked as the 23rd largest market for U.S. exports, and 45th as the source of U.S. imports (Morrison, 2013: 2). The size and pace of growth in bilateral economic interactions since then have definitely been impressive. Looking forward, the rule of basic economics predicts that growth in bilateral trade will be in proportion to the

[1] U.S. and Chinese data were obtained from UN comtrade (http://comtrade.un.org/db/default.aspx), accessed July 9, 2013.

sizes of the two economies. Therefore, it is reasonable to project continued, if not accelerated, economic interdependence between the two.

Yet, beneath the indicators of economic integration, there have been challenges to the U.S.-China economic relationship. Many of the disputes between the two have centered on distribution of economic gains regarding these economic ties. The massive, sustained imbalance in the U.S. trade deficit with China is seen by some as an indication of an unfair, unbalanced relationship that could damage the vitality of the U.S. economy. Tensions over Chinese currency manipulation and job losses in U.S. manufacturing reflect these concerns. Furthermore, U.S. complaints of restricted market access and investment opportunities in China, role of state-owned enterprises (SOEs), lack of protection of intellectual property rights, and cyber theft of commercial secrets also convey a notion of “unfairness” in the mutual economic ties. On the other hand, China’s complaints of U.S. restrictions on Chinese investments in the U.S. and high-tech exports to China, reflect this perception of U.S. protectionism.

These disputes are economic in nature, but many are mixed with strategic and political concerns. For example, the large U.S. trade deficit with China is widely viewed as a security issue at official and popular levels (Liew, 2010). As the power differential between the U.S. and China shifts in favor of the latter as a result of its robust economic growth, differences in political value and policymaking continue to instill strategic distrust between the two (Lieberthal & Wang, 2012). It is not surprising that the American public has shown some ambivalence toward China. In a 2012 survey, while 55% of Americans said building a strong relationship with China should be a top priority, 56% of the U.S. public believed that it is “very important” for the U.S. to be tough with China on economic and trade issues (DeSilver, 2013).

Of course, this is not the first time U.S.-China economic relations have been politicized. The inclusion of China into the global trading system in the Cold War era began with the U.S. geopolitical calculation to counterbalance the former Soviet Union, and was facilitated through the U.S. granting Most-Favored Nation (MFN) status to China (Clark & Monk, 2011). Political division within the U.S. over this economic tie was marked by heated debates on human rights and labor conditions in China during the annual Congressional renewal of MFN status (Trubowitz & Seo, 2012; Xie, 2006; Suettinger, 2003). Similar concerns were carried over to Congressional debates on the support to China's accession to the World Trade Organization (WTO).

Yet, the political aspect of US-China economic interdependence in recent years has taken a new turn—the geo-strategic concern of the U.S. and its allies in Asia Pacific. As noted by Feigenbaum & Manning (2012), "Economic Asia" (i.e., the dyanmic, integrated Asia brought together by trade and invesment) and "Security Asia" (i.e, the dysfunctional Asia torn apart by mistrust, nationalism and irredentism) have become increasingly irreconcilable. In Asia Pacific, the same economies that are increasingly engaged in economic integration are also exchanging nationalist rhetoric over competing terriotrial claims. Whether the perception of China's new assertiveness is based on solid evidence or not (Johnston, 2013), its actions in the East China Sea and the South China Sea have heightened security concerns in the region. Ironically, the U.S. role as security provider in Asia is reinforced, even though its economic ties with the region have declined in relative terms.

Under the Obama Administration, the U.S. has shown renewed vigor and interest in the region. Its "pivot to Asia" or "rebalancing" policy has three essential pillars: military, diplomatic and economic. The military component of the policy involves concrete actions taken by the U.S.

to strengthen ties with traditional allies such as South Korea, Japan and Australia, and to forge new partnerships with India and Indonesia. The diplomatic strategy comprises deeper engagement with the Association of Southeast Asian Nations (ASEAN) and related Asian regional institutions, especially those participating in the East Asia Summit (EAS). Finally, the economic component of the policy is marked by the negotiation of the Trans-Pacific Partnership (TPP) agreement—supposedly a high-standard, comprehensive trade agreement that reflects U.S. priorities and values. But, at the TPP negotiation table, the absence of China coupled with the recent incorporation of Japan has prompted speculation that the U.S. is pursuing an "ABC—Anyone But China" approach to contain China, as characterized by the *Financial Times* (Dyer, 2013).

Against this backdrop, this paper will explore the implications of TPP negotiations on U.S.-China economic relations. Even as the proposed October 2013 deadline for the TPP approaches, it remains uncertain whether TPP partners will be able to reach an agreement before the target date, and what the final agreement will encompass. The situation is in flux, to say the least. To assist our understanding of the possible trajectory of the future of U.S.-China economic relations as pertaining to the TPP factor, this paper will discuss whether U.S.-China economic interdependence is likely to go in the direction of "disintegrated interdependence" (Maoz, 2009), in which economic ties are offset by other strategic ties or alliance commitments. History presents numerous examples in which strategic interests trumped trade linkages. For example, England and France were among Germany's top five trading partners prior to the outbreak of two world wars, and the U.S. was Japan's largest trading partner before World War II (Barbieri & Levy, 1999). Will the U.S. and China go down a similar path?

