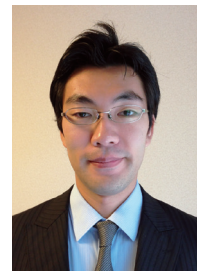


TPP & RCEP

US-China Competitive Regional Integration & Japan



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The Stalled WTO & Regional Integration

With the World Trade Organization's (WTO) Doha round of trade negotiations, underway since November 2001, at a standstill, the WTO Ministerial Conference issued a statement in December 2011 essentially acknowledging that talks had been suspended. Negotiations gained new life in September 2013 after new Director-General Roberto Azevedo took office, and the adoption of the "Bali Package" by the 9th WTO Ministerial Conference, held that December in Bali, Indonesia, marked a measure of success in reaching agreement on part of the Doha round agenda. Nevertheless, the trade strategies of major nations have begun to lean toward "second best" free trade agreements (FTA) and other forms of regional integration. In the Asia-Pacific region, deepening economic interdependence has brought a dramatic rise in the volume of intra-regional trade. Since 2010, negotiations have begun in earnest to shift from building bilateral FTAs toward mega-FTAs. Still, this initiative has generated superpower competition over two distinct paths: the Trans-Pacific Partnership (TPP) led by the United States and the Regional Comprehensive Economic Partnership (RCEP) led by China. When looking at structural changes in the Asia-Pacific region, it is important to consider not only economic factors but also political factors such as how the region will be changed by the power transition to China from the US, now constrained by the rise of

China. In this paper, I address the structural changes the TPP and RCEP would bring to the Asia-Pacific region, the competition surrounding these two very different mega-FTAs, and the role that Japan should play.

US Diplomatic Strategies & the TPP

At the start of the 2000s, the US was relatively disinterested in the tide of regional integration in East Asia. One reason may be the emphasis of East Asian regional integration on process rather than results, but the preoccupation of the US with Iraq and Afghanistan and its war on terrorism was probably also a factor. Still, discussions about East Asian regional integration were moving steadily forward even as the WTO Doha round made little progress, and the rise of China with its state-driven economic system raised concerns in the US that it could be shut out of the region. As a result, discussions began within the US government, mindful of the power transition that was underway, about the course of international and regional institutions.

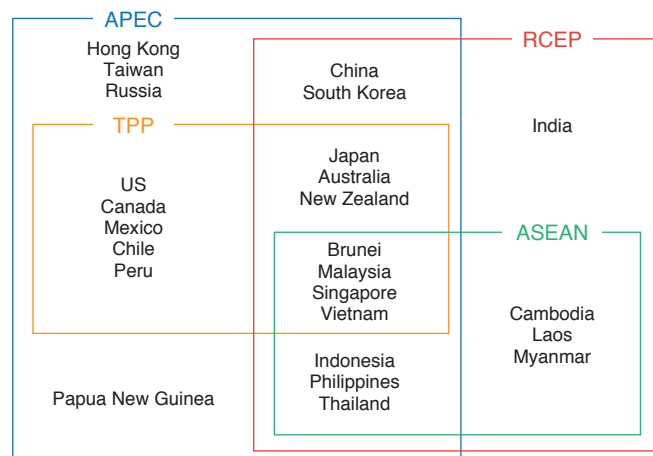
In November 2006, at the Asian-Pacific Economic Cooperation (APEC) summit meeting in Vietnam, the Bush administration announced its intention to pursue a Free-Trade Area of the Asia-Pacific (FTAAP). The United States then resolved to participate in the TPP as an intermediate route leading to the FTAAP. This decision revealed a strong desire to avoid being left out of East Asian regional integration. The result was that the TPP surfaced as an alternative route to shaping APEC's goal of an FTAAP, joining the ASEAN+3 proposal championed by China and Japan's proposal of ASEAN+6.

Japan joined the TPP negotiations in July 2013; negotiations are now proceeding with the participation of 12 nations. The TPP is grounded in the principle that, except where other provisions apply, all tariffs on goods originating in other signatory countries must be eliminated when the agreement takes effect. Furthermore, the TPP is a comprehensive agreement whose provisions extend beyond the scope of the WTO framework, covering trade in goods, trade in services, e-commerce, competition, customs procedures, investment, technical barriers to trade, sanitary and phytosanitary measures, government procurement, and intellectual property. Through the TPP, which it has called a "21st-century agreement", the US seeks to shape new trade norms in the Asia-Pacific region.

