

FOCUS

Trading places



World leaders and diplomats, including Vladimir Putin and Barack Obama, take their spots for the traditional "family photo" on the final day of the Apec summit in Lima. Photo: AFP

Stalled TPP puts China in free-trade pole position

US exit would give Beijing the chance to set agenda in the Pacific Rim

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When trade ministers from 12 countries wrapped up talks for the Trans-Pacific Partnership (TPP) in Atlanta little more than a year ago, it was widely seen as a major victory for the United States and US President Barack Obama's pivot-to-Asia strategy.

Trade ministers from the US, Australia and Japan called the TPP an "ambitious" and "challenging" scheme that would cut red tape and "set the rules for the 21st century for trade".

But when Pacific Rim leaders met in Peru for the Asia-Pacific Economic Cooperation (Apec) summit on the weekend, the tide had turned, with popular sentiment against globalisation, especially in the major developed economies.

The backlash was clear with Britain's decision in July to leave the European Union and Republican Donald Trump's victory in the US presidential election two weeks ago.

Eyes have since started to turn to China, which after three decades of rapid economic growth, has become the biggest trading partner for most Pacific Rim nations.

Beijing has underscored its commitment to free trade, with President Xi Jinping (习近平) telling Apec business leaders on Saturday that "China will not shut the door to the outside world but will open it even wider".

Observers say China is keen to foster global trade to meet its own needs.

Thomas Rawski, economics professor at the University of Pittsburgh, said China's economy was more open to imports of both goods and capital than Japan's or South Korea's.

"China's appetite for resources is huge, and cannot be satisfied with imports from nearby countries. Its exports have truly global reach," Rawski said.

To that end, Beijing is promoting a rival to the TPP called the Regional Comprehensive Economic Partnership (RCEP), which is gaining interest among some

TPP members. Peru, which Obama called "the US' strongest partner in the Americas", is still holding out hope for the TPP but has opened talks with Beijing to join the RCEP.

Japan and Australia have also called for more progress to conclude the Chinese-led pact.

But Wang Huiyao, president of Beijing-based think tank the Centre for China and Globalisation, said the TPP might not be dead in the water. "It looks like Trump will not completely give up on the TPP but instead introduce a modified version, and China will find itself at a disadvantage because it is excluded from the TPP."

In addition to his free-trade offensive, Xi's weekend trip to Latin America, with stops in Ecuador and Chile, saw China pour in millions in investment and aid into the US' backyard, including a US\$150 million donation to build two hospitals in Ecuador.

Trade volume between China and Latin America has risen more than twentyfold in the past decade, reaching US\$236.5 billion last year, according to Xinhua.

Benjamin Creutzfeldt, a researcher at Johns Hopkins University, said there were threats to and pay-offs for Chinese investment in Latin America.

"The risks of engaging with economies as fragile as Venezuela's, as unpredictable as Brazil's, or as insular as Colombia's need to be mitigated," Creutzfeldt said.

China's appetite for resources ... cannot be satisfied [by] nearby countries

THOMAS RAWSKI, ECONOMICS PROFESSOR

"In this spirit, Xi's tour of Ecuador, Peru and Chile, is purposeful and promising. Ecuador has succeeded in turning China's massive loans since 2009 into very real advances in physical infrastructure, strategic investments in science and education, and reaching almost complete renewable energy coverage."

Creutzfeldt said the success of such development would only grow if other big players in the hemisphere recognised its potential and "recognise that bridges and open borders make the world a better place".

But taking the lead to define the international trade order is not straightforward, especially for China, which is often criticised for not giving foreign companies fair access to its markets.

"China's attitude towards foreign investment, like Europe's, seems to be hardening," Rawski said.

"China's weak financial sector and lack of transparency in important areas such as accounting surely hold back internationalisation."

Observers around the world are also still trying to work out how the Trump administration's international economic policy will unfold, and whether the vacuum left by the US could be temporary.

"Perhaps there will be no leader in this area – Europe is an unlikely candidate," Rawski said.

"However, if leadership does appear, it may well come from Beijing."

Additional reporting by Stuart Lau

Donald Trump's pledge to end trade deals has led to countries that signed up to them looking to Beijing to take up the mantle from Washington

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As the world's biggest economy, the US is used to dominating and even directing the agenda at Asia-Pacific Economic Cooperation meetings. In that respect, the latest summit in Lima, Peru, was business as usual.

However, the focus was entirely different, with members of the group that thrives on free trade addressing US president-elect Donald Trump's pledge to scrap deals some countries have spent years trying to put together.

