The geopolitics of the TPP

Reconfiguring regional architecture in East Asia

Stephen Nagy argues that the TPP reconfigures regional architecture in East Asia away from a China-centred economic framework to one that will attenuate Chinese economic domination by the bifurcation ASEAN into TPP members and non-members

Currently there are three significant competing trade agreements undergoing negotiation in East Asia: the Regional Comprehensive Economic Partnership (RCEP); the Transpacific Partnership (TPP); and the Trilateral Free Trade agreement between China, South Korea and Japan. Each agreement would bolster trade in the corresponding mega regions. They are qualitatively different and would result in different short, mid and long term geopolitical changes.

This essay will touch upon the geopolitics of the competing trade agreements with a special focus on the TPP and a lesser focus on the RCEP. Based on the TPP's next generation trade rules and characteristics of participating countries, I conclude by arguing that the TPP reconfigures regional architecture in East Asia away from a China-centred economic framework to one that is not only transpacific but one that will attenuate Chinese economic domination by the bifurcation ASEAN into TPP members and non-members. Founding and fledgling members from ASEAN will enjoy large flows of FDI to boost their socio-economic development while securing access to arguably the most important and some of the largest consumer markets in the world.

RCEP: China-centred regional architecture

RCEP and TPP are structured to exclude particular states, although perhaps not in perpetuity. RCEP excludes the US, creating a China-centred regional trade framework while the TPP excludes China, creating a very significant regional economic framework with rules and guidelines cemented by its founding and arguably most influential members[1 2].

This exclusion strategy is purposeful. In the case of RCEP, the exclusion of the US enables China to play the central role in economic integration within the region. Acting as the core of the regional framework, the size of the Chinese economy would serve the region well by opening its 1.3 billion consumers to the region. Trade figures from the ASEAN Secretariat show that China already represents ASEAN's largest trade partner (See Table 1). Further integration through the realization of RCEP would deepen that trade flow significantly. In addition to the trade and investment, commodities from Australia that help fuel the growth of the Chinese economy would also benefit from RCEP. It should be noted that China and ASEAN countries are competing for leadership in RCEP however the size of the Chinese economy will dictate where the leadership will eventually fall.

Another central feature of this agreement is that the hand-in-hand with the advantages of further coupling to the Chinese market, deepening economic interdependence would also decrease American economic and political influence in the region while increasing China's political leverage on partner states.

Beijing's track record of using market access to influence relations and behaviour has been demonstrated numerous including pushing the boundaries/legalities of the WTO when it does so. Most recently, rare earth metal access by Japanese in 2012, punitive economic tactics related to political disagreements include China stopping the import of Philippines' bananas, disruption of travel by Chinese tourists to the Philippines, France, and Norway; and stopping the import of Norwegian Salmon and removing Norway from the list of countries allowed visa-free visits to Beijing after the Nobel Peace Prize was awarded to Liu Xiaobo[3].

States with deep trade ties with China as well disputes with China in the South and East China Sea see themselves as highly susceptible to coercive tactics and thus have been actively devising strategies to hedge their economic bets while still maintaining economic engagement with China. TPP is one such tactic that I will expand on later in this piece.

It's important to note that the TPP and RCEP are qualitatively different. First, RCEP will have 16 participating states which include more than 3 billion people, a combined GDP of more than 17 trillion dollars that would represent 40% of global trade[4]. Second, the RCEP is a more China-centred framework focusing on free trade of lower value products to account for developmental differences amongst participants. Third and as we will read below, unlike the TPP which is a high quality agreement that focuses on services and intellectual property rights (IPR), RCEP is not really writing any new rules of the trade game nor including stringent IPR rules as some of its negotiating partners would like (South Korea). Fourth, RCEP aims to harmonize all pre-existing FTAs in the region to simplify trade and eliminate trade barriers.

The take home message here is that RCEP makes China the centre of the trade network. RCEP is good for China and preferred by China as it opens markets to goods made in China, especially those cheap, low value goods. As China continues to have a trade profile that is best characterized as low quality

Table 1: Top ten ASEAN trade partner countries/regions[1]

