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China's Comprehensive and Progressive Agreement for Trans-Pacific Partnership Application

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On 16 September 2021, China officially applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).¹ While the timing is somewhat unexpected, less than a year after China and 14 other countries signed the Regional Comprehensive Economic Partnership (RCEP), it did not come as a surprise. Indeed, China has reversed its stance on the CPTPP and indicated its interest for some time before making the concrete step of sending in its application.

In May 2020, Chinese Premier Li Keqiang at the Third Session of the 13th National People's Congress openly stated that China holds a positive and open view of the CPTPP. At a November 2020 Asia-Pacific Economic Cooperation (APEC) meeting, one week after China signed the RCEP, President Xi Jinping further signalled China's intention to join the CPTPP. Since then, China's Ministry of Commerce has conducted studies on the CPTPP and made informal contact with officials from Australia, New Zealand and Malaysia to discuss technical details.²

¹ The CPTPP, which includes Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam, was signed on 8 March 2018 in Chile. It came into force on 30 December 2018 when more than half of the members ratified it.

² "China Steps Up Efforts to Join Trade Pact Created to Exclude It", *Bloomberg*, 18 May 2021. Source: <https://www.bloomberg.com/news/articles/2021-05-17/china-steps-up-efforts-to-join-trade-pact-created-to-exclude-it> (accessed 24 September 2021).

China's application to CPTPP raises three key questions: What would be the potential gains for China and for members of the pact? What does it take for China to create the necessary conditions for its membership? What are the major obstacles—economic, strategic and procedural—to China's membership?

POTENTIAL GAINS OF CHINA'S ACCESSION

There is little doubt that joining the CPTPP would benefit China greatly, especially at a time of rising protectionist tendencies and attacks on multilateral cooperation. For example, it provides Chinese businesses with better access to markets that currently do not have formal bilateral or multilateral free trade agreements with China.

Among the 11 CPTPP members, nine have trade agreements with China. These include seven countries under RCEP,³ and Chile and Peru, which each signed bilateral trade arrangement with China in 2005 and 2009, respectively. That leaves only two of the 11 existing CPTPP members, Canada and Mexico, that do not have any formal free trade arrangement with China. This gives rise to the question of how significant is the access to these two markets through CPTPP for China. Arguably, trade ties between China and these two countries are currently quite limited. In 2019 exports to the two accounted for only around four per cent of China's total and exports to China made up a respective four and two per cent of Canada's and Mexico's total (Figure 1). Figure 1 shows that either multilateral or bilateral free trade agreement with China may boost these countries' exports to China.



China's accession to CPTPP could generate considerable benefits to the grouping. The most direct impact of China's participation is the increase in size of the CPTPP. As the world's second largest economy, China's entry to the CPTPP would make it the world's largest trade deal, slightly larger than RCEP (Table 1). The CPTPP accounts for nearly 13% of the world's gross domestic product, while China's participation could jack this up to 29%, almost as large

³ There are Australia, Brunei, Japan, Malaysia, New Zealand, Singapore and Vietnam.

as the RCEP. Market size will likewise be bolstered. The net inflow of foreign direct investment for the CPTPP is 21%; with China's participation, this could add a good 10% to it.

TABLE CPTPP, RCEP AND CPTPP+CHINA COMPARED, % OF WORLD TOTAL, 2019

Indicators	CPTPP	CPTPP plus China	RCEP
Gross National Income (% in total)	12.7%	29.1%	29.6%
Population	6.6%	24.8%	29.5%
Trade	16.9%	28.3%	27.3%
FDI, Net Inflow	21.3%	30.9%	25.9%

Source: Authors' compilation based on data from The World Development Indicator, the World Bank (<http://wdi.worldbank.org/table>, accessed 20 September 2021).

According to a study by Peterson Institute for International Economics⁴ for 2030, CPTPP would generate global income gains of \$147 billion per year. These gains would quadruple to \$632 billion with China's entry. Specifically, China is set to gain \$298 billion while CPTPP members would gain \$355 billion. Global income gains will hit \$1,225 billion if Indonesia, Korea, the Philippines, Taiwan and Thailand were included as well. Under this condition, income gains for China could reach \$325 billion and for CPTPP members it could be a staggering \$531 billion.

China's participation would make CPTPP more attractive to other potential members. For example, Taiwan has applied for CPTPP membership and Thailand is reconsidering after China has handed its application. Director-General of the Trade Negotiations Department of Thailand Auramon Supthaweethum noted that "many parties have shown an interest and are closely watching the CPTPP". There are also calls for President Biden to reverse Trump's decision to withdraw from the pact and rejoin it, stating that "Washington cannot afford to sit on the sidelines in the region".⁵

CHINA'S CPTPP ENTRY: CHALLENGES

While the potential benefits for China's CPTPP entry are sizeable, the gaps remain large between CPTPP core standards and China's extant commitment to other trade agreements. In particular, the provisions of CPTPP are far more demanding than those in RCEP, both in coverage and in depth. This is especially true for issues related to state-owned enterprises (SOEs), labour and environment. Other important provisions for CPTPP, such as dispute settlement and intellectual property rights are either not covered in RCEP or only lightly mentioned (Table 2).