Different from most of the discussions that analyze the U.S.-China relationship solely at the state level without consideration of non-state actors, this paper will include assessments of some of the dynamics at the sub-state level. Since economic interactions in a global system involve tangible interests for individuals, companies, and industries that compete or cooperate beyond national boundaries, recognition of their roles will help provide a complete picture for analysis. In fact, TPP partners have also sought input from these groups. During the 19 rounds of TPP negotiations, from March 2010 to August 2013, TPP member delegations interacted with registered stakeholders from academia, labor unions, the private sector, and non-governmental organizations through briefings and presentations. Although this process is generally confidential, their participation in the negotiations indicates the importance of their contributions.

Background of the Trans-Pacific Partnership

The TPP was initially launched on the sidelines of the Leaders' Meeting of the 2002 Asia-Pacific Economic Cooperation forum (APEC) by Chile, New Zealand and Singapore as the Pacific Three Closer Economic Partnership (P3-CEP). After Brunei joined the negotiations in April 2005, the group became known as the Pacific-4 (P4). In late 2005, P4 states signed the Trans-Pacific Strategic Economic Partnership Agreement, which went into effect on different dates in 2006 for various parties. As a comprehensive free-trade type of agreement open for accession, the treaty provides for nearly total liberalization of all goods, including agricultural products.

Strategically located in the far corners of the Pacific, P4 states were not primarily motivated by improved market access for each other. Instead, they intended to promote free trade among APEC countries, providing a model agreement to which other APEC members could accede. Like-minded states were encouraged to join the Agreement through its open accession provision, ultimately achieving the goal of the Free Trade Area of the Asia Pacific (FTAAP).

In March 2008, P4 states began work on financial services and investment chapters and were joined by the U.S. in these talks. In September 2008, the U.S. formally announced the launch of negotiations to join P4 states when it became clear that the Doha Round of multilateral trade negotiations had reached an impasse. As a plurilateral negotiation forum, the agreement was seen as a viable alternative by the outgoing Bush Administration, to substitute for the collapsed multilateral negotiation under the WTO (Yuan, June 2012: 3). In November 2008, Australia, Vietnam and Peru announced that they would join the P4 trade bloc. Together, the eight states agreed to change the title of the agreement to Trans-Pacific Partnership (TPP) to reflect the expanded membership.

In November 2009, during his first trip to Asia, President Obama reaffirmed U.S. commitment to engage with TPP negotiations. Malaysia joined the negotiations in October 2010, followed by Canada and Mexico in June 2012, and Japan in 2013. Altogether, the 12 TPP states account for "a third of global trade and 40% of global GDP," according to U.S. Trade Representative Michael Froman (2013).

The U.S. has played a leading role since joining TPP negotiations by pushing the scope of the talks beyond conventional free-trade agreements (FTAs). The stated goal of the TPP—to establish a "21st-century agreement"—implies a process that is both ambitious and forward-looking. It is ambitious as it tackles issues previously not covered in traditional FTAs, such as government procurement, service trades, investment, health and safety regulations, protection of intellectual property rights, and fair competition with state-owned enterprises. It is forward-looking by addressing new and emerging issues such as e-commerce and environment. Altogether, beyond the traditional approach that deals with trade barriers between borders, TPP negotiations attempt to tackle issues behind the border by addressing how policies should be formulated and managed domestically (Tibung, October 2012). This approach, however, could also be contentious, for it is likely to set off domestic debates in TPP member states, since proper domestic laws and regulations need to be adjusted to conform to TPP principles and tenets.

Analysts generally agree that the motives behind the U.S. decision to join TPP negotiations are both economic and strategic. Economically, the TPP framework is deemed the most logical pathway leading to a U.S. connection with the fastest-growing region in the world. Currently, of the 20 countries having free trade agreements in force with the U.S., only three are in Asia (i.e., Australia, Korea and Singapore). The U.S. has not been a major player in economic integration models such as ASEAN-plus or the China-Japan-Korea FTA, nor has it been a beneficiary in over 175 preferential trade agreements in force that include Asia-Pacific countries. The formation and continued expansion of the TPP, with the U.S. as an anchor, could provide an alternative model for trans-Pacific integration beyond intra-Asian integration (Lewis, 2011).

The strategic view of the TPP, however, is more diverse. Some interpret it as building an economic NATO to restrain China (Du, 2011), while others take it as an instrument to govern emerging global economic order through regulation and rule-making (Backer, Forthcoming). Whatever the argument may be, current analysis has not been explicit on the causal mechanism of the strategy. It seems that the corollary of the first view is to exlcude China by manipulating economic flow, wheras the second idea presumes the greatest advantage by incorporating China into the system. A detailed discussion and analysis of these two possibilities follows.