In September 2005, US Deputy Secretary of State Robert Zoellick described China as a "responsible stakeholder" in introducing the "G2 doctrine" characterizing the US and China as equal partners who

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Frameworks for regional integration in the Asia-Pacific region



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should fulfill their international responsibilities. By around 2010, however, China began adopting more hardline positions. More and more, the US had to adopt a firmer stance to keep it in check, bringing an unavoidable shift in its policy toward China. From around November 2011, the Obama administration began talking about a “pivot” or a “rebalancing” toward the Asia-Pacific region, clearly staking out a position of greater US interest in the Asia-Pacific region. Given the power transition accompanying China’s economic rise, we can surmise that the US seeks to take the lead in writing the trade rules for the TPP in order to involve itself in shaping regional trade norms and secure a strategic position from which to deter Chinese political action.

Chinese Diplomatic Strategies & the TPP

Since 1989, China’s diplomatic strategy has developed in line with maxims expressed by Deng Xiaoping such as *taoguang yanghui* (“hide your strength, bide your time”) and *yousuo zuowei* (“do what must be done to get things done”). China, however, was one of the first countries to overcome the financial crisis sparked by the collapse of Lehman Brothers, and its growing influence over the global economy brought the opportunity to reevaluate its diplomatic course. In July 2009, General Secretary Hu Jintao proposed a new diplomatic policy, arguing for “adherence” to the first of Deng’s slogans and an “aggressive pursuit” of the second. The weight of the shift clearly fell on the latter phrase. At around this time, China began more openly asserting its sovereignty and interests and did not shrink from friction with neighboring countries over territorial rights in areas like the South China Sea and the Senkaku Islands. In terms of US-China strategy and economic dialogue, too, China, seemingly in recognition of its own “vital interests”, came to apply pressure on the US. These movements suggest that China’s diplomatic strategy prioritizes less the “responsible stakeholder” position sought by the US and more the formation of a “Chinese order” that prevents containment by the US.

When Japan announced its participation in the TPP in 2011, however, China began showing signs that it was concerned about the tide of regional integration. Zhang Yunling argues that China’s interest in the TPP stemmed from the unmistakable change in scale and quality that Japan’s participation brought, and because China’s government would be forced to consider how to respond if other East Asian nations also leaned toward participation in the TPP. Because the TPP includes provisions that strengthen standards related to investment, intellectual property, and government procurement, it would be difficult for China, with its state-led economic management, to take part at the current time. China, therefore, decided that its national interests lay in pursuing East Asian integration grounded in less restrictive norms. China initially sought an East Asian Free Trade Agreement (EAFTA) through the

ASEAN+3 framework, and adopted a passive stance toward Japan’s proposal of working toward a Comprehensive Economic Partnership in East Asia (CEPEA) through the ASEAN+8 framework, but in 2011 joined Japan in issuing a joint proposal called the “Initiative on Speeding Up the Establishment of EAFTA and CEPEA”. Feeling a sense of crisis, ASEAN proposed the RCEP, which ASEAN and China are now pushing hard to realize.

Competition Over Frameworks for Regional Integration & the Role of Japan

RCEP negotiations began in 2013, opening fierce competition between China and the US to see who would seize the initiative in shaping trade norms in the Asia-Pacific and East Asian regions. After Japan formally announced its participation in the TPP in March 2013, China began to show signs of taking a positive approach. Nevertheless, TPP negotiations have hardly been smooth sailing. The US has engaged in tough negotiations with emerging countries, and made little progress with Japan in negotiating how to address sensitive categories. Furthermore, when the US sought to achieve an outline consensus about the TPP at the APEC summit in Bali in October 2013, domestic financial issues prevented President Barack Obama from attending; any consensus was postponed as conflicts between various national interests became more pronounced. Meanwhile, with the US presence diminished by the absence of Obama, China moved to strengthen support for the RCEP and weaken support for the TPP by presenting other countries with various offers of cooperation, such as the establishment of an Asian infrastructure investment bank that would provide low-interest capital to ASEAN nations. Nevertheless, the RCEP is expected to be inferior to the TPP with respect to factors such as tariff liberalization rates. Given the circumstances, China is promoting the RCEP and working to hold the TPP in check, but also showing signs such as the establishment of domestic free-trade zones that suggest a consideration of future TPP membership. The result is that competition between the US and China over regional integration has led them both to try to hold the other in check while they simultaneously drive forward so as not to be left out. Japan participates in both the RCEP and the TPP. As the superpower competition between the US and China over the framework for regional economic integration grows more intense, there is the potential, through Japan acting as an intermediary, to achieve high-level integration by carrying the fruits of the TPP over to the RCEP. It is essential that Japan be proactive in taking the initiative. **JS**

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