⁴ Peter A Petri and Michael G Plummer (2019), "China Should Join the New Trans-Pacific Partnership", Peterson Institute for International Economics. Source: <https://www.piie.com/publications/policy-briefs/china-should-join-new-trans-pacific-partnership> (accessed 22 September 2021).

⁵ Jeffrey J Schott, "China's CPTPP Bid Puts Biden on the Spot", 23 September 2021. (https://www.piie.com/blogs/trade-and-investment-policy-watch/chinas-cptpp-bid-puts-biden-spot?utm_source=update-newsletter&utm_medium=email&utm_campaign=piie-insider&utm_term=2021-09-29, accessed 1 October 2021).

TABLE 2 KEY PROVISIONS IN CPTPP ON SELECTED ISSUES, ON WHICH THERE IS NO OR LIMITED INCLUSION IN RCEP

Issues	CPTPP	RCEP
SOEs and Designated Monopolies	<p>Chapter 17 specifies that:</p> <ol style="list-style-type: none"> 1. Each Party shall ensure non-discriminatory treatment and commercial considerations; 2. No Party shall cause adverse effects through the use of non-commercial assistance; 3. Each Party shall provide or make publicly available a list of SOEs and designated monopolies and, at the written request of another Party, present additional information concerning activities that may affect trade or investment between the Parties, including non-commercial assistance and related policies; and 4. A Committee on State-Owned Enterprises and Designated Monopolies represented by government officials of each Party should be established. 	Not included
Intellectual Property	<p>Chapter 18 has 11 sections and a comprehensive intellectual property protection coverage:</p> <ol style="list-style-type: none"> 1. It has a broader scope of intellectual property protection related to trademarks, including scent trademarks; 2. It has a supplementary of patent protection measures related to agrochemicals; and 3. It includes a 10-article section on enforcement, with stringent measures; it covers an expanded range of infringing goods targeted by border measures, and extends border enforcement measures beyond trade with the inclusion of such articles as <i>Civil and Administrative Procedures and Remedies</i>, and <i>Criminal Procedures and Penalties</i>. 	11 With an annex for party-specific transition period
Labour	<p>Chapter 19 specifies that:</p> <ol style="list-style-type: none"> 1. Each Party shall adopt and maintain statutes and regulations and practices thereunder labour rights as stated in the ILO Declaration, including freedom of association and the right to collective bargaining; the elimination of forced or compulsory labour, effective abolition of child labour, elimination of discrimination in employment and occupation; 2. Each Party shall adopt and maintain statutes and regulations and practices for acceptable work conditions with respect to minimum wages, working hours, and occupational safety and health; and 3. A Labour Council is to be established comprising senior governmental representatives at the ministerial or other level, as designated by each Party. 	Not included
Investor-State Dispute Settlement	<p>Section B of Chapter 9 specifies that a claimant (investor) may submit to arbitration when:</p> <ol style="list-style-type: none"> 1. The respondent has breached an obligation of Section A of the chapter, an investment authorisation, or an investment agreement; and 2. The claimant (investor) has incurred loss or damage by reason of, or arising out of, that breach. 	Not included
Environment	<p>Chapter 20 specifies that:</p> <ol style="list-style-type: none"> 1. The objectives are to promote mutually supportive policies, environment protection and effective enforcement of environmental laws, and enhance the capacities of the Parties; 2. The Parties agree that enhanced cooperation in the area brings benefits to sustainable development, stronger environmental governance and other objectives; 3. The Parties recognise that it is inappropriate to use environmental measures in a way to restrict trade or investment between the Parties; 	Not included

	<p>4. The Parties are aware that flexible, voluntary mechanisms can contribute to the achievement and maintenance of high levels of environmental production and complement domestic regulatory measures;</p> <p>5. The Parties recognise the importance of cooperation as a mechanism to implement the chapter, enhance its benefits and strengthen the Parties' joint and individual capacities.</p>	
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Source: Authors' compilation based on the texts of both agreements. (<https://www.isis.org.my/2020/11/17/the-regional-comprehensive-economic-partnership-rcep/>, <https://www.mfat.govt.nz/es/trade/free-trade-agreements/free-trade-agreements-in-force/comprehensive-and-progressive-agreement-for-trans-pacific-partnership-cptpp/comprehensive-and-progressive-agreement-for-trans-pacific-partnership-text-and-resources/>, accessed 27 September 2021).