TPP and Trade and Investment Flows

The containment approach is commonly seen in comments made by Chinese observers and analysts regarding the TPP, as reviewed by Tso (December, 2012), Yuan (June 2012), and Mulgan (2013). Some took an extreme position, arguing that the TPP aims to destroy Chinese manufacturing abilities and its role as the world's factory; others raise questions about the prospect of trade diversion. If the intention of the TPP is to contain China, how would that be accomplished? What would it take to economically encircle China? Will the TPP be an effective instrument to alter trade and investment flow and change current conditions of economic interdependence in Asia Pacific? It appears that these questions reflect a familiar debate between realists and liberals.

Realists maintain that trade follows the "flag"; in other words, political and military relations shape trade flow (Pollins, 1989; Gowa & Mansfield, 1993; Dixon & Moon, 1993). They note that economic transactions tend to correspond to interstate alliance patterns to minimize security risks and political disruption. This is necessary because economic dependence caused by trade could actually induce conflict, not peace. Asymmetrical gains in economic interaction may empower the less dependent while entrapping the more dependent partner.

Liberals maintain that increased contact and communication as a result of expanded economic exchange would promote peace by deepening transnational ties. Good will from economic cooperation can build confidence, which can spill over to other areas (Stein, 1993; Doyle, 1997). Hence, the web of interdependence resulting from bilateral trade could, in effect, reduce the risk of war.

Most of the empirical studies presented by liberals and realists center on militarized disputes. By shifting focus to lower-intensity conflict such as political tensions, recent research begins to entertain a third scenario: political tensions actually have no bearing on economic relations (Davis & Meunier, 2011). In an era of liberalized international economy, consumers and investors follow the path dependence due to sunken costs in existing trade and investment flow. They appear unfazed by political tensions. This also means that economic interdependence would not necessarily mitigate tensions or other low-intensity conflict.

How can these perspectives inform our analysis of the TPP? A good starting point is to understand economic and investment patterns in Asia from the perspective of the global economy. For the last few decades, the development of a global supply chain has been largely fueled by advances in communication and transportation technologies that lead to the fragmentation of manufacturing production. In East Asia, the formation of a "flying geese pattern" reveals a pattern of continuous migration of manufacturing from low-cost to lower-cost economies, with the developed economies retaining control of key production components and high-tech inputs.

To a large degree, China's economic development started with manufacturing arrangements with Hong Kong and Taiwan industries in the 1980s. As reforms and industrialization deepened in China, foreign manufacturing investments from other parts of the world began to come in, using China as a production base for export to the rest of the world. Adapting to the rise of China as the final assembly point for many products, companies in Asia and other parts of the world structured their global value chain accordingly. Taking advantage of China's increasing capacity to absorb upstream and downstream industries for synergy, companies moved their operations and production plants to China. Imports and exports between China and other economies are not simply trade between states. A considerable portion of the trade flow is carried out by multinational enterprises that transport parts, materials and finished products based on their global manufacturing strategies. Although the share of processing trade in China's total exports has declined in recent years, it remains a significant part of the Chinese economy. Processed trade exports accounted for 44% of China's total exports in 2011, with 83.7% of the trade coming from foreign-invested enterprises (Huo, 2013).

Will the rising cost to China in recent years give an opening to the TPP to further change trade and investment patterns, as claimed by some Chinese commentators? Although FDI flow from the U.S. to China has been in decline in recent years, as seen in Table 1, it is quite unlikely that a massive exodus of FDI from China will occur anytime soon. According to a 2012 survey conducted by the United States-China Business Council (2012), China is estimated to be a $250 billion market for American companies. Eighty-nine percent of its respondents report that their operations in China are profitable, and 66% of the respondents plan to increase investment in China. Ninety-four percent of the companies indicate that their primary purpose for doing business in China is to access the domestic Chinese market, not to establish an export platform. Many of them are ready to capitalize on their investment experience in China to meet the great market potential provided by the expected consumption boom of the rising Chinese middle class. China is either their top global market priority (22%) or among the top five priorities (72%).

(Table 1 Here)

As shown in Table 1, notwithstanding decline of the U. S. FDI in China, U.S. companies have not redirected their investment capital to TPP states. Australia and Canada were the only TPP states to receive a sizable increase in U.S. investment in the post-2008 global financial crisis era. Investment in Singapore and Malaysia recovered to the pre-financial crisis level, whereas there was significant decline in Japan. Investment in Vietnam has increased, but not to the point of replacing China. The mixed picture of capital flow indicates that U.S. companies, who as stakeholders have been well briefed and informed in the TPP negotiation process, have not foreseen a significant shift in business opportunities in anticipation of the TPP arrangement.

Furthermore, all twelve TPP member states, including the U.S., have maintained a relatively stable trade relationship with China, as seen in Table 2. There is no indication that trade relations between China and TPP members have undergone any significant change since the beginning of TPP negotiations. With a significant proportion of modern trade flow tied to the global supply chain in an interdependent economy, it would be difficult for any state to single-handedly reverse the flow irrespective of the rule of economics.

