

US Withdrawal from the Trans-Pacific Partnership: Prospects for China

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Abstract

Underneath the first executive stroke exercised by President Donald Trump, the US has withdrawn the Trans-Pacific Partnership (TPP). Trump has his own logic of resurrecting the US economy, creating more jobs, protecting industries, arresting currency devaluation by the Asian countries and banning the corrupt practices of dumping cheap imports from the Asian trading partners, notably by China. However, the Asian partners think otherwise. They were demanding for the great opportunities offered by the US market and consumers. For them, the US withdrawal is a severe setback to the robust economic ties with the US and for the multilateral Free Trade Agreements (FTAs) in the Asia-Pacific region. As the TPP was considered to jointly target the Chinese economy by the 12 partners. On the contrary, the US withdrawal, furnished with an unprecedented leverage to China to continuously grow in the 21st century and to overcome its economic slowdown while further expanding its economy.

Keywords: Trans-Pacific Partnership (TPP), Regional Economic Cooperation Partnership (RECP), US Economy, Chinese Economy, Trade Partnership, Asia-Pacific.

Introduction

The Trans-Pacific Partnership (TPP) presented a complex situation among its members, especially vis-a-vis the US. The political atmosphere within the US was not genial altogether and, hence, the change of administration made a drastic decision to withdraw from the agreement to save the interests of the American workers, consumers and entrepreneurs. Therefore, it is pertinent to review as to why the Trump administration decided to quit the TPP. There was a prevailing understanding among other 11 members of the TPP to take advantage of the agreement and to explore the American market

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to make profit. They agreed to it and devised such marketing strategies for the long-term. However, Trump's decision to withdraw from the TPP left them in lurch and indecisive. As regionalisation gained momentum after the 1960s and multilateral arrangement were followed by a number of nations to enhance economic cooperation within respective blocs. However, an emerging protectionism looks inevitable, confusing many nations, particularly, the countries joined the TPP. The reaction of China toward the US withdrawal from the TPP was largely misconceived by many nations as they thought that it would join the lead. The scholars made comments asking China to take the advantage of the US absence in the TPP but China gave a different and calculated response.

The following mentioned four questions will be posed in this paper to ascertain the above assumptions:

- i. Why did the Trump administration withdrawn from the TPP?
- ii. How did other partners react to the US withdrawal?
- iii. Is the US withdrawal also the end of emerging trading blocs?
- iv. What are the opportunities for China after the US withdrawal from the TPP?

US Withdrawal from TPP: Causes

The TPP was signed by 12 countries: Australia, Chile, Mexico, Singapore Brunei, Japan, New Zealand, Canada, Malaysia, Peru, Vietnam and the US, in the grouping in Auckland on February 4, 2016. So far, Japan and New Zealand are the countries which have completed their domestic ratification process. Japan has already submitted its instrument of ratification on January 20, 2017.

Trump's view is that the TPP would be detrimental for jobs prospects in the US and the outflow of capital resources to the other TPP countries as well as will damage the American industry. The US wanted to make a trade deal with the individual countries on bilateral basis if deems necessary. The Trump administration has no faith in multilateral trade negotiations and arrangements. Trump realised that the US trade, pivoting to Asia, was faulty and raised concerns for its interests and that the TPP could not be a tool to enhance the American influence in Asia-Pacific. To critics, Trump's decision inverted the old practice of trade protectionism to secure the

American market for its consumers and workers. They believed that the implications for the US withdrawal from the TPP could have a positive impact upon the employment prospects in the US and the country's economic growth.¹

