THE TPP AND CHINA’S RESPONSES: THE IMAGINATIONS OF A NEW INTERNATIONAL ECONOMIC ORDER

At the Trans-Pacific Partnership and Taiwan's Future Development Strategy Conference, Stanford University, October 11th, 2013
THE STRUCTURE OF THE PRESENTATION

Two imaginations of the TPP (Ann Capling & John Ravenhill)

- securitization of trade policy
- multilateralization of regionalism

Two Types of Chinese Responses

- establishing its own regional trade regimes
- preparing to become a member in the TPP

The Challenge of the Realignment Process

The U.S. Interest in a Long-term Perspective
SECURITIZATION OF TRADE POLICY

- build an “anyone but China club,” an economic means for the strategic end
- lower the requirements for some countries Japan’s agriculture and health care Vietnam’s state owned enterprises
- the cold-war type of asymmetric cooperation once again? A leader of a bloc with its allies
- Build a high-quality next generation FTA

- Induce China to further open its domestic markets and do more economic reforms

- the major goal is to promote U.S. economic interests in the 21st century, especially exports in goods and services

- continues to be a global leader for the entire international economy
THE STRATEGY OF PIVOT TO ASIA HAS INCREASED PRESSURES ON CHINA
THE CHINESE RESPONSE (1) DOGFIGHT IN MARITIME ASIA

The Regional Comprehensive Economic Partnership

The China-Japan-Korea Free Trade Agreement

The China-Korea Free Trade Agreement

The Economic Cooperation Framework Agreement with Taiwan
Two advantages of the RCEP

1. Acknowledge the differences in development stage among different countries

2. ASEAN is the center of geopolitics and geoeconomics
TRANSPORTATION WILL BE A MAJOR FOCUS
中國高鐵外交抗衡日本在東南亞勢力
THE SIGNIFICANCE OF THE RCEP

Piecing Together
Share of world GDP in 2010. Japan, China and South Korea combined had 19.7%, or $12.41 trillion

- China 9.3%
- Japan 8.7%
- South Korea 1.6%
- ASEAN 2.9%
- India 2.7%
- Australia and New Zealand 1.7%

Others 24.1%
EU 25.8%
U.S. 23.1%

© Association of Southeast Asian Nations
Source: The Japanese Government
The Wall Street Journal
THE CHINA-JAPAN-KOREA FTA

Size of Trade Market Assuming Conclusion of FTA among Korea, Japan and China (unit: US$, %)

- NAFTA: 25.8
- EU: 25.2
- Korea-Japan-China FTA: 20.5

Comparing GDP and Ratio to Global Trade Market.
THE CHINA-KOREA FTA

Business in the Neighborhood

China's Investments in South Korea

South Korea's Investments in China

South Korea's Trade with China

Exports to China ($100 million)

Imports from China ($100 million)

Source: The Ministry of Knowledge Economy of Korea, Export-Import Bank of Korea, The Korea International Association

(Source: China Daily)
KOREA’S POSITION IN INTERNATIONAL TRADE

Korea’s FTA Negotiations Status

- EFTA: Effective in September 2006
- ASEAN: To be effective in May 2007
- China: Joint research launched
- Japan: Negotiations discontinued
- Mexico: Negotiations in progress
- USA: Negotiations settled on April 2, 2007
- Chile: Effective on April 1, 2004
THE CHINESE RESPONSE (2) INTEGRATE EURASIAN CONTINENT

- China-Russia Cooperation
- The BRICS Development Bank
- Chongqing-Xinjiang-Europe Railroad
- China-Pakistan Economic Corridor
- China-India-Myanmar-Bangladesh Economic Corridor
- The New Silk Route Economic Belt
CHINA- RUSSIA COOPERATION IN 2013
$270 billion deal of oil supply over 25 years, one of the biggest in the history of the global oil industry.

This is especially important after the United States and the Caspian region have emerged as new centers of energy.
THE NORTHERN ROUTE OF THE EURASIAN LANDBRIDGE: THE CHONGQING-XINJIANG-EUROPE RAILWAY
THE TWO ECONOMIC CORRIDORS IN SOUTH ASIA
Silk Road extending from Europe through Egypt, Somalia, the Arabian Peninsula, Iran, Afghanistan, Central Asia, Sri Lanka, Pakistan, India, Bangladesh, Burma, Java-Indonesia, and Vietnam until it reaches China. The land routes are red, and the water routes are blue.
The BRICS Development Bank, with a capital of $100 billion, begins its operation in 2015.
CHINA’S NEW SILK ROUTE STRATEGY HAS BROUGHT THE U.S. ATTENTION BACK TO THE MIDDLE EAST
SHANGHAI FREE TRADE ZONE

Freedom to trade currency
Freedom to set interest rate
From approval to registration

Use opening to induce reforms
THE REFORMS THAT MAY BE ANNOUNCED IN NOVEMBER

- Land reform
- Taxation reform
- Financial reform
- Fiscal reform
THE NEGATIVE IMPACTS OF THE TPP WITHOUT CHINA