(Table 2 Here)

What will be the economic impact on China, if the TPP is successfully negotiated and implemented in the future? Will the TPP lead to “trade diversion” as a more efficient export (i.e., China) be replaced by a less efficient one as a result of the formation of a free trade agreement? Although some analysts hold the view that the TPP will be a severe threat to China’s exports, others argue that, of the current TPP members states, Malaysia and Vietnam are the only two that are at the same development stage as China. Yet, their overall trade volume, when compared with China, is exceptionally small, indicating that the overall economic effect of the TPP on China should be marginal (Yuan, June 2012).

According to Cheong (July 2013), a recursive, dynamic computable general equilibrium-(CGE) simulation shows that, in the case of TPP 12, the largest increases in GDP occur in New Zealand (0.97%), Mexico (0.90%) , and Malaysia (0.70%). Japan also reaps some economic benefits with a 0.21% increase in GDP, whereas the U.S. benefit is kept to the minimum (0.00%) due to the fact that a competitive Japan will take away the U.S. advantage in NAFTA markets. A significant portion of this liberalization has already occurred due to existing U.S. FTAs with six of the TPP partners. Non-TPP ASEAN countries (such as Thailand, Indonesia, and the Philippines) will lose 0.37% of GDP. Economic effects of TPP 12 on China will be moderately negative, causing a 0.11% decline in its GDP.

Under the TPP 12 + China scenario, the biggest winner will be China (a 4.51% increase in GDP), while the U.S. and Japan improve, with GDP increases of 0.45% and 0.53% respectively. The effect on the GDP of Chile, Singapore, Peru, Canada, and Malaysia will be negative because they have to share the U.S. market with China. Thus, there is no economic rationale to expect significant changes to current trade and investment flows, and the economic data, an indication of the actions of well-positioned multinational enterprises, are in support of the status-quo scenario. Short of any militarized interstate conflict in Asia, multinational enterprises are likely to pursue the path dependence. At the close of the fifth U.S.-China Strategic and Economic Dialogue, the announcement that both countries are to engage in negotiation of a bilateral investment treaty that includes all stages of investment and all sectors, also hints at this possibility (U.S. Department of the Treasury, 2013).

TPP and Trade Regimes

It has been part of U.S. strategy to shape the emerging global economic order through rules and regulations. “Competitive liberalization” was the strategy proposed by U.S. Trade Representative Robert Zoellick under the Bush Administration, to seek trade liberalization through bilateral or minilateral FTAs (Aggarwal, 2010; Solis, 2013). In essence, the U.S. would grant preferential market access to the U.S. markets, presumably an attractive incentive, to countries that are willing to accept the so-called American gold standard that incorporates multiple WTO commitments (i.e., investment and intellectual property rights protection) into

FTA arrangements. Thus, leveraging competition for preferential access to its own markets, the U.S. would help disseminate high-quality rules on trade and investment that might ultimately be endorsed at the global level. Unfortunately, the strategy has not yielded a large number of FTAs with high commercial values. In Asia Pacific, the U.S. was successful in negotiating FTAs with Singapore, Australia and South Korea, but trade talks with Malaysia and Thailand were stalled. Overall, the anticipated ripple effect of "gold standard" FTAs did not materialize.

It appears the TPP represents a retooling of the competitive liberalization strategy, as suggested by Solis (2012). Instead of relying on a series of bilateral negotiations, the U.S. now recruits a critical mass of countries via the TPP, expecting to generate enough momentum to disseminate higher-standard rules through membership expansion. In 2009, the U.S. decided to pursue the TPP exclusively without diverting resources to negotiating bilateral FTAs with other Asian countries (Hamanaka, 2012). Thus, Asian countries not already having an FTA with the U.S. would need to join the TPP to gain preferential treatment. Malaysia's decision to join the TPP is an example of this calculation. In the future, if TPP membership continues to grow, non-members will have to consider joining in order to ensure their competitiveness in TPP markets.

Ultimately, from this perspective, it is important to U.S. interests that China be included after current negotiations are concluded and new standards are established. Incorporation of China into the TPP is similar to the strategy of accepting China into the WTO system (Yuan, June 2012).

So far, the TPP negotiation process is marked by closed-door discussions with very little public transparency, and Beijing is unable to make an assessment as to the impact of the TPP on its national interests. It is certainly understandable if Chinese analysts consider the U.S. action in building trade regimes as another form of containment, since China was not given an opportunity to participate in rule-making. During the June 2013 U.S.-China summit in California, President Xi Jinping indicated that China was interested in being briefed on the TPP process as it went forward. A month later, in the Fifth Meeting of the U.S.-China Strategic and Economic Dialogue (S&ED) held in Washington, D.C. in July 10-11, 2013, it seemed that the U.S. and China began discussions of many of the topics covered by the TPP.

As indicated in the Joint U.S.-China Economic Track Fact Sheet issued after the U.S.-China S&ED meeting (U.S. Department of the Treasury, 2013), the subject of discussions includes a Bilateral Investment Treaty (BIT), opening of China's services market and procurement market, cyber security, protection of intellectual property rights, regulatory and administrative review, and elimination of preferential input pricing for state-owened enterprises. All of these issues are also key areas of concern in TPP negotiations, as to be elaborated in the next section.