The US withdrawal from the TPP was a major setback to the emerging trading blocs. The basic purpose of the regional economic blocking is to create free trade among the member countries. It is a hefty step towards globalisation and integration of the world economies. The European Union (EU), Association of the South East Asian Nations (ASEAN) and North America Free Trade Area (NAFTA) have developed successful regional economic blocs and nurtured influences. The South Asian trade regionalism is a sorry tale of affairs. The Shanghai Cooperation Organisation (SCO) is making strides. Free trade is not free but it is governed by certain fixed and approved rules of business framed by the few influential members to offer concessions and remove the barriers. The TPP began as an expansion of the Trans-Pacific Strategic Economic Partnership Agreement (TPSEP) signed by Brunei, Chile, New Zealand and Singapore in 2005. Later on, other countries have also shown interest to join the body. The TPP was formed on February 4, 2016, in New Zealand by 12 countries after several years of negotiations that were completed in 2012. The Philippines, Thailand, Indonesia, Taiwan, South Korea and Colombia were the potential members.

On January 23, 2017, President Trump signed the executive order to permanently withdraw from the agreement and its negotiation process. The presidential order pointed out that the bilateral trade agreement will be negotiated by the US. This also indicated the withdrawal of multilateral negotiations on trade by the Trump administration, which was aimed at promoting the US industry and the workers' wages and their interests.

Criticism

There is a huge criticism on Trump's decision to withdraw from the TPP. The critics think that Trump made decision in favour of protectionism while depriving the country of the potential benefits in the 11 major markets of the Asia-Pacific region. His decision fell against the parameter of openness of

¹ Joshua P. Meltzer and Mireya Solis, "The High Costs of Protectionism," Brookings blog, February 7, 2017, <https://www.brookings.edu/blog/order-from-chaos/2017/02/07/the-high-costs-of-protectionism/>

trade. Apart from this, he lost healthy competition and promoted monopolies. To them, this will not help recover the lethargic economic growth of America.

The critics also think that a slight decrease in job market for the American workers can result into a huge increase in US manufacturing and other opportunities.² This is the “re-balancing of the re-balance” and an end to pivoting the Asia-Pacific. It also shows America’s disengagement while protecting its own interests first, rather than helping its allies out. The Trump administration’s decision was based upon protectionism but today it is not protectionism rather competitiveness that actually works. The American market should be opened to receive the benefits of acceptance and openness of trade to invite innovation and to end the monopolies under the pretext of protectionism. Openness reduces the cost of production and enhances purchasing power of a nation. Trump’s decision to dismantle the TPP, buried all such chances of a successful restructuring of the US economy.³

Chain Reaction

The TPP is effectively dead. All other 11 partners strongly reacted to the US decision of withdrawal from the TPP. Across the Pacific, Canada, Peru, Chile and Mexico felt betrayed by the US withdrawal from the TPP. In the ASEAN region, Singapore, Malaysia, Brunei and Vietnam strongly reacted against the US withdrawal from the TPP. The Oceanic nations such as Australia and New Zealand received a setback, too. Above all, Japan suffered the most as it is a close US strategic partner.

The first reaction came from the Australian Prime Minister, Malcolm Turnbull, in a telephonic conversation with the Japanese Prime Minister, Shinzo Abe, with the former suggesting to revise the TPP without the US participation, and possibly, by including China. However, Japan turned down the proposal, stating that without the US the TPP deal would be

² Ibid.

³ Mireya Solís, “Trump Withdrawing from the Trans-Pacific Partnership,” Brookings Institution, Washington, March 24, 2017, <https://www.brookings.edu/blog/unpacked/2017/03/24/trump-withdrawing-from-the-trans-pacific-partnership/> and Peter Bakerjan, “Trump Abandons Trans-Pacific Partnership, Obama’s Signature Trade Deal,” *New York Times*, January 23, 2017.

meaningless as the fundamental balance of interests would be lost without the US.⁴ Turnbull also spoke with the leaders of New Zealand and Singapore to save the deal among the 11 remaining members. The Australian Trade Minister, Steven Ciobo, said that Australia, Canada, Mexico and others explored the concept of a “TPP 12-Minus-One” — the pact without the US.⁵ His attempts, however, did not gain much acceptance.

