True partnership must include China

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time, the Trans-Pacific Partnership (TPP) agreement is now moving to the heart of the world trading system, thanks to the United States. Before long, the TPP will comprise most major economies in the Asia Pacific to form the world's largest free trade area, one that might fundamentally change the world economy.

But China is excluded at this stage of TPP negotiations. Considering that China is the world's second-largest economy and its largest exporter, this presents a peculiar arrangement. But it is less surprising in the geopolitical dynamic, where the TPP is part of a larger drama styled on "The Empire Strikes Back". The US, after being distracted by the "War on Terror" for a decade, re-engages Asia and solidifies its dominance in this region by handling, or more provocatively, containing a rising China.

The TPP represents to some extent the backlash of China's own long-standing regional policy. In the past decade, China was trying hard to nurture economic integration in Asia by fending off the US. China successfully concluded an FTA with South-east Asian countries, which came into full effect in January last year as the world's third-largest FTA. China advocates an Asean+3 (China, Japan, South Korea) framework of East Asian regionalism, excluding non-Asian countries such as the US.

This policy might have geopolitical purposes, but its exclusiveness will look less disturbing if the following two reasons are understood: First, economic integration always starts from a geographic region. Second, when regionalism was gaining ground in Asia, the US did not indicate any interest to join. Mr Barack Obama was the first American president who bothered to attend the East Asia Summit, only because of this year's change of priority in US foreign policy.

Excluding China from the TPP is, however, both justified and dangerous. It makes no sense to exclude the most important trading partner of almost every TPP country. And a TPP without China seriously threatens China's regional and global interests. If China does not launch any form of "damage control", the TPP could lead to the collapse of China's preferred Asean+3 framework. An isolated China could also face higher barriers in its trade with TPP members.

More significantly, if the TPP evolves into a "value-based" community, it will very likely become a Cold War-style geopolitical tool to contain China, at least from the viewpoint of the Chinese. Nationalist rhetoric rose in China after Japan declared its intention to join the TPP during the recent Apec summit, and many Chinese felt that the TPP would squeeze China out of Asian economic integration.

It is unlikely that China will silently accept being contained by a US-dominated TPP. It can be expected to take countermeasures to minimise the TPP's negative effect on its economy and security. One thing China is now arranging is to have more FTAs in Asia and globally. At the recent East Asia Summit, China secured an agreement with Japan and South Korea to start negotiations for a "high-level" North-east Asia FTA.

Although the US might find this undesirable, China is in a position to offer economic concessions that Japan and South Korea might find difficult to resist. Japan and South Korea might actually like to lock China in a trade agreement for security purposes. China might also accelerate its FTA negotiations with existing TPP participants, at least three of which have their own FTAs with China. A China-Japan-South Korea FTA and several bilateral FTAs with TPP members could undermine the TPP's impact.

Along with its FTA strategy, China might slow down liberalising its economy, keeping more bargaining chips for its FTA negotiations. The US excludes China from the TPP yet it attempts to prise open the Chinese market through bilateral forums such as the US-China Strategic and Economic Dialogue, in which China offers unilateral concessions in most cases. China might no longer do this if it feels isolated outside the TPP.

If China takes defensive measures, a likely consequence would be to divide the region. Smaller East Asian economies will have to be very cautious not to take sides between the US and China, although sometimes they might be economically or politically forced to do so. Parallel FTAs, such as the TPP and those signed by China, would lead to further fragmentation of trade in Asia and in the world.

China is too important to be ignored and too large to be contained.Containing or ignoring China through the TPP is both unreasonable and unrealistic—China should be involved in the TPP as soon as possible. Joining the TPP could generate the "second opening" of China after the country's World Trade Organisation accession. Otherwise, China and the US could fall into an unnecessarily costly, Cold War-style rivalry in the region.

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