An interesting idea mentioned in the Fact Sheet is the proposed establishment of the Shanghai Free Trade Zone pilot that intends to "implement a new foreign capital administrative model on a trial basis and create a market environment that provides equal access for all types of enterprises, domestic and foreign" (U.S. Department of the Treasury, 2013). According to Yuan (2013), the TPP and the Obama Administration's new "Transatlantic Trade and Investment Partnership" (TTIP) initiatives are "economic constitution" (*jingji xianfa*) that will set the rules for another round of globalization and trade liberalization. The Shanghai Free Trade Zone is a way for China to particpate in these new rules and deepen its economic reforms—in Yuan's words, an attempt to "reenter the WTO." Thus, it seems that China is creating an economic zone to examine potential effects of further economic liberalization before making a full commitment to the TPP.

Ultimately, Beijing's attitude toward the TPP could be influenced by the cost of exclusion, which in turn depends on how the following three factors may play out: successful conclusion of TPP negotiations, positive support of the TPP by the U.S. Congress, and future direction of economic reforms in China.

As indictaed earlier, TPP negotiations are proceeding with little disclosure of the details. On the basis of information leaked through different channels, it seems that member states remain far apart on some key issues. Assistant U.S. Trade Representative and TPP Chief Negotiator Barbara Weisel acknowledged in May 2013 that the U.S. will not achieve everything it wants in a final TPP deal if the TPP is to be concluded in 2013. She also expressed frustration with the protracted negotiation process that has yielded no solutions in the toughest areas (Inside U.S. Trade, 2013). As will be discussed , it remains to be seen whether TPP partners can successfully resolve these differences to meet the target deadline of October 2013. Even if they do meet the deadline, it is not clear whether the final product will meet the criteria of a 21st-century, high quality trade rule as claimed. If the process experiences further delays, in the absence of the Trade Promotion Authority that allows the up-and-down vote in Congress, the timing for Congressional approval will be pushed against the next Presidential election cycle, complicating the debates and deliberations. Additionally, even if the Obama Administration is able to rally international and domestic support to clear all these hurdles soon, China's attitude toward the TPP will be tied to the pace and direction of its reform agenda, to be unveiled this fall.

Successful Conclusion of TPP Negotiations

Table 3 summarizes some of the key differences between the U.S. and other TPP states over major issues, compiled from accounts provided by Solis (2013), Cheong (July 2013), Schott, Kotschwar, & Muir, (2013), and Fergusson & colleagues (Fergusson, Cooper, Jurenas, & Williams, June 2013). The information is by no means complete, but it provides a eglimpse of the level of difficulty in reaching a final agreement. Overall, it seems that, notwithstanding the innovative, forward-looking aspirations of negotiators, the conventional dynamic of interest politics is still a dominant force in TPP negotiations.

(Table 3 Here)

The mantra of “non-exclusion” and “no carve-outs” raises expectations that the TPP will produce a high-level agreement with a common tariff schedule for all member states without protecting the sensitive sectors. The U.S., however, insists on maintaining all current tariff schedules based on existing FTAs. It will offer market concessions only to countries that do not currently have an FTA with the U.S (i.e, Brunei, Malaysia, New Zealand and Vietnam). This move essentially shelters some sensitive sectors in the U.S. from further liberalization and does little to resolve the “Spaghetti Bowl” (or “Asian Noodle Bowl”) effect resulting from overlapping bilateral and plurilateral trade agreements that put the same commodities under diffferent tariffs and tariff reduction trajectories.

Most importantly, it raises questions as to the accession process for new TPP members in the future. If all TPP states successfully negotiate plurilateral market access schedules while the U.S. relies on a series of bilateral agreements, rather than a common tariff schedule to regulate market access and trade liberalization, how will these two tracks be reconciled in the final document? If both approaches are adopted, the accession process for potential TPP members will be much more difficult and complicated; instead of accepting one tariff schedule equally applicable to all TPP states, they will have to engage in bilateral negotiations with the U.S. Does that process, in essence, grant a veto power to the U.S. over admission of new members? It is definitely a factor that Beijing must consider.

Consultations over market access for goods seem to point to a process marked by active lobbying from sectoral interests. U.S. negotiators are under pressure from Canada, New Zealand, Australia and Vietnam, as well as some domestic interest groups, to liberalize trade in areas of dairy products, sugar, footwear and apparel, while U.S. producers are fighting against the attempt to expand market access. It is conceivable that there will be different ways for all parties to leverage demands and concessions for trade-offs as they strive to conclude the deal this fall.

It is interesting to note that in areas of the core disciplines of WTO agreements (i.e., intellectual property rights, service trades, investment, competition policies, labor rules and environmental regulations), as well as new and cross-cutting issues (i.e., state-owned enterprises and e-commerce), divisions are not necessarily drawn along lines of development (developed vs. developing economies), or regime (democracies vs. non-democracies). New Zealand and Australia have been active in challenging many U.S. positions and proposing alternative solutions. Even in cases when states are in agreement with the overarching principles, they have conflicts over enforcement and dispute settlement procedures. Dealing with new issues is especially challenging, for governments are cautious about agreeing to new rules and taking on new obligations that might restrict their policy space (Inside U.S. Trade, 2013). The “like-minded” states have not acted in concert to lend credence to a conspiracy theory at this point.