Over all, the US withdrawal from the TPP has been taken negatively as its exit from the TPP was a blow to its global leadership in determining the rules for international trade and investment in the Asia-Pacific region. The trust, achieved with the Asian nations on a number of important economic, political and security issues, was also lost. Given these developments, it will be difficult to regain their trust again, when there is a need to do so. The US also lost the diplomatic leverage. The Asian partners might not trust a changing attitude of the American policy-makers. The rebuilding of the trust will be very difficult now.

Table No. 1.
Trade of the TPP Members to the US (US\$ Million)

Countries	Exports	Imports	Total
Australia	10,155	24,190	34,345
Brunei	2,891	60,412	63,303
Canada	364,480	251,058	615,538
Chile	9,332	14,277	23,609
Japan	130,571	73,057	203,628
Malaysia	19,708	16,016	35,724
Mexico	318,366	195,278	513,644
New Zealand	3,880	4,933	8,813
Peru	6,198	8,873	15,071
Singapore	24,247	37,876	62,123
Vietnam	28,656	6,284	34,940

Source: “Direction of Trade Statistics” International Monetary Fund (IMF), 2015.

The US is the largest economy of the TPP, heaping up to over 60 per cent of the total. The largest trading partners of the US in the TPP are Japan,

⁴ Reiji Yoshida, “Tokyo Turns Down Australian Proposal for TPP without US, Vows to Keep Pushing Trump,” *Japan Times*, January 24, 2017.

⁵ Ibid.

Canada and Mexico respectively, taking over US\$1.3 trillion trade in 2014. Japan is the third largest trading partner of the US in this bloc and it is the second largest economy after the US, amounting up to 17.7 per cent of the TPP economies.⁶

The countries that would be most affected by the US disengagement from the TPP are Canada and Mexico, which exported around US\$682.8 billion of goods to the US in 2014. Apart from these two countries, Japan was the third underdog of capturing the US market as it exported goods worth US\$130.5 billion in the same period.⁷ These countries are also bound with the US in the broader framework of NAFTA. Therefore, the US withdrawal from the TPP would not be so detrimental to them. However, other countries in East Asia might retaliate not to make excessive imports from the US in the post-TPP era especially by Brunei and Japan.

Growth prospects of 11 members of the TPP became dim after the US's dismissal of the agreement. Many of these countries geared up strategies to boost exports and growth once the TPP comes into force. To their disappointment, Trump's decision of revoking the agreement negatively, impacted upon their growth strategies. Japan wanted to address its deflation. In this regard, Prime Minister Abe devised the "Abenomics" to put the Japanese economy on the track but these prospects have also become dimmer with no TPP in effect. Japan has to search for some other strategy but with the presence of a strong Chinese economy, efforts might not go easily. Abe continued to convince Trump to endorse the TPP during his meetings with Trump in Washington and Florida but all these efforts were in vain.

Disappointed by Trump's decision, the Canadian Prime Minister, Justin Trudeau, wanted to improve trade with China and Japan realising the importance of the Asian economies.⁸ The TPP breakdown was a "missed opportunity" for Malaysia as stated by the Minister of International Trade and Industry, Malaysia, Datuk Seri Mustapa Mohamed.⁹

⁶ "Direction of Trade Statistics," International Monetary Fund, Washington, 2015.

⁷ Ibid.

⁸ "Canada to Seek Increased Trade with China, Japan after Death of TPP," *Jamaica Observer*, January 24, 2017.

⁹ Rupa Damodaran, "TPP Breakdown a 'Missed Opportunity' for Malaysia, says Mustapa," *New Straits Times*, January 24, 2017.

A consensus is developing among 11 members of the TPP to invite China and South Korea to discuss how to proceed in the bloc after the US exit. China and 15 other Asia-Pacific Rim countries have been negotiating the Regional Comprehensive Economic Partnership (RCEP) agreement, since 2012.

