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Trans Pacific Partnership (TPP): Responses from China and options for India

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Guest Column by Prof. B. R. Deepak

TPP is a trade agreement with 12 Pacific Rim countries that has been signed on 5 October 2015 in secrecy after 5 years marathon negotiations but still subject to ratification by the member states.

If we trace the history of the TPP, it was in July 2005 when Chile, New Zealand, Singapore and Brunei (also known as P4) signed an agreement titled ‘Trans Pacific Strategic Economic Partnership’ (TPSEP) that accorded preferential treatment to the flow of goods, services, trade and investment etc. between the signatories. In 2008, the US announced to join the P4 agreement negotiations; soon after Peru, Vietnam and Australia followed the suit taking the P4 number to P8. In 2010, Malaysia and Vietnam joined; in 2012, Canada and Mexico entered; and in 2013 Japan officially announced its participation in the negotiations thus expanded the number to P12. As of now there are 6 more countries and regions including Taiwan, which have announced their interest to join the agreement.

In terms of economy, the TTP accounts for over 40% of the global GDP, and the US has been increasingly viewing the region as an ultimate export destination which would be facilitated by standard labor and environmental laws, Intellectual Property Rights, rule of law, comprehensive market access, and above all the zero tariff rate clause of the agreement. Interestingly, both India and China are kept out of the agreement perhaps with an aim to thwart the 21st Century being an Asian Century.

Responses from China

Official responses from China, however, have welcomed the signing of the agreement; Ministry of Commerce hoped that the same can facilitate talks on other regional free trade agreements to push economic growth in the Asia-Pacific region. There are other voices, which would like China to focus on a Bilateral Investment Treaty (BIT) with the US rather than wishing to join the TPP. Yet, others argue that the TPP will not pose any threat to the Chinese economy, for China has various FTAs with various countries including half of the TPP signatories. Irrespective of these positive pronouncements from Beijing, it is, however, widely believed that the TPP is part of US pivot to Asia that aims at nothing but the containment of China. According to Zhang Yizhen's article (2015) undoubtedly, the TPP is a US move to contain China, exactly the way the US created Transatlantic Trade and Investment Partnership (TIPP) with Europe. The analyst argues that the agreement may not even see the light of the vote in the US Congress owing to election sensitivities. As far as the goal of zero tariffs is concerned, it is a distant dream! For example, the US has pledged to reduce the tariffs on Japanese cars to 2.5% in 25 years!

As regards the economic impact of TPP on China, Zhang quoting a study published in 2013, in Number 4 of the *International Trade Issues* ????????which concludes that the TPP will increase US exports to the region by 0.37% and create negative, rather insignificant impact of 0.14% on China. The rules of TPP are nothing what China has advocated while establishing Shanghai Free Trade Zone (SFTZ) in 2013. In fact the SFTZ and the 'Belt and Road' initiatives also known as 'One Belt One Road' (OBOR) have been initiated to counter the US initiative of TPP. China though concerned, but is attempting to counter the 'cobweb style' TPP with its 'hubs and spokes' Free Trade Areas (FTAs) with various nations; it may be willing to conclude TPP style agreements with P12 of the TPP as well posits Zhang.

Another article of 5 October 2015 titled "TPP more dreadful than the stock crash" on micro blogs across China but was instantly removed for 'violating law' portrays the TPP a disaster for China. It says that in foreseeable future TPP - world's largest economic block, will redraw the global economic map, will fundamentally change the global economic structure and modus operandi of the global economy. The anonymous writer posits that developed countries have denounced China as the violator of the WTO rules – they have deemed China the biggest currency manipulator, violator of the copyright laws, provider of huge subsidies to its enterprises, manipulator of the big ticket project auctions, manipulator of the export prices etc. and therefore, would like to get rid of this manipulator who has been a free rider but shirked global responsibilities; it is in this light they wish to establish a new trading system – the TPP that has no role for China.

According to the analyst, investment in infrastructure and foreign trade has been the only drivers that have kept the Chinese economy going. Quoting an interview Bank of China Governor, Zhou Xiaochuan gave to the CCTV, he says foreign trade so far has accounted 60% of the Chinese economy, and the investment in the infrastructure sector has almost saturated. And if, there is a further slump in the exports, the impact on Chinese economy would be dangerously adverse. He argues that even if China would like to enter the TPP, it would be just a wishful thinking, for the political system of the member states must respect freedom, democracy, human rights, the rule of law etc. established value systems, can China do that? Moreover, it stipulates equal benefits to public and private enterprises, and the privatization of the state owned enterprises, can China do that? Other areas such as free trade, liberalization of agricultural markets, finance, logistics, environmental protection etc. are equally difficult to conform to for China. TPP will stop the free ride for China. It is obvious that some of the concerns have been exaggerated by the anonymous writer, while others hold true.

Options for India

It is obvious that the TPP ever since its inception has given China sleepless nights. The TPP, TIPP and other similar initiatives by the US could be seen as re-globalization attempts, which will have new rules of engagements taking into account the drawbacks of the WTO. China was apprehensive about this- that's why in view of its overcapacities and ready foreign exchange; it initiated its own globalization by way of announcing the 'OBOR' strategy and other smaller initiatives such as Asian Infrastructure development Bank (AIIB) and BRICS New Development Bank (NDB), essentially a counter to the newly driven US globalization.

Now, as far as India is concerned, it is neither in the OBOR camp nor in the TPP. It however, has attempted to initiate a smaller version of its own 'globalization' drive in the form of 'Make in India' , 'Startup India', or some other lesser projects that will connect coastal and hinterland India with a network of rails, roads and smart cities. In short term, this appears to be an excellent idea and countries including China and Japan have shown interest to invest in India, however, in long run especially when the TPP will become a reality, when new rules of free trade and markets will rule the roost, we would be in trouble for sure. We are in a similar situation when China was negotiating its entry into the WTO. Today China is having over $400 billion trade with the ASEAN, it has Free Trade Area agreement with many P12 states; its position in Central Asian Republics, Africa and Americas is equally strong. India, though negotiating its own FTAs but the situation is not very encouraging and its trade figures are equally meager comparing China.

India's FTA negotiations with the European Union, negotiations on Regional Comprehensive Economic Partnership (RCEP) where China is on board, has been circuitous and time consuming, obviously owing to our sluggish pace of economic reforms, and other concerns such as government procurement, agricultural sector, tariffs and other trade barriers, intellectual property rights etc. However, India also tends to benefit as far as the service sector and exports are concerned, especially when manufacturing is moving away from China to countries like Vietnam, Indonesia, Thailand and India.

It is for India to not muddle through the globalisation 2.0 initiated by the US, China and itself to some extent; it is for India to take advantage of all favourable variable whether in Europe or in the Asia-Pacific and be an insider in the supply chain of these processes. Set its house in order by formulating strategies for optimal utilization of its labour force, for building capacities and imparting skills; deepen the reforms in desired sectors for optimum utilisation of the foreign direct investment (FDI) pledged by various countries, and shun the conventional skepticism over FTAs. If India remains outside of global supply chain, it would never be able to make its domestic industries competitive and we would be missing the train once again as we did during the pre financial crisis deep globalization when China catapulted itself from poverty.

(B R Deepak is Professor of Chinese and China Studies at the Centre of Chinese and Southeast Asian Studies, Jawaharlal Nehru University New Delhi. The views are solely his own.)

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TPP [1]
china [2]
Pakistan & India [3]
Category:
Papers [4]
Countries:
Pakistan [5]
China [6]
India [7]
Topics:
Economy [8]

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