



China and the Trans-Pacific Partnership

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Outline

- What is the TPP?
- The US and platinum standards
- Australia's role and interests
- Region's priorities and the TPP agenda
- Towards an inclusive agreement
- China's membership?

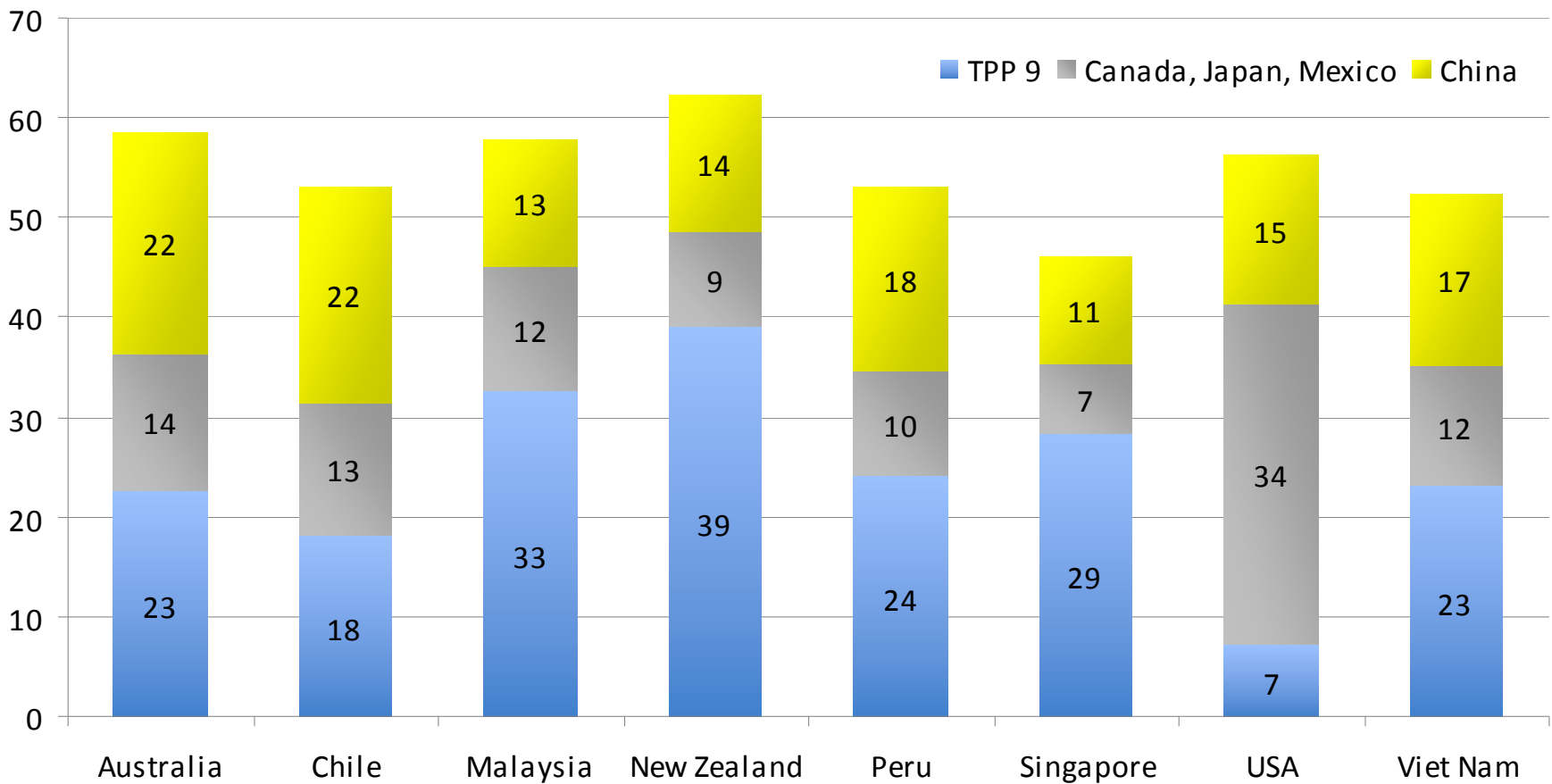
The Trans-Pacific Partnership

- Started with the P4: Chile, NZ, Singapore and Brunei
 - Easy accession
 - No chapter on investment
- US decision to join in 2008 pre-Obama; Australia soon after.
- Aims to be a 21st Century trade agreement
 - high quality: exclusion free
 - beyond traditional trade issues
- Current 9 negotiating members: P4, US, Australia, Malaysia, Peru and Vietnam
- Interest from Japan, Mexico and Canada