Congressional Support of the TPP

If the 29-Chapter TPP agreement is concluded on time, the scope and scale of trade liberalization will be unprecedented for the U.S. Agreements reached between the U.S. and TPP partners must be approved by Congress. Although Congress has not renewed the Trade Promotion Authority (TPA) (formerly known as “fast track”) since its expiration in 2007, the Obama Administration has proceeded to negotiate the TPP by following statutory obligations stipulated in TPA. Congress was notified of the Administration’s intention to enter into negotiations with TPP partners in December 2009, 90 days prior to the beginning of the negotiations, as required under the expired TPA. Nevertheless, 130 members of Congress, in June 2012, signed a letter to the U.S. Trade Representative asking for transparency in TPP negotiations (Johnson, 2013). Chief among their concerns was the lack of consultation with Congress, which is another stipulation for expedited legislative procedures. In contrast, Weisel maintained that the USTR has spent a great deal of time on Capitol Hill consulting with congressional committees to ensure that the U.S. approach in TPP reflects the consensus of Congress (Inside U.S. Trade, 2013). In June 2013, 36 Democratic freshmen in the U.S. House expressed reservations in a letter to party leadership about TPP negotiations and the prospect of delegating TPA to the President (Citizens Trade Campaign, 2013). The lack of formal action on TPA raises questions on the path forward regarding the TPP, especially at a time when Congress remains divided over other contentious issues such as budget and health care.

As to the attitude of the general public, there is yet a discernable trend in public opinion toward the TPP, due to the lack of news coverage of the negotiations in the U.S. Yet, there may be stronger political support for the deal, if the TPP is framed as a free trade agreement between Japan and the U.S. According to Stokes (2013), in a 2009 survey, 67% of Americans indicated a favorable impression of Japan. A 2010 survey revealed that 60% of Americans favored increased trade with Japan, as compared to 58% for more trade with the European Union and 45% with

China. Given the distribution of the public opinions, TPP opponents will have fewer opportunities to politicize the issue.

China's Future Reforms

As noted by Feigenbaum & Ma (2013), there seems to be widespread pessimism about China's economic and social malaise. After the 18th National Party Congress in November 2012, the new leadership in China signaled its intention to engage in economic reforms. Liu He, head of the Finance and Economics Leadership Small Group of the Communist Party Central Committee, is in charge of drafting documents for the Third Plenum of the 18th Party Congress (Naughton, June 6, 2013), to be convened in November 2013. As an expert in industrial policy and chief architect of China's Twelfth Five-Year Plan (2011-2015), Liu is likely to produce a top-level design and comprehensive plan with a clear roadmap and timetable for structural reform.

Although the detail of the plan is yet to be fully revealed, it may touch upon a wide range of issues, including financial liberalization, the fiscal system, factor prices, land use, administrative controls, monopolies, income distribution and the household registration system (Huang, 2013). Even though state-owned enterprises are not on the agenda for reform at the upcoming Plenum meeting (Buckley, 2013), reform proposals inevitably will affect the vested interests of these state conglomerates. Measures to roll back state control on prices of energy and natural resources, encourage market competition in sectors currently dominated by government, or allow bank rates to be regulated by the market, all involve challenging the dominant position of state-owned enterprises that are generally considered corrupt and inefficient.

Can Chinese political leaders reach agreement on the pace, focus and sequence of reforms? Will the ambitious agenda generate strong enough political support? Can reforms and reformers survive the expected pushback from state-owned companies, state-owned banks, and local governments? The situation faced by reformers may be very similar to the situation prior to China's entry into the WTO. Will the Chinese political leadership resort to similar WTO strategies and tactics to overcome resistance in 2013?

In the face of strong, entrenched resistance from state planning organizations, state-owned enterprises, trade corporations, and local governments, how did leaders such as Jiang Zemin and Zhu Rongji proceed to move forward with the WTO process? Simply put, reformers led by Premier Zhu sought to engage in a reversed "tying hands" strategy (Yee, 2004: 138) to overcome domestic opposition. WTO membership was seen by most analysts as a strategy used by reformers to press forward with their domestic agendas and international commitments (Yee, 2004; Lai, 2001; Pearson, 2001; Kim, 2002; Fewsmith, 2001). WTO accession could force the "old" economy to change via stringent WTO requirements and rules that presumably would make the Chinese economy more efficient and competitive. WTO negotiations and concessions provided reformers with a convenient political cover to prevail over domestic opposition for much needed market reforms. According to many analysts, China's WTO entry was one component of a broader attempt to legitimize the painful transition to the "new" economy at the expense of the "old" one.