Prospects for China

Leaving the TPP also undercuts the US leverage over China.¹⁰ The TPP, in fact, provided opportunities to the US to influence global trade, to pursue its agenda, and to enhance a strategy for the Asia-Pacific region.¹¹ However, now after the US failed to ratify the TPP, these opportunities seemed to have come to a halt. China believes in free-trade, openness, globalisation, integration and shared destiny.¹² China's trade with this region has increased while America's trade has decreased between the years 2000-2015, according to a World Bank report.¹³ Almost all the TPP members have strong trading links with China. China had already signed bilateral trade agreements with New Zealand, Peru, the ASEAN countries and Australia, besides negotiating bilateral deals with Japan and South Korea.¹⁴

Most of these countries are now inclined toward China for a trade partnership. They are trying to invigorate the stalled RCEP, involving the ASEAN Plus six Asia-Pacific countries. However, in the Asia-Pacific region, China is fervently opposed by Japan to push the Chinese economy in the backyard. On the other hand, China has not cleared out its position yet it is understandable that it is still not eager to fill the economic vacuum and political opportunity provided after the US withdrawal from the TPP. So, it

¹⁰ Meltzer and Solis, "The High Costs of Protectionism."

¹¹ Earl Anthony Wayne and Oliver Magnusson, "The Death of TPP: The Best Thing That Ever Happened to China," *National Interest*, January 29, 2017. See also Jon Sharman, "China 'Could Replace the US' in Trans-Pacific Partnership Trade Deal, says Australian Diplomat Indonesia also Named as a Potential New Member," *Independent*, January 24, 2017.

¹² Jeffrey Kucik and Rajan Menon, "China will Miss the TPP: Why Beijing shouldn't be Celebrating," *Foreign Affairs*, February 6, 2017.

¹³ Quoted by Wayne.

¹⁴ Bo Zhiyue, "TPP not very Attractive but still a Major Opportunity for China," *Channel News Asia*, June 6, 2017, <http://www.channelnewsasia.com/news/asiapacific/commentary-tpp-not-very-attractive-but-still-a-major-opportunity-8921344>

is treading carefully. Perhaps, it does not want to get into this struggle to control trade and rewrite rules of trade and to enter into competition and rivalry with Japan and other potential threats to contest for the control of trade in the Asia-Pacific region. Among various other trade pacts, China is not even vigorously pursuing the RCEP after the obituary of the TPP.

Opportunities for China are mixed and come with certain constraints regarding the TTP. China appeared to be “reluctant opportunist” to reap the benefits of the US absence in the TPP. China is probably not interested in agreeing on a pact that originally opposed it. As the TPP members approached China, it became defensive to defend the TPP as China was excluded and targeted in the TPP. China was the first victim of the TPP but “the fire was missed as the gun was withdrawn.” The purpose was to curtail the rise of China and to make a comprehensive network of countries targeting the smooth rise of the Chinese economy as it was already slowed down by 2015. For China, the US withdrawal from the TPP was “blessing in disguise” and it provided innovative and fresh opportunities to China. The US withdrawal eventually turned away from the trap, which was created to damage the Chinese economy by constructing potential barriers against its trade rise in the Asia-Pacific region. The grounds for the Chinese optimism in the TPP were less attractive for it to accept.

Although China is the advocate of the free economy, its ideological perspective in this realm is still different from other TPP members, especially when it comes to protect the Chinese companies and their interests. More importantly, the agreement contained at least one chapter of the new trade and investment rules that China was unlikely to accept: the provisions on State-Owned Enterprises (SOEs) and their designated monopolies.¹⁵ China is not going to accept such provisions in haste.¹⁶ The SOEs are a fundamental pillar of China’s socialist market economic system.¹⁷ More than 100,000 SOEs are estimated to contribute from 40 to 50 per cent to China’s non-agricultural Gross Domestic Product (GDP). Furthermore, many of the largest Chinese companies are state owned — 76 out of the 98 Chinese firms listed in the 2015 Fortune

¹⁵ Victor Ferguson, “Why China won’t Save the TPP,” *East Asia Forum*, February 11, 2017.