- the potential pains of realignment in the Asian production networks
- force China to establish a parallel or competing international order
### Table 1. 2012 Exports of TPP Members to the United States and China
(Billions of U.S. Dollars)

<table>
<thead>
<tr>
<th>Exports From</th>
<th>To the United States</th>
<th>To China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>9.8</td>
<td>78.3</td>
</tr>
<tr>
<td>Canada</td>
<td>339.3</td>
<td>19.3</td>
</tr>
<tr>
<td>Chile</td>
<td>9.0</td>
<td>17.8</td>
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<tr>
<td>China</td>
<td>352.6</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>142.0</td>
<td>144.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>19.8</td>
<td>28.8</td>
</tr>
<tr>
<td>Mexico</td>
<td>288.2</td>
<td>5.7</td>
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<tr>
<td>New Zealand</td>
<td>3.9</td>
<td>6.1</td>
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<tr>
<td>Peru</td>
<td>6.1</td>
<td>7.7</td>
</tr>
<tr>
<td>Singapore</td>
<td>22.6</td>
<td>44.0</td>
</tr>
<tr>
<td>United States</td>
<td>370.4</td>
<td>110.6</td>
</tr>
<tr>
<td>Vietnam*</td>
<td>14.3</td>
<td>7.7</td>
</tr>
<tr>
<td>EU</td>
<td></td>
<td>184.2</td>
</tr>
</tbody>
</table>

*Figures are for 2010 (latest available)

Source: International Trade Center
the big consumer market in China down the road
Will enhance China’s position in the negotiation
A Long-term Trend: the Old World Declines while the New World Rises

Figure 2: Manufacturing shares: Seven gainers and the G7 losers

- Korea
- India
- Turkey
- Indonesia
- Poland
- Thailand
- Korea
- India
- Turkey
- Indonesia
- Poland
- Thailand
TOP SEVEN ECONOMIES IN THE WORLD (GDP IN 2006 US$ BILLION)

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<tr>
<th></th>
<th>2060</th>
<th>2050</th>
<th>2040</th>
<th>2030</th>
<th>2020</th>
<th>2010</th>
<th>2006</th>
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<tr>
<td></td>
<td>70,710</td>
<td>45,022</td>
<td>25,610</td>
<td>17,978</td>
<td>16,194</td>
<td>13,245</td>
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<td></td>
<td>38,514</td>
<td>29,823</td>
<td>22,817</td>
<td>12,630</td>
<td>4,667</td>
<td>4,336</td>
<td></td>
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<tr>
<td>3. India</td>
<td>India</td>
<td>India</td>
<td>India</td>
<td>Japan</td>
<td>Japan</td>
<td>Germany</td>
<td>Germany</td>
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<tr>
<td></td>
<td>37,668</td>
<td>16,310</td>
<td>6,683</td>
<td>5,224</td>
<td>4,604</td>
<td>2,851</td>
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<tr>
<td>4. Brazil</td>
<td>Brazil</td>
<td>Japan</td>
<td>Japan</td>
<td>Germany</td>
<td>Germany</td>
<td>China</td>
<td>China</td>
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<tr>
<td></td>
<td>11,366</td>
<td>6,631</td>
<td>5,814</td>
<td>3,519</td>
<td>3,083</td>
<td>2,682</td>
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<tr>
<td></td>
<td>9,340</td>
<td>6,320</td>
<td>4,265</td>
<td>3,101</td>
<td>2,546</td>
<td>2,310</td>
<td></td>
</tr>
<tr>
<td>6. Russia</td>
<td>Japan</td>
<td>Germany</td>
<td>Germany</td>
<td>India</td>
<td>France</td>
<td>France</td>
<td>France</td>
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<tr>
<td></td>
<td>8,580</td>
<td>6,042</td>
<td>3,761</td>
<td>2,848</td>
<td>2,366</td>
<td>2,194</td>
<td></td>
</tr>
<tr>
<td>7. Indonesia</td>
<td>Mexico</td>
<td>Brazil</td>
<td>France</td>
<td>Italy</td>
<td>Italy</td>
<td>Italy</td>
<td>Italy</td>
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<tr>
<td></td>
<td>7,010</td>
<td>5,471</td>
<td>3,720</td>
<td>2,815</td>
<td>1,914</td>
<td>1,809</td>
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</table>
Goldman Sachs Forecast 2007
OECD: the GDP of China & India together will surpass that of its member countries combined in 2060
THE TPP AND CHINA’S RESPONSES TO IT WILL CHANGE THE INTERNATIONAL POLITICAL-ECONOMIC ORDER IN THE 21ST CENTURY
TWO DIRECTIONS OF THE TPP AND TWO TYPES OF CONSEQUENCES

- Bring China into the international order established by the United States?
- or force it to build a parallel or competing order of its own?
- become a head of a group of former allies that are destined to decline?
- or build work relations with the raising countries with big population but diverse political & economic institutions?