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Issue Brief

Impact of Trump Backing out of TPP: An Opportunity for China in the Region

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US President Donald Trump vowed to renounce the Trans Pacific Partnership (TPP) on his first day in office. He kept his promise since he considered it a potential disaster which would further wreck the already troubled economy of America.¹ American trade policies for centuries have been in favor of free trade and open market, but Mr. Trump, under his slogan for "America first" has come up with a protectionist agenda. The TPP was considered as the largest trade agreement in history which, when combined, made up 40% of the world's economy, and producing accumulative \$2.8 trillion annual gross domestic product (GDP). The signatory states include United States, Japan, Malaysia, Vietnam, Singapore, Brunei, Australia, New Zealand, Canada, Mexico, Chile and Peru.²

Importantly, China, the second largest economy in the world was not part of this alliance and TPP was the pillar of Obama's Pivot to Asia. Pivot to Asia was a key strategic move to strengthen economic and military ties with Asia Pacific Rim. Furthermore, the Bush, as well as the Obama administrations viewed it as a key strategy in expanding US influence on the region and counter China's economic rise. Now the big question is how China is going to take advantage out of Trump backing away from TPP, and whether China is ready to rewrite the economic rules of the globalized world.

Countries are already considering the '12 minus one formula', which is TPP without the US. On the eve of January 23, 2017 Australian Prime Minister Turnbull said China could join the TPP after Trump backed out. Furthermore, New Zealand and Singapore have hinted that they may go ahead with TPP without the US.³ However, Japanese Prime Minister Shinzo Abe opined that TPP is null and void without America and it does not make sense to go ahead with the deal.⁴ It should be duly noted that China is not interested in the TPP; it has been promoting its own trade deal - the Regional Comprehensive Economic Partnership (RCEP), an agreement with sixteen countries including those from South East Asia, as well as Japan, South Korea, New Zealand and India. Since Trump's election, Philippines, Singapore, and Malaysia have shown a tilt towards the RCEP. New Zealand's Prime Minister Bill English has even stated that "We

¹ <http://www.reuters.com/article/us-usa-trump-tpp-idUSKBN13H00T>

² https://www.nytimes.com/interactive/2016/business/tpp-explained-what-is-trans-pacific-partnership.html?_r=0

³ <http://fortune.com/2017/01/24/donald-trump-tpp-australia-japan-new-zealand/>

⁴ <http://fortune.com/2017/01/24/donald-trump-tpp-australia-japan-new-zealand/>

don't have the choice America has. It's big enough that they can make a living selling things to themselves," "We have to trade."⁵

Trump's withdrawal has put China in the driving seat for trade liberalization. The hunt for trade opportunities has brought the Asia Pacific to China's door. Officials from the sixteen member RCEP have met on February 27, 2017 in Kobe, Japan for negotiations on the new trade deal. The meeting concluded on 3rd march, the countries have so far agreed on economic and technological collaboration, with emphasis on the point that superior economies will offer assistance to emerging economies.⁶ Another trade deal called the Free Trade Area of the Asia Pacific (FTAAP) includes the United States, but whether it stays in is doubtful considering Mr. Trump's policy orientations.⁷

Proposed Trade Agreements Centering on the Pacific

TPP (Trans-Pacific Partnership): 12 members; led by the United States; high regulatory standards; does not include China

RCEP (Regional Comprehensive Economic Partnership): 16 members; centered around the Association of Southeast Asian Nations; backed by China; lower and more limited regulatory standards; does not include the U.S.

FTAAP (Free Trade Area of the Asia-Pacific): 22 members*; fewer conditions for membership; includes both China and the U.S.



*Officially, the FTAAP is considered to have 21 members, counting Taiwan as part of China

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In another important event of the year at World Economic Forum, which was held from January 17-20, 2017, President Xi Jinping of China portrayed his country as an ardent defender of free trade and open markets. He went on to say that if there is a necessity for China to take the leadership role in the world order, China would be ready to shoulder the responsibility.⁹

⁵ https://www.washingtonpost.com/news/worldviews/wp/2017/01/24/trump-kills-tpp-giving-china-its-first-big-win/?utm_term=.8edf490ce707

⁶ <http://www.thestar.com.my/news/regional/2017/03/01/rcep-free-trade-meeting-begins-in-kobe/>

⁷ <https://www.stratfor.com/sample/analysis/tpp-founders-southeast-asia-hedges-its-bets?amp%3Buuid=6f881e5f-d243-4f92-a761-fba79b7750a1&id=%2A%7CLIST%3AUID%7C%2A>

⁸ <https://www.stratfor.com/sample/analysis/tpp-founders-southeast-asia-hedges-its-bets?amp%3Buuid=6f881e5f-d243-4f92-a761-fba79b7750a1&id=%2A%7CLIST%3AUID%7C%2A>

⁹ <http://www.newyorker.com/news/john-cassidy/donald-trumps-new-world-disorder>

China has been presented with a huge opportunity to fill in the shoes of the United States of America in the global economic politics. China can use this window to supplant American system and use its own economic system as a model to draw other countries closer to its orbit. The aftershocks of Trumps decision still cannot be predicted. The international community needs to keep its fingers crossed and see how the future economic politics shapes up to be. It is still not clear what President Trump has under his sleeve to counter China, but apparently it seems that he has himself thrown the ball in the Chinese court and has enabled them to fulfill their desire of economic leadership in the region.

While the wave of nationalism is sweeping across the North Atlantic, and manifesting itself in President Trump's inwards looking rhetoric, as well as the Brexit vote, China, which is already the second largest economy in the world in terms of nominal GDP, is looking for means to expand its trade relations with the outside world. Asia Pacific having been termed as the power house of global economy in the 21st century holds huge prospects for China's economic leadership pursuits. US' backing out of the TPP not only opens up this Asian field for China, but also gives China an opportunity to challenge American hegemony over the nations of this region by increasing their reliance on the Chinese economy.