¹⁶ *Ibid.*

¹⁷ *Ibid.*

Global 500 are the SOEs.¹⁸ The SOEs would come in close competition with the Medium Size Enterprises (MSEs) in the 11 TPP members.¹⁹ The TPP requires that the SOEs do not receive subsidies for international business expansion.²⁰ However, China's 150,000 SOEs form the bedrock of the Chinese economy, and most of China's largest companies are SOEs.²¹ If China joins the TPP with the condition that the Chinese SOEs are allowed to operate with no restrictions, the SMEs from the other TPP countries would be drastically disadvantaged.²² Labour issues, climate, environment, unions and intellectual property rights are yet other issues. In this sense, it is expected that Beijing would not like to tailor the TPP rules according to its interests. It is much better for Beijing to keep itself completely away from the TPP rather than entering into a controversial debate with the 11 TPP members. This would also disrupt the existing pattern of trade between China and the 11 TPP members that largely favour trade with respect to China.

China could dominate global trade differently, probably not on the pattern architected by the US. Indeed, the trade integration is a Chinese policy. In this perspective, China is putting more efforts on its Belt and Road Initiative (BRI) involving over 68 countries across the five continents. China has set up new financial institutions namely — the Asian Infrastructure Investment (AIIB) and the Silk Road Fund (SRF) — to enhance and integrate trade with a large number of Asian countries. At the BRI Forum, held in Beijing on May 14-15, 2017, China pledged at least US\$113 billion for funding its ambitious project.²³ The funds and membership of these financial arrangements are increasing. The AIIB would likely to have around 86 members including important Western partners such as Canada, Britain and Germany. The bank has various important projects in many countries that include Pakistan, India, Bangladesh, Indonesia, Myanmar, Azerbaijan, Tajikistan, Georgia and Oman.²⁴

¹⁸ Ibid.

¹⁹ Zhiyue, "TPP not Very Attractive."

²⁰ Ibid.

²¹ Ibid.

²² Ibid.

²³ Jane Cai, "Xi Jinping Rolls out Global Welcome Mat for New Silk Road Grand Plan," *South China Morning Post*, May 14, 2017.

²⁴ Sara Hsu, "The 'Lean, Clean And Green' AIIB is Ready for More Ambitious, Independent Projects," *Forbes*, July 10, 2017.

The BRI promises huge profits for China. It could do more trade and investment and export its capabilities under the BRI. Achieving that global consensus is more important rather than creating a trade bloc that would actually facilitate the Chinese access to the non-BRI members. The BRI and a potential trading bloc cannot go side by side. This was perhaps the main reason leaving behind Beijing in “capturing opportunity” vacated by the US by its own fault. The Beijing consensus is all-inclusive. China believes in openness and inclusiveness in trade. The BRI is an all-open and all-encompassing, which is a practical measure by China to reject the imprudent notions of limited trade bloc protectionism and the self-defined rules of business to benefit members and exclude others. The preferential trade policies and relative gains are against the spirit of the BRI and present the Chinese global trade policy. China’s gains are natural and they are not circumstantial based upon incidents like the fate of the TPP. To say that the US’s withdrawal from the TPP is a boon for China is not true.

Seeking power domination would be another potential weakness that could hamper the development of the BRI with the US and Japan taking the work to counter China’s rise. Asking China to take the TPP lead against this perspective would be a suicidal move for the Chinese economy. The policy response, so far, shown by Beijing is more pragmatic and hard-headed rather than quickly jumping into filling the TPP vacuum. A wise leadership in Beijing is more cautious than moved by the call of the some TPP members to replace the US and play its role within the pact. Their trade policies are changed but China remained adamant and set on its stand. This principled approach would later become China’s ultimate victory.