Can the TPP agreement provide a similar platform for Xi Jinping and Li Keqian to engage in economic reform, as the WTO did for Jiang and Zhu? If Xi and Li are firmly in control to push for proposed economic restructuring and liberalization in the wake of the Third Plenum meeting, then China may proceed with its reform agenda at its own pace. If the attempted reforms stagnate, it is possible that the TPP could be reframed as an opportunity to achieve economic liberalization and restructuring, especially if it gains enough traction in Asia Pacific, and if it begins to connect to the “Transatlantic Trade and Investment Partnership” (TTIP) with the European Union.

Conclusion

The U.S.-China connection is one of the most important bilateral relationships in today’s world, and the TPP can potentially have a profound impact on that relationship. At this point, there is much uncertainty as to whether negotiations will conclude in October 2013 as scheduled and what the final document will eventually contain. If negotiators are able to reach an agreement on time and if the deal is acceptable to Congress, it will build momentum for re-energizing or even replacing the WTO Doha Round, and will help establish high-quality, 21st-century trade regimes from the ground up.

It seems that the TPP represents a retooling of the U.S. trade policy of “competitive liberalization” to disseminate the rules and standards that form the basis for emerging global economic order, rather than an attempt to redirect trade or investment flows. It is, in fact, a part of the broad and comprehensive effort to shape the global trade regime, parallel to the similar initiative on the transatlantic side. Nevertheless, there is no doubt that some of the rules established by the TPP may impose constraints on the business practices and behaviors of some Chinese enterprises, which brings forward the concern of containment. As the negotiation outcome of the TPP unfolds and as Chinese leaders begin to engage in their own reforms, they may reassess the cost of inclusion and exclusion regarding the TPP, and may even find some TPP standards helpful for accelerating internal reform.

As one of the most ambitious trade initiatives undertaken by the U.S. in recent years, much is at stake regarding the future of the TPP. Besides the practical implications for policy discussion, the TPP can shed more light on interactions between markets and states in a globalized economy—a subject that is certainly worth further exploration.

Table 1 U.S. Investment in Selected Asian Pacific States, 2007-2012

	2007	2008	2009	2010	2011	2012	
TPP States							
Australia	10,122	10,158	4,453	19,877	12,561	22,063	
Brunei	5	1	57	42	-5	17	
Canada	22,331	12,293	14,342	17,594	46,680	26,304	
Chile	4,402	3,099	1,892	4,611	4,192	4,498	
Japan	15,721	-1,656	11,138	917	481	4,016	
Malaysia	2,062	819	847	2,730	776	2,467	
Mexico	9,798	4,521	7,100	825	7,751	12,628	
New Zealand	67	-906	945	499	599	625	
Peru	679	-577	1,035	805	1,249	1,624	
Singapore	14,003	8,572	4,880	15,501	10,159	15,026	
Vietnam	-55	23	166	68	166	104	
Non-TPP States							
China	5,243	15,971	-7,512	5,420	-1,087	-3,482	
Indonesia	2,925	1,750	1,000	315	2,031	1,536	
S. Korea	821	2,157	3,200	2,745	3,683	2,406	
Philippines	-2,274	19	-203	703	232	77	
Taiwan	1,051	4,153	462	1,435	-571	332	
Thailand	1,198	-97	1,094	2,643	1,792	2,323	

(Data source: Bureau of Economic Analysis, U.S. Department of Commerce, www.bea.gov)

Table 2 Trade Relations between TPP States and China, 2010-2012 (unit: $ billion)

	Import from China 2010 (% of Total Imports)	Import from China 2011 (% of Total Imports)	Import from China 2012 (% of Total Imports)	Export to China 2010 (% of Total Exports)	Export to China 2011 (% of Total Exports)	Export to China 2012 (% of Total Exports)
Australia	35.26 (18.7%)	43.45 (18.6%)	46 (18.4%)	52.31 (25.3%)	73.8 (27.4%)	75.84 (29.6%)
Brunei	--	--	0.41 (11.5%)	--	--	0.35 (2.7%)
Canada	43.24 (11.0%	48.65 (10.8%)	50.76 (11.0%)	12.85 (3.3%)	16.98 (3.8%)	19.36 (4.3%)
Chile	9.96 (16.8%)	12.7 (17.0%)	14.43 (18.2%)	17.28 (24.4%)	18.6 (22.8%)	18.22 (23.3%)
Japan	153.15 (22.1%)	183.88 (21.5%)	188.43 (21.3%)	149.46 (19.4%)	162.04 (19.7%)	144.21 (18.1%)
Malaysia	20.68 (12.6%)	24.71 (13.2%)	20.68 (10.5%)	25.06 (12.6%)	29.82 (13.1%)	28.73 (12.6%)
Mexico	45.61 (15.1%)	52.25 (14.9%)	56.94 (15.4%)	4.2 (1.4%)	5.97 (1.7%)	5.72 (1.5%)
New Zealand	4.81 (15.9%)	5.79 (16.0%)	6.22 (16.3%)	3.43 (11.1%)	4.65 (12.4%)	5.53 (14.9)
Peru	5.14 (17.1%)	6.32 (16.7%)	--	5.43 (15.4)	6.96 (14.9%)	--
Singapore	33.67 (10.8%)	38 (10.4%)	39.17 (10.3%)	36.35 (10.3%)	42.68 (10.4%)	43.91 (10.8%)
U.S.	382.95 (19.5%)	417.3 (18.4%)	444.41 (19.0%)	91.88 (7.2%)	103.88 (7.0%)	110.59 (7.2%)
Vietnam	20.2 (23.8%)	24.87 (23.3%)	--	7.74 (10.7%)	11.61 (12.0%)	