Trade partner country/region[2]	Value US$			Share (percent) to total ASEAN trade		
	Exports	Imports	Total trade	Exports	Imports	Total trade
ASEAN	329,700.42	278,617.63	608,318.05	25.5	22.5	24.1
China	150,425.25	216,116.37	366,541.62	11.6	17.5	14.5
EU-28	132,484.05	115,847.68	248,331.73	10.2	9.4	9.8
Japan	120,248.92	108,827.27	229,076.19	9.3	8.8	9.1
USA	122,377.23	90,040.99	212,418.22	9.5	7.3	8.4
Korea, Republic of	51,659.07	79,814.77	131,473.84	4.0	6.5	5.2
Taiwan	39,543.73	68,841.91	108,385.64	3.1	5.6	4.3
Hong Kong	85,274.71	14,096.88	99,371.59	6.6	1.1	3.9
Australia	45,345.73	25,027.19	70,372.92	3.5	2.0	2.8
India	43,346.53	24,381.93	67,728.46	3.4	2.0	2.7
Total top ten trade partner countries	1,120,405.64	1,021,612.62	2,142,018.26	86.7	82.6	84.7
Others[3]	172,228.00	214,671.20	386,899.20	13.3	17.4	15.3
Total	1,292,633.64	1,236,283.82	2,528,917.46	100.0	100.0	100.0

Source: Association of South East Asian Nations Homepage
http://www.asean.org/resources/2012-02-10-08-47-55/asean-statistics/item/external-trade-statistics-3 (Accessed August 24th, 2015)

1. Preliminary data
2. Identified/ranked based on share of total trade
3. Includes trade of all other countries and those that could not be attributed to specific countries

products and the manufacturing of either other countries products or low value products RCEP better meets the needs of the Chinese level of development.

TPP: transpacific-centred regional architecture

The TPP regional trade framework consists of 12 countries spanning the Asia-Pacific region and represent at least 40% of global trade. The TPP protects IPR including services and thus is a positive for innovative countries that are producing patents, high tech items, and high value items. Japan, the US, Canada, Australia, and Singapore all fit this profile in terms of IPR and services. They can write the rules to protect these products far into the future. China can't meet these standards at this time and IPR laws are at best weak[5]. This intentional or loose end to law enforcement allows China to leap frog its development. It won't agree to the TPP either as it would handicap their development. That being said, China has voiced 'interest' in the TPP and the US sees the possibility of open membership as a way to 'socialize or tame new applicants'[6].

The other trade agreements under consideration are more trade promoting that rule making. An ASEAN plus-3 free trade agreement has been in discussion for a long time but many ASEAN countries, especially over the past five years have changed their tune about economic interdependence with China. China's assertiveness has concerned ASEAN members even though they enjoy a trade balance with China. There is a realization that trade needs to be better balanced to avoid Beijing applying economic or security leverage to achieve political objectives.

TPP is important for the US's Asian rebalance (but also many countries in the region) as it creates an alternative to China's economic size with rules and a renewed focus on protecting services and IPR. It also weakens Beijing's economic influence and tools in the region.

Above and beyond the economic impact that the TPP will have, the TPP serves as a powerful geopolitical tool. First, the TPP sets the next generation of trade rules for the most vibrant part of the global economy, the Asia Pacific. By establishing transparent rules that protect the key innovative sectors of participating countries, the TPP establishes a trade regime that preferences rule followers and not rule breakers.

Second, the inclusion of states such as Vietnam is not immediately self-evident. That being said, their inclusion is crucial to incentivizing participating in the TPP. As a low cost manufacturing centre, Vietnam will grow as a production hub for manufacturing that will have direct access to the first and third largest economies in the world, Japan and the US.

This means that although Vietnam will indeed need to work very hard to abide by IPR and other rules that its developing economy may not be prepared for, it will at the same time become a very attractive centre for FDI which will further boost its economic growth. Policy makers in Vietnam have already done the math that the sacrifices in the short term will more than pay off as dividends in the long term.

Increasing flows of FDI into Vietnam will most certainly be attractive lures for other countries within the region such as the Philippines, Indonesia, Thailand, Myanmar, Laos and Cambodia and as a result, the first three will make the necessary commitments to join the TPP. The landlocked latter two unfortunately will not be able to make the commitments necessary to join the TPP because of level of development, lack of strong institutions and political relations with China.

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Thailand's future participation in the TPP is dependent on domestic politics and political stability in the period of a new King's ascension to the throne. Political divisions and political instability will make it difficult for Thailand to make the appropriate commitments necessary to join the TPP and thus it will lose out to ASEAN countries with more stable domestic political situations and commitments to TPP demands.

Myanmar, like Thailand suffers from an uncertain domestic political situation. Weak institutions, still uncertain division between the previous military government and the current elected one, Myanmar will most likely not be able to find the political consensus to commit to the TPP.