Prospects of RCEP

The US withdrawal from the TPP also sparked the debate on the RCEP. The RCEP could be one of the largest free trade syndicates in the world with a GDP of over US\$22 trillion (about 40 per cent of world trade) and a population of 3 billion (45 per cent of world population).

The RCEP faces challenges and members still differ on devising many rules. Some members are still reluctant to open their markets. India is the main offshoot in point, which has the highest tariffs among the RCEP

members.²⁵ India is reluctant to provide space to the foreign companies for the government procurement bids, which are roughly estimated to US\$300 billion annually.²⁶ The RCEP has the potential to become even greater than the TPP or any other regional trade bloc. The union is truly an Asia-Oceanic and geographically integrated unifying North East Asia, South East Asia, South Asia and Oceania. It was found that China would find itself at ease with the RCEP in the offing. With the TPP standing null and void, the RCEP emerged with brighter prospects. However, it is long way off as yet six members have not ratified the pact. China has also been not so keen towards the RCEP and taking advantage of this.

China has strong and favourable trading ties with the RCEP bloc. The total trade between China and the RECP members is over US\$1.2 trillion and with US\$619 billion exports and US\$677 billion imports with a net surplus of US\$58 billion (See Table No.2). South Korea, Australia and Japan make profitable trade in the RCEP bloc vis-a-vis China. Japan and South Korea take the lion share of US\$602.5 billion of this trade. South Korea's trade surplus vis-a-vis China is over US\$90 billion. Australia is the third largest trading partner of China in the RCEP bloc and enjoys a favourable surplus of US\$51 billion.

There is a link between the RECP and the strategic environment in East Asia. In spite of strong trading ties, there have been uncomfortable political and strategic relations. The mutual tussle is mounting over the deployment of the US-led Terminal High Altitude Area Defence (THAAD) missile system in South Korea.²⁷ Negotiations between China and South Korea might produce tangible outcome to resolve the issue. Similarly, China and Japan also need a breakthrough to revive their stalled ties since 2010, over the Senkaku/Diaoyu spade. Without the resolution of these edgy issues in North East Asia, the success of the RCEP is less likely to happen. Although, the regional trade is highly beneficial not only to China but also to a number of important trading

²⁵ Jincong Chu, "Regional Comprehensive Economic Partnership (RCEP): An ASEAN Point of View," *Fox and Hedgehog*, March 3, 2017, <http://www.foxhedgehog.com/2017/03/regional-comprehensive-economic-partnership-rcep-an-asean-point-of-view/>

²⁶ "RCEP Talks: India Stands Firm on Market Access in Govt Contracts, Rejects Binding Commitments," *Hindu*, August 2, 2017.

²⁷ Li Ruohan, "THAAD Deployment to Cause Grave Damage to China-S. Korea Relations: Expert," *Global Times*, August 1, 2017.

partners. The regional trade integration still appears to be a far cry and would consume more energy to materialise the bloc.

Table No. 2.
China's Trade with the RCEP Members (US\$ Million)

No	Country	Exports	Imports	Total
1	Australia	39,122	90,132	129254
2	Brunei	1,747	190	1937
3	Cambodia	3,276	481	3757
4	India	54,237	16,413	70650
5	Indonesia	39,073	24,589	63662
6	Japan	149,452	162,686	312138
7	Korea (South)	100,102	190,286	290388
8	Laos	1,848	1,761	3609
9	Malaysia	46,284	55,771	102055
10	Myanmar	9,375	15,578	24953
11	New Zealand	4,742	9,505	14247
12	Philippines	23,461	21,045	44506
13	Thailand	34,311	38,209	72520
14	Singapore	48,707	30,535	79242
15	Vietnam	63,618	19,928	83546
Grand Total		619355	677109	1296464

