

China, US seek greater influence in Trans-Pacific trade

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Economic integration in Asia-Pacific is evolving rapidly with so many initiatives, proposals and acronyms that observers can be forgiven for occasionally being confused.

In Asean, there are six separate Asean Plus One trade arrangements (Australia, China, India, Japan, South Korea and New Zealand), in addition to its own Free Trade Area (AFTA) and efforts to build an Economic Community (AEC) by 2015. Then there are two proposals, one for an East Asian Free Trade Area (EAFTA) encompassing China, Japan and South Korea, and a second Comprehensive Economic Partnership for East Asia (CEPEA) that includes all six of Asean's Plus One partners.

In the wider Asia-Pacific region, the 21 countries in the Asia-Pacific Economic Cooperation (APEC) are working towards the declared long-term goal of a Free Trade Area for the Asia-Pacific (FTAAP). In the meantime, nine of these countries, including Malaysia, are midway through negotiations for a comprehensive Trans Pacific Partnership (TPP).

These regional integration schemes have the objective of creating an area where goods, services, investment and capital can move freely. The fact that there are so many, often competing and overlapping, initiatives reflects the complexity and difficulty of establishing a region-wide, comprehensive trade agreement in Asia-Pacific.

Efforts to integrate the East Asia region can be traced back to Tun Dr Mahathir Mohamad's proposal for an East Asia Economic Caucus (EAEC) back in 1990. The US opposed the proposal because it could not envisage an East Asian eco-

nomonic integration from which it was excluded. Many have argued that APEC, which was supported by the US and its close allies, Australia and Japan, was a counter-initiative to the EAEC.

The Asian Financial Crisis in 1997/98 gave birth to the Asean Plus Three (or Asean+3) with China, Japan and South Korea collaborating with Asean to mitigate future crises. The grouping's success has mostly been in financial cooperation, with the Chiang Mai Initiative and the Asian Bond Market taking centre stage. Efforts to proceed with their EAFTA, however, are not progressing well. Instead, many East Asian countries have concluded bilateral free trade agreements (FTAs) with other countries, both within and outside the region, because that route provides a quicker outcome.

In 2006, Japan proposed the 16-country CEPEA. Some see this proposal as aimed at diluting the influence of China within the Asean+3 by including India, Australia and New Zealand. This and other initiatives can be argued to have distracted East Asia from integrating meaningfully.

With East Asian integration limping along, the TPP, a US-led regional integration initiative for Asia-Pacific, has triggered a great deal of discussion. The other eight participating countries are Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore and Vietnam. Economic integration is normally difficult and tortuous.



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Can the TPP succeed where others have faltered?

The two economic giants in Asia-Pacific are the US and China. China is not in the TPP, while key East Asian countries such as Japan are negotiating to participate, or are considering it. Is the TPP a ploy to contain China? The possibility of the TPP being a part of a grand geo-political strategy cannot be dismissed even though its proponents are extolling the huge gains that can be derived from such integration.

Let's trace briefly the origin of the TPP in order to understand its significance. It started as an FTA among four relatively small Pacific economies (P-4), namely Singapore, Brunei, New Zealand and Chile. Although its FTA was a high quality one, the P-4 attracted

little attention.

The US recognised the need to deepen its engagement with Asia because the region is, and will continue to be, a global growth centre. When the US became a participant and announced that it would be the main vehicle for US FTA initiatives, however, everybody started taking notice. Why?

The P-4 provided an ideal platform for the US to begin the Asia-Pacific economic integration. The grouping already had a wide span of coverage and its FTA had comprehensive liberalisation commitments. For any FTA to be approved by the US Congress, it must meet the "gold stand-

ard" that includes provisions on government procurement, intellectual property rights protection, free capital flows and high labour and environmental standards.

Initially, the TPP did not raise any concerns. However, when more countries began joining the negotiations, it started to be seen in a different light. At present, Japan is negotiating to join the process while Canada, South Korea and Mexico are considering doing so.

A very obvious omission in all of this is China and three key questions have to be asked: Is TPP an instrument to contain the rising influence of China? Will TPP further delay the East Asian integration (either through Asean+3 FTA or CEPEA)? Will the US set the template for Asia-Pacific integration?

At its summit in Yokohama in 2010, APEC leaders defined the "Pathways to FTAAP", which states that this free trade area can be pursued by two pathways — the Asian track (Asean+3 and Asean+6) and the Trans Pacific track (TPP).

These two tracks, however, are not at the same starting point. Although the Asian track began some time ago, its progress has been slow. A key reason for the slow progress of the Asian track has been lack of leadership and the unclear scope and objectives between Asean+3 and Asean+6. If key East Asian countries were to join the TPP, their interest in the Asian track integration would fall significantly.

On the other hand, although the TPP started in 2009, with encouragement from the US, progress has been rapid. The TPP is now in its 11th round of negotiations and President Barack Obama has

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set the target of June 2012 for the conclusion. More importantly, it has raised the bar by aiming for a high quality FTA with wider scope and deep liberalisation commitments.

Where does this leave China and what are the options available? According to Prof Jianren Lu of the Chinese Academy of Social Sciences, if China fully subscribes to the idea that TPP is a containment ploy, it would be less willing to join the regional integration initiative. This would not be good for China because its national interests are closely linked with the Asia-Pacific region.

One possible side effect of TPP is that it could actually spur China into promoting faster East Asia integration and cooperation. East Asian countries are China's important economic partners, with many shared borders. In November 2011, China pragmatically proposed to promote the East Asia FTA (Asean+3), and Asean reaffirmed that the Asean+3 process would continue as the main vehicle towards the long-term goal of building an East Asian Economic Community.

This renewed emphasis on Asean+3, however, has not been accompanied by explicit action plans or measures. If Japan and South Korea were to join the TPP, it would be very difficult for China to push Asean+3 integration. Thus, this is not a promising option.

China is also taking another step (or counter-step?) to avoid being isolated if the TPP is successful. It plans to start negotiating a China-Japan-Korea (CJK) FTA in May this year. However, if TPP negotiations are successfully concluded and implemented, the CJK FTA and East Asia FTA, which are yet to be negotiated, will become irrelevant and insignificant.

Looking at these various options, Lu recommends that China not isolate itself and that it joins the TPP negotiations. In fact, China should take a leading and constructive role in establishing the FTAAP through the TPP. In that way, China could speed up internal reforms to adapt to new types of institutions for a globalised economy. It should also align its labour and environment standards to international conventions.

If China joins TPP early, it will also benefit because it can then contribute to setting the rules of liberalisation and commitments. Barriers are always higher for late entrants, as China learned during its accession to the World Trade Organization. Lu admitted that his is a minority view in China. It will be very interesting to know what Xi Jinping, the presumptive Chinese leader, thinks about this subject when he fully takes charge later this year.

For China, balancing economic and geopolitical considerations is not something unfamiliar. Although China has successfully developed its economy and implemented domestic reforms, it needs to restructure more to meet international norms and to continue to be competitive. Economic liberalisation and integration by joining TPP can help China carry out these tasks but it is mindful of the geopolitical implications.

It is also in the interest of the US to have China in the TPP because of the latter's increasing economic role and importance. One of the TPP's goals is to create an efficient and cost effective regional supply chain and this cannot be achieved without China.

Hence, the success of TPP lies both within its membership — most notably the US — and beyond its present membership, namely China. The aim must be to establish a stable rules-based trading regime that will enable both to flourish rather than an embittered and disputed relationship. ■

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