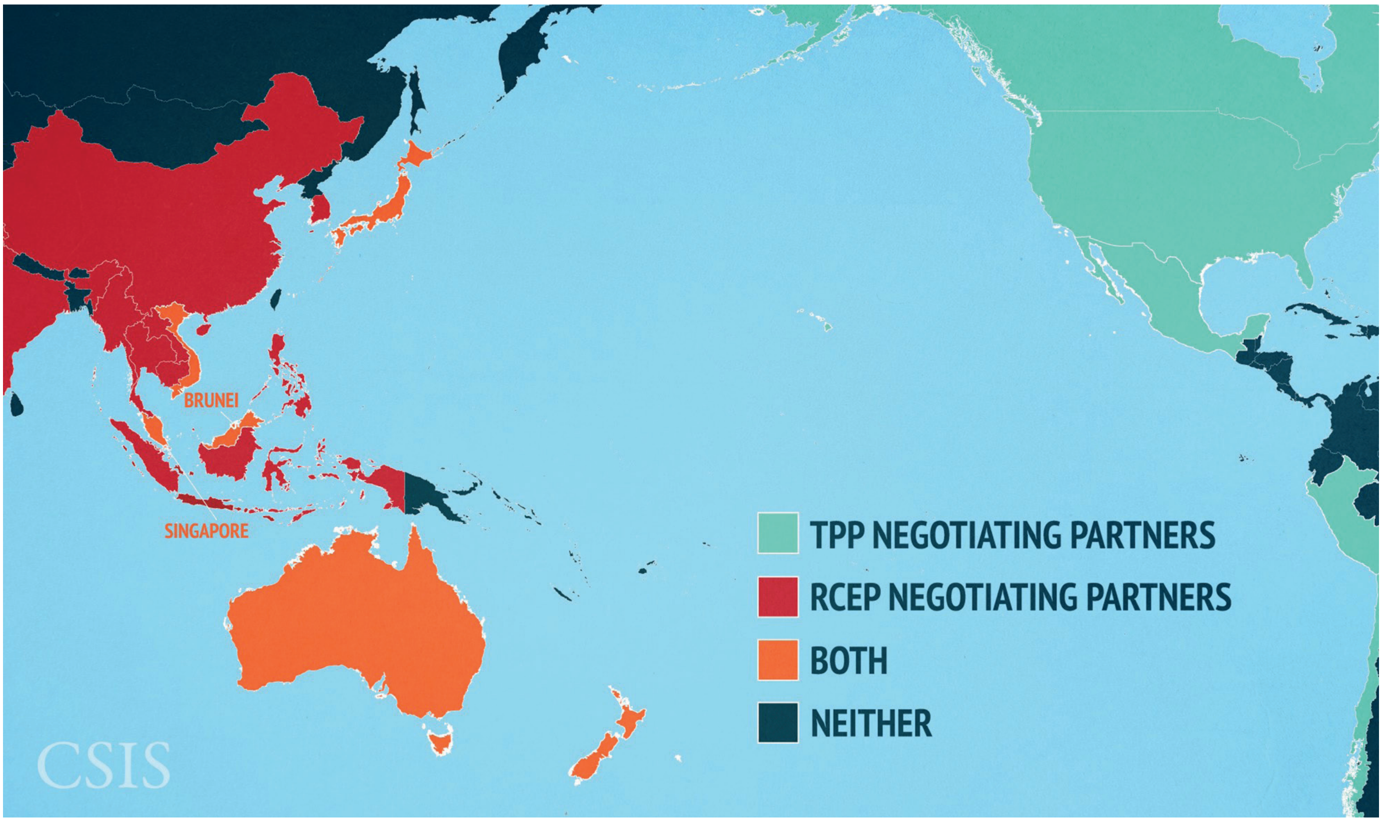
Vietnam and other potential members to the TPP from ASEAN will enjoy a large inflow of FDI and this will create a virtuous circle in terms of socio-economic development. At the same time, other members of ASEAN will find themselves falling further and further behind in terms if socio-economic development as they will be seen as less attractive investment destinations.

Further escalating these trends will be demographic pressures associated with a greying population, the consequences of the one-child policy and increased labour costs in China (See figures). The end result will be more and more businesses seeking to lower their costs of doing business. The vibrant ASEAN economies with their young populations are the logical choice for FDI, especially if these countries are founding or potential TPP members states with access to the North American and Japanese economies.

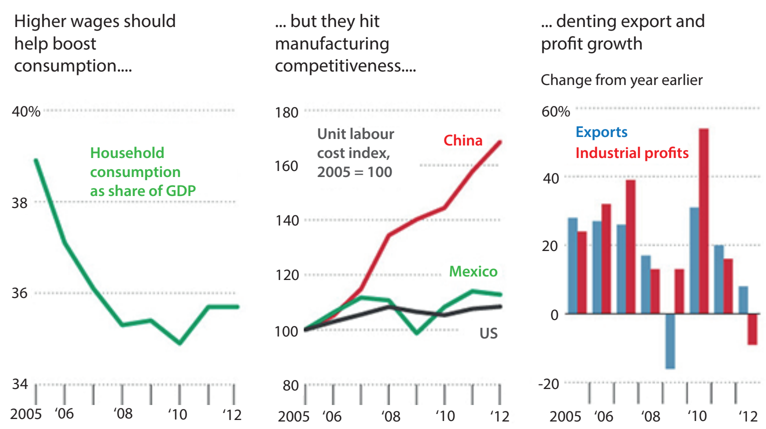
The bifurcation into the high growth, TPP member states and the low growth, non-TPP member states will weaken the importance of ASEAN as an economic, political and culture regional framework[7]. Geopolitically, this division will weaken China's influence on the region and enhance the US's and core TPP member states influence on the region. It strengthens the rationale for further economic, political and security ties within the region.