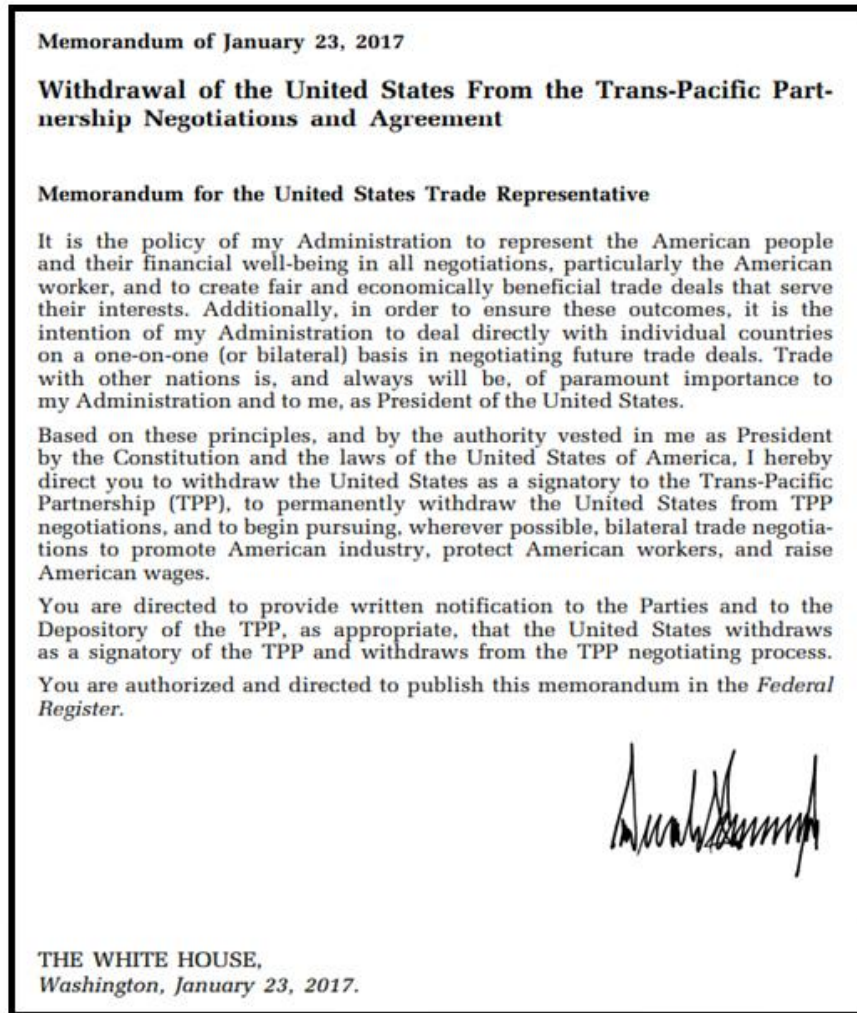
Source: "Direction of Trade Statistics," IMF, 2015, 177-180.

Conclusion

The TPP suffered a tragic fate after protected negotiations. The pact failed to create a new trading bloc across the Asia-Pacific region for which it struggled so hard. Instead of opening its market to Canada and the East Asian partners, the US decided to shut down this opportunity, fearing an excessive economic intrusion by the East Asian countries. The TPP is a lost opportunity for the 11 Asia-Pacific countries that was never materialised among its members. Against China's misperceived interest in the pact, it turned down the opportunity for a multitude of reasons within the logic of its own free-market mechanism. Furthermore, China is not inclined to grab the potentials benefits available in the pact because China has its own global grand trading strategy, which is not based upon short-term and narrow pursuits within a trading bloc or region. Under the flexible and loose trade integration, China has been offering a win-win inclusive opportunity to all

the regions across and beyond Asia under its ambitious project, the BRI. The RCEP is also questionable and uncertain while China seems more disinterested as the bloc could thwart away vast Chinese trade interests in the Asia-Pacific region.

Appendix



Source: Federal Register / Vol. 82, No. 15 / Wednesday, January 25, 2017 / Presidential Documents