



US Walks Away From TPP, Leaving China Free to Dominate Asia

At the APEC meeting, China hustles to replace the TPP free-trade agreement with its own versions

Anthony Rowley

The Obama administration has suspended efforts to win approval from the US Congress for the Trans-Pacific Partnership, reports suggest, and it's up to the Trump administration to kill or shape the 12-nation deal. With TPP on life support, China promotes two other trade agreements for the region, either of which could exclude the United States and reduce its competitiveness in the Asia Pacific region. "In threatening to sabotage the Trans-Pacific Partnership by opposing US ratification of the 12-nation pact, Trump is, in effect, stepping aside to allow China to control trade and investment in the Asia Pacific region," explains journalist and author Anthony Rowley. Japan, the world's third largest economy and a close US ally, is not so ready to give up on TPP and Prime Minister Shinzo Abe met with the US president-elect. Rowley cautions that the US president-elect's promises to upend foreign policy commitments already influence decisions being made throughout East Asia and other countries will step into the void. – YaleGlobal



Interrupted journey: Obama with Japanese Premier Shinzo Abe, architects who helped shape the TPP – the demise of which will likely be cheered by Chinese President Xi Jinping.

TOKYO: US President-elect Donald Trump has been disparaged as a fan of Russian President Vladimir Putin. But when it comes to "giving away the farm," he appears more intent, perhaps by inattention, on conferring favors upon China by handing Chinese President Xi Jinping leadership of Asian trade diplomacy.

In threatening to sabotage the Trans-Pacific Partnership by opposing US ratification of the 12-nation pact, Trump is, in effect, stepping aside to allow China to control trade and investment in the Asia Pacific region.

Abandoning the TPP not only runs contrary to Trump's reported desire to limit China's influence in the region, but also implies that the United States can expect considerable diminution in its power to shape the architecture of Asian commerce and trade. Trump likewise has signaled expectations for greater responsibility from allies in providing and paying for security.

All this raises questions on the wider roles to expect from Japan and China in the Asia Pacific region.

Outgoing US President Barack Obama represented the United States at the meeting of Asia-Pacific Economic Cooperation leaders, in Lima, Peru, but Trump's signaling a new approach to Asia undermines the twin-track policy of supporting the TPP and underwriting Asian security.

The policy shift could confer upon Japan the role of US proxy in Asian security matters. Trump met Japan's Prime Minister Shinzo Abe in New York on November 17. Details of the discussion were not disclosed, but Trump was expected to encourage Japan to take a more active role in Asia.

With support for the TPP uncertain, even though Japan's main house of Parliament already ratified the deal, Abe may find himself outmaneuvered by Xi in terms of economic initiatives.

China pushed its own "free trade agenda" at the Lima meeting of APEC, with China Daily reporting Vice-Foreign Minister Li Baodong as saying the region needs a free-trade agreement as soon as possible. "Trade and investment protectionism is rearing its head, and the Asia-Pacific faces insufficient momentum for internal growth, and difficulties in advancing reforms," Li was quoted as saying. "China should set a new and practical working plan to establish a free trade area in Asia-Pacific at an early date."

China has supported the concepts of a Free Trade Area of the Asia Pacific, or FTAAP, and of a Regional Comprehensive Economic Partnership, RCEP, both viewed as competitors to the US-led TPP. Li suggests that such a free-trade area could serve the interests of China, the United States and other smaller economies.

The FTAAP was originally raised in 2006 among members of APEC, which is not a formal free-trade arrangement itself. FTAAP was a loosely defined concept until China proposed that it take the form of the RCEP. At that point, the US and Japan responded by promoting the 12-member TPP.

So China's plan for economic partnership and a free trade area for the region may proceed. The RCEP will cover trade in goods, services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues. It broadens and deepens existing cooperation among members of the Association of Southeast Asian nations, although it is not as comprehensive as the so-called "high level" TPP. The RCEP plan includes the 10 ASEAN member states – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam – as well as six countries with ASEAN free trade agreements including Australia, China, India, Japan, New Zealand and South Korea. Other states joining require approval of all ASEAN member nations, and if individual ASEAN members conclude bilateral agreements with non-member states, the goods they import from those states would not be entitled to ASEAN-wide concessions and would be subject to "rules of origin in determining tariffs."

The RCEP agreement excludes the United States, which has a leading role in the TPP. Reports suggest the Obama administration has suspended efforts to win approval from the US Congress and that the fate of TPP now rests with the Trump administration.

Without the TPP to underpin the US commitment to Asia, and with Trump having threatened to impose punitive tariffs on goods imported from China and other countries determined to pose unfair competition to the United States, the notion of cooperating with Washington at Beijing's expense could prove unattractive.

Philippine President Rodrigo Duterte recently cemented closer ties with Beijing, at the apparent expense of those with Washington, while Malaysian Prime Minister Najib Razak's subsequent meeting with Chinese leaders appeared also to bind Kuala Lumpur closer to Beijing. Both nations are ASEAN members.

Peru's President Pedro Pablo Kuczynski has meanwhile suggested to Russian media that Pacific Rim countries could forge a new trade deal, including China and Russia, to replace the US-led TPP.

Other TPP proponents are more ambivalent. Vietnam's Minister of Trade Tran Tuan Anh, for example, noted, "the world will have to wait and see if the new US administration will really reverse the TPP. We have a persistent stance and policies regarding deepening the global integration and the TPP is part of that."

China is confident that TPP is not moving forward, with China Daily noting, "US president-elect Trump had repeatedly blasted the TPP trade deal on the campaign trail, saying it would hurt American workers. He has vowed to cancel the agreement, regarded by Obama as a major part of administration's legacy and essential to his pivot toward Asia."

If Trump does renounce the TPP agreement, with the approval of a Republican-controlled US Congress, Japan must confront choosing between RCEP and a network of bilateral trade accords with other TPP members, including the US.

Tokyo is certainly not eager to renounce the TPP. Abe regards the TPP as being key to his Abenomics economic strategy, and Bank of Japan Governor Haruhiko Kuroda has described TPP as a "landmark deal [which] if signed, would be a huge positive for Japan's economy."

Also during the election campaign, Trump promised to demand bigger contributions from US allies – including Japan and South Korea – for the cost of keeping US forces on their soil.

The US has around 800 military bases in more than 160 countries, and a 2013 Senate Committee on Armed Services report puts the cost of supporting the overseas bases at more \$10 billion annually. Nearly 70 percent of this was spent in three countries: Germany, Japan and South Korea. A substantial part of the cost is borne by host countries. Japan budgeted ¥190 billion, or \$1.7 billion, to host US military bases during fiscal 2015, as part of the costs necessary to station some 54,000 US personnel in the country.

Sources advised Reuters that Trump wants to authorize construction of new US warships. That and an end to budget sequestration, imposing limits on US spending since 2013, would "send a message to China, as well as to Japan, South Korea and other nations that the US is intent on being in [Asia] for a long time," the report said.

Trump's stances on economic and security issues are already affecting decisions being made East Asia and the broader region even before his formal inauguration in January. For sure, he will need to do some deft maneuvering if he is to square an anti-TPP stance with his apparent desire to keep an assertive and competitive China at bay.

Anthony Rowley is a former business editor and international finance editor of the Far Eastern Economic Review and is currently field editor (Japan) for Oxford Analytica and Tokyo correspondent of the Singapore Business Times. During a long career in journalism, Rowley has written extensively on issues of economic and financial development in Asia and elsewhere and his books include Asian Stock Markets – the Inside Story published by Dow Jones Irwin in 1986 as well as The Barons of European Industry, published by Croom Helm in 1973.