

# Regional Initiatives

## Unveiling the Trans-Pacific Partnership: An Analysis of the Full Text

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*This article systematically analyzes the full text of the Trans-Pacific Partnership (TPP) from the perspectives of breadth, depth and new concepts. First, by comparing it to free trade agreements (FTAs) that the United States has signed with economies in the Asia-Pacific region and FTAs other economies have signed in the region, it assesses the extension of the TPP text's chapters. Second, it classifies those chapters into four categories: deepening traditional topics, deeper integration, new topics and other institutional topics. Third, the article summarizes four new concepts based on an analysis of the text: to generalize the U.S. idea of international trade and investment rules, to respond to the demand for change in global value chains on global trade governance, to consider the interests of multinational corporations and small and medium-sized enterprises, and to prioritize U.S. interests while taking into account other members' interests. Finally, the article analyzes the comprehensive impact of TPP rules on China.<sup>1</sup>*

**Key words:** Trans-Pacific Partnership; free trade agreement; trade rules; Asia-Pacific; United States; China; global value chains

Taking the newly published Trans-Pacific Partnership (TPP) text as the object of study, this paper conducts systematic research on the TPP text in terms of scope, depth and new concept. On this basis, this paper analyzes the comprehensive influences of TPP rules on China. It provides a guide for in-depth study of the text, precise analysis of the TPP's economic influences, a layout of the Asia-Pacific integration strategy, and a grasp of the evolutionary trend of new international trade rules.

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## Extension of TPP Text in Terms of Scope of Issues

*(I) The TPP is the second generation of the high-standard FTA template established by the United States (US) after the North American Free Trade Agreement (NAFTA)*

The US has always played a leading role in formulating the rules of Free Trade Agreements. In 1994, NAFTA established the first generation of the high-standard Free Trade Agreement (FTA) template in the US, incorporating provisions on competition, industrial standards, intellectual property and environment into FTAs. In over a decade from 2000, FTAs between the US and Singapore, Chile, Australia, Bahrain and Morocco, as well as regional trade agreements (RTAs) between the US and five countries of Central America and the Dominican Republic are generally extended based on the NAFTA template. Meanwhile, its partner countries are gradually extending the US FTA template to the outside. For example, some FTAs between Canada (or Mexico) and other countries were signed with reference to the US template.

By comparing the TPP text with five FTA texts signed by the US with Asia-Pacific countries,<sup>2</sup> it can be seen that the TPP is based on the US version of the FTA with significant extensions, and establishes the second generation of the high-standard FTA template of the US. For example, agreements such as the US-Korea FTA usually contain 23 or 24 chapters, while the TPP consists of 30 chapters, of which six are newly added, namely Cooperation and Capacity Building, Competitiveness and Business Facilitation, Development, Small and Medium-Sized Enterprises, Regulatory Coherence, and Transparency and Anti-Corruption. Meanwhile, although Chapter 17 (State-Owned Enterprises and Designated Monopolies) and Chapter 12 (Temporary Entry for Business Persons) are also new chapters, their specific contents are not new in the FTA texts of the US.

*(II) The TPP establishes a high-standard agreement template exceeding the existing FTAs in the Asia-Pacific region*

By using the FTA database of Asia-Pacific Economic Cooperation (APEC),<sup>3</sup> we compare the provisions of the TPP with the existing Asia-Pacific FTAs. The database includes 42 bilateral and regional FTAs signed from 1982 to 2009 in the Asia-Pacific region. The FTAs in the database are relatively balanced in quantity, and represent the fundamental state of the rules in Asia-Pacific integration. This database summarizes FTA texts into 16 issues which are common to Asia-Pacific integration agreements.

Table 1 shows comparisons of issues in the TPP and APEC Asia-Pacific FTA database. The first column indicates 20 issues present in the TPP and Asia-Pacific FTAs. In the second column, we calculate the coverage rate of each issue in the existing Asia-Pacific FTAs, namely the percentage of FTAs including the issue in all existing FTAs. We study the full text of each FTA in the database, and check whether the specific issue is included in the texts, and then calculate the coverage rate of each issue, using the number of FTAs with the specific issues, divided by the total number of FTAs in the databases. The third column contains 10 issues existing in the TPP only and not included as major issues in the database. In the TPP, 1/3 of issues are new issues in Asia-Pacific integration agreements.

Similar to the analysis results of US agreements themselves, Chapters 12, 17 and 22–26 (Temporary Entry for Business Persons, State-Owned Enterprises and Designated Monopolies, Competitiveness and Business Facilitation, Development, Small- and Medium-Sized Enterprises, Regulatory Coherence, Transparency and Anti-Corruption) are issues of the new century. Besides, issues on special industries such as financial services, telecommunications,