Among the issues, the dominant role of SOEs in many economic activities in China is the primary concern of CPTPP members and possibly the greatest hurdle for China. As such, measures to moderate SOEs' dominance will be essential for China's prospective membership in the CPTPP. CPTPP's chapter on SOEs presents three major challenges for China's entry: (i) guarantee of non-discriminatory treatment of businesses in commercial activities; (ii) intolerance of non-commercial assistance to SOEs that may cause market distortions; and (iii) implementation of SOE-related provisions by a committee on SOEs.

A second hurdle is with China's labour regulations. CPTPP's chapter on labour is based on the *International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work and its Follow-up (1998)*. CPTPP specifies that members shall ensure labour rights such as freedom of association and the right to collective bargaining, and elimination of forced labour and discrimination. Members are also required to legally assure acceptable work condition, including minimum wages and hours of work, and abide by occupational safety and health standards. They must also recognise the provision on corporate social responsibility and promote public awareness of labour law. Although China is a founding member of the ILO, it has not ratified fundamental conventions, such as freedom of association and forced labour, that were part and parcel of the article on labour right in CPTPP. Significant improvement is needed on labour-related rules for China's accession to the CPTPP.

A third issue is environment. While the CPTPP acknowledges the need for members to have their own priorities on domestic environmental protection, it will not allow a tradeoff between protecting the environment and encouraging trade and investment. Members are obliged to protect the ozone layer, prevent marine pollution and cooperate on trade-related issues such as biodiversity and invasive alien species. Although China has pledged to cut emission under the Paris agreement, it has done little to stop the building of coal and gas-fired power plants in its own territory. It remains to be seen if the goal of attaining carbon neutrality by 2060 could be reached.

The fourth concern is with intellectual property. The chapter on intellectual property in CPTPP has a broader scope of protection such as the inclusion of scent trademark. Enforcement measures are also more stringent, covering a wide range of infringing goods that are beyond imports and exports.

Vietnam may be a good example for China to push forward the CPTPP membership. Vietnam has many SOEs, so it is challenging for the country to fully satisfy the requirements of the chapter on SOEs and designed monopolies when the agreement took effect. As a result, non-conforming measures were included for selected issues for Vietnam, as well as for other CPTPP members on various issues. Vietnam is second only to Mexico in terms of number of non-conforming measures, 14 in total. With these non-conforming measures, the Vietnamese

authorities could continue to provide non-commercial assistance to Viet Nam Oil and Gas Group and its subsidiaries in the name of regional or socioeconomic development within Vietnam. On labour, Vietnam also has made many side negotiations with CPTPP members to allow for a window period in enforcing dispute settlement such as compensation and suspension of benefit.

POTENTIAL OBSTACLES TO CHINA'S CPTPP ACCESSION

China's accession process will likely be a long one, involving several steps that have no specified time limit for each.⁶ In addition, consensus is needed for an applicant's accession implying that an existing member can veto the accession process. This, combined with hugely diverging interests among current members and strategic considerations, suggests that China will have to overcome numerous obstacles in its efforts for CPTPP membership.

One hurdle is Vietnam's concern that its rapid trade expansion in recent years could be negatively affected by China's participation. In 2020, amid the COVID pandemic, Vietnam's exports performance had been exceptional, registering an annual growth of six per cent, while those of other CPTPP members had declined. More importantly, Vietnam was one of the only two members which had CPTPP intra-bloc export gains from 2017 to 2020, accounting for four per cent of CPTPP growth annually.⁷ China's entry may challenge Vietnam exports performance, especially on electronic products.

While potential competition is an important concern for some members, more serious challenges will likely be strategic. In recent years, China's neighbours in Asia and the Pacific, such as Japan and Australia, have grown increasingly wary of China's expanding economic might and more assertive diplomatic stance. Indeed, as a de facto leader among the 11 members, China's participation could weaken Japan's leadership role. With Australia, bilateral relations have visibly deteriorated in recent years. It is hard to envision that it would extend an open arm to welcome China's accession.

Japan has already raised the concern of SOEs to the Chinese government, while Australia has indicated that "it would not be willing to negotiate China's application to join the CPTPP unless Beijing removes retaliatory tariffs on Australian goods".⁸ Relations with Canada have also taken a beating after the accusation of human rights issue in Xinjiang, the detaining of Huawei's Chief Financial Officer and China's arrest of Canadian citizens in retaliation.

⁶ The accession begins with a formal request to the depository nation, New Zealand. New Zealand will share the request with members. The CPTPP commission, which composed of government representatives of each Party at the level of ministers or senior officials, will decide whether to commence the accession process and, if so, establish an accession working group to negotiate with applicants. If the commission could not reach a consensus, the applicant will need to consult members until such consensus is reached. The negotiation that follows will be conducted between applicants and the working group, or bilaterally, and the working group will submit a written report, after finalising negotiations. The commission will decide whether to approve the terms and conditions for the applicants' accession by consensus.