Agenda priorities

- Solving overlapping FTAs (ROOs) that can restrict trade
- Comprehensive: include sensitive sectors with phase-in schedules.
- “Platinum” standards: IPR, SOEs, cross border data, labour and environment?
- Using the TPP to push domestic reforms?
 - Agriculture in Japan
 - SOEs in China
 - Only if put forward by member
- Need easy accession for new members

TPP member trade shares (% total trade)



Notes: data for 2010 (2009 for Vietnam), Brunei not shown; Source: UN Comtrade

The US and Platinum Standards

- Important agreement for US: main economic policy strategy towards Asia for Obama
- Lock in trade partners in Asia: “avoid a China dominated Asia”
- Define the rules for trade in Asia: platinum standards
- Current members 7% of US trade, 12% if Japan joined
- TPP potential lies in expanding membership
- Slight problem: sugar off the table from start

Australia and the TPP

- Recent shift away from preferential trade? PC report and Trade Policy Statement
- Greater market access than AUSFTA? US sugar, beef
- A way forward on FTAs or regionalising bilateral FTAs?
- US platinum standards difficult for Australia (copyright, pharmaceuticals in AUSFTA). Others?
- Political and strategic motivation: Keeping the US engaged

East Asia and Asia Pacific integration

- Market, not institution driven
- Deep trade integration on par with Europe
- Production networks
- Priorities now
 - Behind the border regulatory and institutional barriers
 - Residual border barriers
 - Entry of least developed into supply chains

Difficulties at the TPP starting line

- Negotiation with so many parties
- Timeframe
- Platinum standards and developing countries: Vietnam example
- Consolidation of bilateral FTAs difficult and not optimal
- US centred negotiating process
- Discriminatory trade inconsistent with *open regionalism*?

Accession for new members

- China, Japan, Korea, Indonesia to join after deal is done?
- Renegotiation of terms and conditions unlikely (difficult because of US Congress)
- Apply to join or by invitation only?
- Want a clear set of criteria for automatic accession/membership once met

Uniform agreement at risk

- Bilateral deals within the TPP?
 - Australia, New Zealand and Brunei offering common market access schedules
 - US negotiating market access bilaterally
- Bilateral deals to avoid renegotiating existing exclusions: eg sugar
- Gives bargaining power for US vis-à-vis Malaysia, Vietnam, NZ
- Don't want a noodle bowl within a noodle bowl
- Without uniform, common schedules, very difficult for others to join: negotiate one by one.

China's membership

- China's membership is key: role in regional economy
- Engage China in shaping rules of trade, not enforce from outside
- Debate in China:
 - Join to strengthen reform (WTO example) and shape TPP
 - Carry on with reforms independently
 - Ask to join and risk losing face?
- IPR, labour standards, SOE issue: watch Vietnam
- Can help with Chinese reforms...but only if China proactively engaged in agenda setting

China targeted? Anecdotal evidence

If TPP develops into some crude anti-China or China-containment exercise, let me put it in everyday language, we're out of here.

-Tim Groser,
NZ Trade Minister



And we'll be through the door with the Kiwis

- Craig Emerson,
Australian Trade Minister



We drafted the SOE chapter specifically aimed at China

- USG advisor

USTR officials were pretty clear and told us not to apply

-Chinese academic

Worst case scenario for TPP

- Inward looking agreement
- Adds to the noodle bowl mess
- Economically insignificant and full of exclusions
- Platinum standards punitive and divisive?
A veto on potential new members?
- Further weaken global trading system...

Way forward

- Tariffs: common schedules and then multilateralise; or reduce MFN rates
- Long phase-in schedules for sensitive sectors
- Services trade: extend preferential accords to others
- Platinum standards: water down and recognise stages of development

Strategic response

- TPP a US response to EA regionalism
- TPP could cut China out
- Movement on EAFTA, CJK, ASEAN+1 template
- Combining EA process and TPP difficult given problems in combining FTAs
- Protecting and strengthening global trading system, not undermining it with blocs

Current state of play

- Framework delivered on sidelines of Honolulu APEC
- Now goal of end 2012
 - Likely? Election year in US
 - Shouldn't be rushed, better to get a high quality deal
- Japan having trouble; signs rice could be excluded (rice excluded in KORUS)
- US pushing to get bulk of deal settled in next 2-3 months so Japan et al sign on to 'done' deal

Conclusion

- Regional economic integration that furthers global economic integration
- Multilateralise preferences over time
- Focus on integration priorities, not platinum standards
- Need a TPP designed for easy accession
 - Uniform agreement
 - Clear set of criteria to join