The potential division of ASEAN countries into high and low performers has important consequences for regional integration in East Asia based on economic interdependence. The so-called ASEAN way will become increasingly difficult to maintain as socio-economic develop differences become more apparent.

ASEAN is often seen as the model for East Asian integration with its respect for sovereignty and consensus making decision process. It is also seen as the driver behind East Asian integration allowing the 'big' economies in the region, namely China, Japan and South Korea to act as the 'engine' of integration thus diffusing potential conflict in terms of

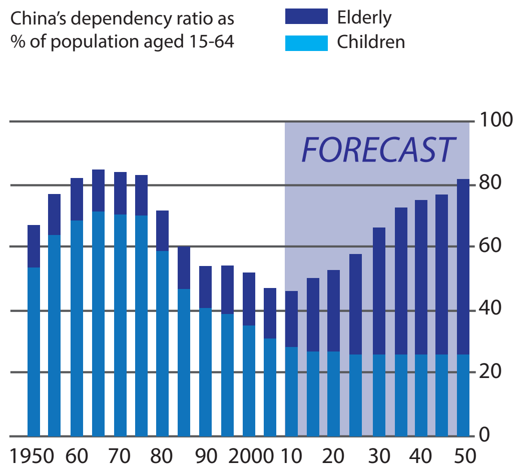


Rising wages - costs and benefits



Sources: CEIC, Economist Intelligence Unit, NBS

All uphill from here



Source: "World Population Prospects", United Nations 2009

leadership of the integration process. This role will be severely weakened as economic divisions manifest. Consensus-based decision making will produce minimum results leading to member states questioning the raison d'être of a regional institution that cannot meet their needs.

China's economic slowdown, yuan devaluation and the TPP

China's economic slowdown and yuan devaluation will increase the incentive for negotiating states to complete the TPP agreement. ASEAN members will benefit from the agreement by having trade barriers removed and access to the largest consumer markets opened. Japan, South Korea and other countries whom have a large and growing FDI foot print in ASEAN countries will further their investments to create strong manufacturing platforms in ASEAN in countries, especially those that will have access to the North American market.

At the same time, TPP membership allows participating states to decrease their reliance on the Chinese market and the influence of further yuan devaluation or economic coercion over political differences. North American, South America, Australia and New Zealand will also benefit from the removal of trade barriers to previously highly protective markets but also by the enactment of trade rules that protect many of their niche industries through strong IPR and services related rules.

Decreasing reliance on the Chinese market does not mean deleveraging or leaving the Chinese market. Instead, the TPP if realized provides participating nations a window of opportunity to have two production networks that have different end consumers. The China based production will gradually shift its weight towards the production of goods for a domestic Chinese consumer while the evolving production network in Southeast Asia will engage in the production of goods for TPP member states and a global consumer base. This bifurcation of production networks isolates TPP members from the inevitable ups and downs associated with economic, political and security relations with China. With this in mind, the successful realization of the TPP will reconfigure regional architecture through access to large consumer markets, transparent rules and leveraging the economic development differences of participating member states. ■

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Dr Stephen R Nagy is an Associate Professor of Politics and International Studies at the International Christian University, Tokyo. He obtained his PhD from Waseda University in International Relations 2009 and worked at the Department of Japanese Studies at the Chinese University of Hong Kong as an Assistant Professor from December 2009 to January 2014. His recent research projects have included "Sino-Japanese Relations in the Wake of the 2012 Territorial Disputes: Investigating changes in Japanese Business' trade and investment strategy in China" and "Non-traditional security Cooperation in Northeast Asia". Currently he is investigating "Chinese Perceptions of Japan's Foreign Policy under PM Abe since 2012". In conjunction with his research focus on Asian regional integration, in March 2010 he was appointed a Senior Fellow with the Global Institute of Asian Regional Integration (GIARI), Waseda University. He is also a member of the Hong Kong Institute of Asia Pacific Studies' International Affairs Research Centre (IARC) at the Chinese University of Hong Kong.

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