⁷ Kati Suominen, "Two Years into CPTPP", Centre for Strategic and International Studies, 9 August 2021. Source: <https://www.csis.org/analysis/two-years-cptpp> (accessed 22 September 2021).

⁸ "With Eye on China, Japan Refuses to Ease TPP Rules for New Members", *Nikkei Asia*, 18 December 2020. Source: <https://asia.nikkei.com/Economy/Trade/With-eye-on-China-Japan-refuses-to-ease-TPP-rules-for-new-members> (accessed 25 September 2021); and "China Must Prove 'Track Record of Compliance' with Free, Open Trade If It Wants to Join CPTPP, Canberra Says", *South China Morning Post*, 18 September 2021. Source: https://www.scmp.com/economy/china-economy/article/3149204/china-must-prove-track-record-compliance-free-open-trade-if?module=perpetual_scroll&pgtype=article&campaign=3149204 (accessed 25 September 2021).

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Although not a member of the CPTPP, the United States is no doubt the biggest hurdle to China's CPTPP ambition as it has a huge bearing on the decisions of many CPTPP members. For example, Japan and Australia have formal defence relations with the United States, in addition to deep economic ties. Meanwhile, under a USMCA (United States-Mexico-Canada Agreement) provision, Canada and Mexico would have to give three months prior notice to the United States if they were to enter into trade talks with a "non-market" economy, an evident reference to China. If Canada or Mexico accepts China into the CPTPP, the United States could terminate the USMCA giving six months' notice and change it to a bilateral agreement.

Since Biden took office in January 2021, the US administration has been more active in external engagement with like-minded countries; it has reinforced old partnerships and alliances and initiated new ones, in part to counter China's growing influence. Apart from some bilateral defence relationship, the United States has at least another five partnerships that involve members of the CPTPP (Table 3), three of which are initiated by the Biden administration.

TABLE 3 PARTNERSHIP ARRANGEMENT BETWEEN THE UNITED STATES AND CPTPP MEMBERS

Partnership or Alliance	CPTPP Members Involved	Effective Date
Quadrilateral Security Dialogue	Australia and Japan	Since 2007
United States-Mexico-Canada Agreement (USMCA)	Mexico and Canada	1 Jul 2020
Build Back Better World (B3W)	Australia, Canada and Japan	12 Jun 2021
AUKUS	Australia; The UK has applied for CPTPP membership in February 2021	15 Sep 2021
Indo-Pacific Digital Trade Agreement	Potential members: ⁹ Canada, Chile, Japan, Malaysia, Australia, New Zealand and Singapore	Work in progress

Source: Authors' compilation from various sources.

WHAT TO EXPECT NEXT?

Evidently, China's accession to the CPTPP will be a long and challenging endeavour. Domestically, it is unclear if the leadership is committed to the many reforms required, especially those on SOEs, labour and environmental standards. Externally, there is no indication if and how China will take steps to alleviate growing hostilities between China and the United States and its allies.

So why did China apply now? The answer likely is that strategic considerations outweigh substantive outcome of participation. First, as far as the application process is concerned, now is as good as any time to apply. Second, China's formal application to CPTPP before the United States does provide certain advantage and leverage over the latter. Third, it is to forestall Taiwan's entry to the CPTPP, which China would consider a violation of its one-China principle. Taiwan has formally applied for CPTPP membership right after China's application.

Furthermore, it would be ironic if China joins the CPTPP earlier than the United States as China could veto US application, a very powerful bargaining chip for China-US trade negotiations. China could also lead the development of the two largest economic blocs in the world without the United States.

⁹ "Chinese State Media Criticises US Plan For Indo-Pacific Digital Trade Deal", *The Straits Times*, 14 July 2021. Source: <https://www.straitstimes.com/asia/east-asia/chinese-state-media-criticises-us-plan-for-indo-pacific-digital-trade-deal> (accessed 25 September 2021).

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Beyond strategic calculations, a formal application to CPTPP also serves China's overall development agenda. Externally, it further reinforces China's support for free trade and multilateral cooperation. Domestically, CPTPP application could help push forward domestic reform and restructuring, including SOE reforms and pilots on free trade zones. Meanwhile, negotiation with existing members could also be a useful learning experience, including better understanding of members' concerns, rule and provision under CPTPP, and perhaps strengthening bilateral ties.

Indeed, China's formal application to join the CPTPP is important, both symbolically and substantively. While no one expects the process to be a quick and smooth one, it has the potential of restructuring the geopolitical landscape of the Asia-Pacific region. As a minimum, it could help accelerate efforts to upgrade and enhance economic integration, a scenario reminiscent of that in the early 2000s when China promoted and formalised economic ties with ASEAN. Such efforts are in dire need today and should be welcomed by the wider world.

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