We reaffirm our commitment to keep our markets open and to fight against all forms of protectionism

APEC DECLARATION

Outgoing US President Barack Obama appears set to leave office without adding the Trans-Pacific Partnership (TPP) to his patchy legacy, allowing China to expand its own deals throughout the Asia-Pacific region.

Leaders at the weekend meeting warned against anyone adopting the same deal-destroying economic ideologies they say are embraced by Trump. Washington's allies, as well as President Xi Jinping (习近平), took aim at his anti-globalisation views.

The Apec forum took place in Peru less than two weeks after Trump won America's top job following a most bitter, divisive and unpredictable race for the White House. While campaigning, he pledged to protect US jobs by scrapping the TPP and renegotiating the North American Free Trade Agreement (Nafta) with Canada and Mexico.

"We reaffirm our commitment to keep our markets open and to fight against all forms of protectionism ... and to roll back protectionist and trade-distorting measures, which weaken trade and slow down the progress and recovery of the international economy," the 21 members said in their closing declaration.

"To achieve sustainable growth in the Asia-Pacific region we must continue working with a renewed sense of urgency and through Asia-Pacific partnership featuring mutual respect and trust, inclusiveness and win-win cooperation in implementing our commitments and achieving our goals," it went on.

As soon as attendees started arriving on Friday, the veiled attacks on Trump began.

On Saturday, Xi delivered a forceful defence of free trade in his speech, saying the best response to rising protectionism would be for Apec's 21 members – which include China, Hong Kong, the US and Russia – to come up with a free-trade area encompassing the entire Pacific Rim.

Even if the US doesn't want to engage in free trade, president Trump needs to know other countries do

JOHN KEY, NEW ZEALAND PRIME MINISTER

New Zealand Prime Minister John Key was less restrained, insisting "tremendous despair" was triggered by Trump's trade views.

"Even if the United States doesn't want to engage in free trade, president Trump needs to know other countries do," he said.

Mexican President Enrique Pena Nieto, who met Trump when he was still campaigning, expressed concern in Peru that the US could turn its back on Nafta, which sees about US\$1.2 million in trade every minute.

"In the face of Trump's positioning, we are now in a stage of favouring dialogue as a way to build a new agenda in our bilateral relationship," he said.

While the future of the TPP hangs in the balance, officials from the other 11 countries involved vowed to press on with it.

Leaders said they would keep seeking ratification back in their home countries and affirmed the deal's economic and strategic importance, said Yasuhisa Kawamura, spokesman for Japanese Prime Minister Shinzo Abe after a meeting of TPP leaders on the sidelines of the Apec summit. According to Kawamura, the US also stated its intention to raise awareness about the trade agreement's importance.

Japan is counting on the successful passage of the TPP – which will eliminate more than 18,000 taxes and other trade barriers – to revive its flagging economy while it seeks to tap export markets in developing economies such as Vietnam.

In a bid to salvage the TPP – a trade deal that excludes China and part of Washington's so-called pivot to Asia to counter China's growing influence – Abe became the first leader to meet the US president-elect when he travelled to Trump Tower in New York on his way to Peru.



Other countries, like Singapore and New Zealand, are also trying to ratify the trade deals domestically, but whether their determination will amount to anything meaningful without the policy direction of next US administration is unclear.

While Obama's administration has been enthusiastically trying to sell the TPP, China has not been pushing its proposed Regional Comprehensive Economic Partnership (RCEP) as aggressively. But Xi portrayed Beijing as a guardian of global free trade.

"China will not shut the door to the outside world – but will open it even wider," Xi told business leaders on Saturday. He also revived calls for Apec members to implement the Free Trade Area of the Asia-Pacific, a decade after the idea for economic integration in the Pacific Rim was first floated.

Though he stopped short of naming the US president-elect, Xi used a meeting with Obama to warn that ties between the two countries were at a critical juncture. "We meet at a hinge moment in the China-US relationship," Xi said. "I hope the two sides will work together to focus on cooperation, manage our differences, and make sure there is a smooth transition in the relationship and that it will continue to grow."

Key noted that if Trump removed America from the TPP, it would pave the way for China to play a bigger role in the region.

"The TPP was all about the United States showing leadership in the Asia-Pacific region. We like the US being in the region. But if the US is not there that void needs to be filled, and it will be filled by China," he said.



President Xi Jinping told Apec business leaders in Lima, Peru, that China would open the door even wider to the outside world. Photo: AFP