

# The Myth of China Joining TPP

**Despite what appears to be interest from Beijing, the world's largest apparel manufacturer is unlikely to participate any time soon.** BY BARBARA WANG

FROM A SILENT bystander to a seemingly enthusiastic member seeking to join the party, the changing attitude of the Beijing government towards the Trans-pacific Partnership (TPP) in recent months fueled speculation about China's likely involvement in the much talked about trade agreement. To traders who got their hopes up, the ultimate result is probably going to be disappointing.

The rumors started at the end of May before President Xi's visit with U.S. President Obama. A spokesperson from the Chinese Foreign Ministry was quoted saying that Beijing was paying close attention to the TPP discussions and would analyze the pros and cons as well as the possibility of joining the talks.

There are many reasons why China did not have a seat at the TPP table in the first place. On the political side, China was never invited to the discussion and was suspicious about the real intention of the US-led trade agreement. On the technical side, the TPP is a lot more comprehensive and rigid than previous FTAs that China has joined. "Rules on competition, state-owned enterprises, e-commerce, intellectual property rights, government procurement, labor, etc in the TPP agreement are much higher than China's current standards," Professor Henry Gao told *Inside Fashion*. Professor Gao is a law professor at Singapore Management University. He is also currently serving on the advisory board of WTO Chairs Program.

Because of the compliance difficulties China would face if it joined TPP, the nation decided that a slower integration into this sort of agreement would be more practical for the nation. In July the State Council approved the Shanghai Free Trade Zone. Combining the existing bonded special customs area, the Shanghai FTZ would al-



Malaysian negotiator J. Jayasiri (L) and Singapore's Chief Negotiator Ng Bao Kim (R) at a joint press conference at the Trans-Pacific Partnership (TPP)

AFP PHOTO / ROSLIAN RAHMAN

low freer currency conversion and customs-free imports and exports. After the Shanghai FTZ was approved, the state council also approved a similar Tianjin FTZ.

*People's Daily*, the official newspaper of the Communist Party, commented that the free trade zone would play a key role should China decide to enter negotiations relating to the TPP and that the Shanghai FTZ was expected to become the first zone in China to join TPP

However, the Shanghai Free Trade Zone project is too little and too late to have a real impact on global trade.

"I don't think the Shanghai free trade zone (FTZ) will be of much help to China, as the TPP will have strict rules of origin (ROO) and products manufactured in FTZ won't be able to enjoy the benefits," said Professor Gao.

It seems that the purpose of the Shanghai FTZ is more about testing structural reforms in a limited area, rather than giving China-manufactured goods duty-free access to the huge TPP market.

Closer examination of the TPP also re-

veals that at least for the garment industry, China stands to benefit as much by being an outsider as it would as an insider. If the 'yarn forward' rule (requiring garment exports to the U.S. be made from yarn or fabrics that are sourced from TPP countries in order to qualify for duty-free status) then major garment exporters such as Vietnam, which has a limited supply of raw materials, will reap little benefit from the agreement. The costs of sourcing the required raw materials will put costs for these nations' exports on par with China. Without the 'yarn forward' rule, China, the region's primary source of textiles, will find itself well positioned with its mills enjoying increased demand. All this without having to make additional concessions that TPP membership would require.

Even with the Shanghai Free Trade Zone plan in place, Professor Gao believes that the Beijing government is not really convinced about TPP and is not ready to actually join TPP negotiations. "I think what they are doing is simply to indicate some interest and throw the ball back into the U.S.'s court."