Data: UN comtrade (http://comtrade.un.org/db/default.aspx)

Table 3 Key Differences between the U.S. and other TPP Partners

	U.S. Position	Other TPP State Positions
Market Access	To maintain existing bilateral FTA tariff schedules; To extend market access offers only to countries currently without an FTA with the U.S.	Australia, Brunei and New Zealand: to negotiate a common tariff schedule applied to all TPP states
Dairy	To limit New Zealand's access to the U.S. dairy market; To eliminate Canada's tariff-rate quotas in dairy products to secure free market access; To gain market access to Japan; To enforce food safety and health rules	New Zealand: to seek broad liberalization of dairy trade and openings into U.S. and Canadian markets; Malaysia: to seek access to the U.S. market for dairy products
Sugar	Facing conflicting pressure from food manufacturers and sugar producers and processor on the sugar market access	Australia and Malaysia: to seek access to the U.S. sugar market
Agricultural competition	To oppose adding food aid disciplines in the TPP	Australia and New Zealand: to seek disciplines on use of export subsidies, official export credits and food aid in agricultural sectors
Rules of Origin (ROO) for textiles and apparel	Facing conflicting pressure from U.S. producers (favoring restrictive ROO) and retailers and distributors (supporting more liberal ROO)	Vietnam and Malaysia: to secure more liberal ROO; Mexico and Peru: to support more restrictive ROO
Intellectual Property Rights	To expand protection beyond the WTO Trade-Related Aspects of Intellectual Property (TRIPS);	New Zealand: to advocate a WTO "TRIPS-aligned" position
Patent Protection for Pharmaceuticals	To use the stricter KORUS FTA template, offering strong protection to pharmaceutical companies in patent linkage, patent term extension, and data exclusivity if they file for marketing approval within an access window; To demand greater transparency	New Zealand and Chile: to advocate a "TRIPS-aligned" position; Peru: unwilling to accept any obligations beyond the Peru-U.S. FTA New Zealand: to demand reciprocal concessions by the U.S. to federal or state-level drug pricing or reimbursement programs

	in national drug reimbursement programs	
Copyright Protection	To advocate for a significant extension of the protection period available in TRIPS; To seek a prohibition of parallel imports; To hold an internet service provider (ISP) liable in some cases for infringement of content by ISP users; To impose criminal charges for counterfeiting even if no commercial gain is at stake	Australia and others: to oppose longer copyright periods due to the significant cost increase; Singapore and New Zealand: to allow parallel imports; Canada: to only require the ISP to provide notice to a user infringing on content; Singapore, Australia and New Zealand: to impose criminal penalties only if violations involve financial gain
Foreign Investment	To include an investor-state dispute settlement provision, allowing private foreign investors to seek international arbitration against host governments to settle investment-related claims	Australia: to maintain the AUSFTA position that did not have an investor-state dispute settlement mechanism
State-owned Enterprises	To achieve "competitive neutrality" and ensure that public entities do not have unfair competitive advantages over private enterprises in financing, regulation and transparency; To limit the target of disciplines at the national/federal level	Australia: to expand the target of disciplines to include sub-national SOEs Singapore: to avoid putting Temasek, Singapore's investment holding company, in a disadvantageous position relative to private actors Vietnam: to protect its own SOEs that account for 40% of its GDP
Labor	To uphold International Labor Organization principles; To implement labor laws related to minimum wage requirements, work time, and occupational health and safety.	Vietnam and Brunei: to resist resolving worker rights issues through TPP dispute settlement procedures
Environment	To include commitments to environmental protection and conservation; To reduce or eliminate tariffs on listed environmental goods and services; To enforce environmental provisions through binding dispute settlement procedures	Some TPP states: to generally support environmental provisions, but resist resolving environmental disputes through TPP dispute settlement procedures
E-commerce	To seek equal treatment for digitally delivered goods and	Australia: to give government more discretion to control cross-border data

	services; To eliminate tariffs and non-tariff barriers on digital media; To prevent countries from blocking cross-border data transfers; To oppose localization requirements for data storage or server locations	flows; Australia and New Zealand: to maintain local data storage for privacy protection; Vietnam and Malaysia: to maintain local content restrictions
Government Procurement	To seek inclusion of government procurement provisions ; To negotiate access commitments for central government procurement before addressing sub-federal or state-level commitments	Malaysia and New Zealand: to maintain certain government procurement preferences for some ethnic groups Canada: to obligate sub-federal entities to open procurement projects funded by a central government

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