<sup>2</sup> <https://ustr.gov/trade-agreements/free-trade-agreements>

<sup>3</sup> <http://fta.apec.org/search.aspx>

Table 1: Comparisons of Rules in the TPP and Asia-Pacific FTAs

<b>16 Common Issues in the TPP and Asia-Pacific FTA Database</b>	<b>Coverage Rate in Existing Asia-Pacific FTAs</b>		<b>10 Issues Existing in the TPP only</b>
<b>Deepening of Traditional Issues</b>			
<b>Trade in Goods and Related Issues</b>	<b>100%</b>		
2. Trade in Goods	<b>100%</b>		3. Textiles and Apparel
4. Rules of Origin	<b>100%</b>		
5. Customs Administration and Trade Facilitation	<b>83%</b>		
6. Sanitary and Phytosanitary Measures	<b>79%</b>		
7. Technical Barriers to Trade	<b>88%</b>		
8. Trade Remedies	<b>52%</b>		
<b>Investment</b>			
9. Investment	<b>76%</b>		
<b>Trade in Services</b>			
10. Cross-Border Trade in Services	<b>81%</b>		11. Financial Services
14. Electronic Commerce	<b>29%</b>		12. Temporary Entry for Business Persons
			13. Telecommunications
<b>Issues on Deep Integration</b>			
15. Government Procurement	<b>62%</b>		
16. Competition Policy	<b>69%</b>		
18. Intellectual Property	<b>67%</b>		
19. Labor	<b>40%</b>		
20. Environment	<b>52%</b>		
<b>Cross-cutting New Issues</b>			
21. Cooperation and Capacity Building	<b>36%</b>		25. Regulatory Coherence
			17. State-Owned Enterprises and Designated Monopolies
			24. Small- and Medium-Sized Enterprises
			22. Competitiveness and Business Facilitation
			23. Development
			26. Transparency and Anti-Corruption
<b>Other Institutional Issues</b>			
28. Dispute Settlement	<b>93%</b>		
1. Initial Provisions and General Definitions	*		
27. Administrative and Institutional Provisions	*		
29. Exceptions	*		
30. Final Provisions	*		

and textiles and apparel are generally not included in Asia-Pacific FTAs. Chapter 21 (Cooperation and Capacity Building) is a new issue for the US. However, the chapter on cooperation is included in 36% of Asia-Pacific integration agreements, especially in FTAs signed by Japan.

As indicated by analysis from the two perspectives above, in terms of scope, the TPP has made many breakthroughs compared with FTAs in the US and the Asia-Pacific region.

## Deepening of the TPP Text and New Rules

The classification of 30 chapters of the TPP is an important step towards understanding its context. However, it is not easy to classify these chapters, and there are no available unified standards for such a classification in present studies. The World Trade Organization (WTO) and APEC only list general issues in an agreement without classification. Our classification is based on the following two points: (1) the evolutionary stages of global trade rules proposed by Dong [2014]; (2) the degree of application of the agreement, reflected by the coverage rate of the rules in Table 1.

According to Dong [2014], global trade rules have developed in four stages. During the first stage, tariff and non-tariff barriers to trade in goods were reduced. From 1947 to 1962, the first five rounds of the General Agreement on Tariffs and Trade (GATT) mainly focused on tariff concessions for trade in goods. Issues such as non-tariff barriers started from the sixth round of multilateral trade negotiations (the Kennedy Round) from May 1964 to June 1967. The seventh round (Tokyo Round) from September 1973 to April 1979 yielded a breakthrough. During the second stage, trade in services, intellectual property and other issues were included in the trade rules. In the third stage, more issues covering domestic policies were introduced into the negotiation of regional trade rules. From the 1990s, driven by developed countries, more areas involving domestic policies of a country (for instance investment, labor, environmental protection, and competition policies) were brought into the negotiation scope of international trade rules. In 1996, developed countries proposed discussing the “Singapore issues” under the framework of the WTO, but these were not included in multilateral trade negotiations. Then, these issues related to domestic policies were brought into the regional integration negotiation, step by step. Through development over the following 20 years, these rules of “in-depth regional integration” were generally included in regional trade negotiations. The fourth stage is that of high-standard international trade rules oriented towards the 21st century, represented by such agreements as the TPP and featured mainly by rules within borders. According to the coverage rate of Asia-Pacific FTAs in the second column of Table 1, the degree of application of different issues is consistent with the development tendency of the rules.

Based on the above analysis, we classify the 30 chapters of the TPP text into four classes. In the first there is a deepening of traditional issues; in the second are issues on deep integration; in the third is cross-cutting of new issues; and in the fourth are other institutional issues. In general, the TPP is characterised by promoting regional trade liberalization, and aims to build a value chain with a certain exclusivity. It meets the development demands of the 21st century, an era of the digital economy. Based on the facilitation of small and medium-sized enterprises, it gives much space to rules within borders, and takes development diversity into consideration.

## New Concepts Reflected in the TPP Text

After interpreting the TPP text in terms of its scope and depth, we will analyze it more deeply by integrating all agreement contents and summarizing the new concepts in the text.

*(I) The TPP promotes basic US concepts in international economic and trade rules: fairness, openness and impartiality*

The concept of fair trade in the US essentially means that American enterprises can have an equal and fair competition opportunity when competing with foreign enterprises. This concept is highlighted in the TPP. On October 15, 2009, Mr. Obama said in the third debate of the presidential campaign that free trade should be supported, and he emphasized that “fair trade” should be maintained [Ni, 2009]. Thus, Obama inherited the concept of fair trade. Many chapters of the TPP deal with fair trade, so as to enable local enterprises to compete fairly on foreign markets. Chapters involving pre-establishment national treatment include the Trade in Goods, Investment, Cross Border Trade in Services, Financial Services, Telecommunications, and Government Procurement. The purpose is to avoid setting additional competition barriers for foreign enterprises, so that they can enter the market environment fairly. Chapters involving non-tariff barriers include Customs Administration and Trade Facilitation, Sanitary and Phytosanitary Measures, and Technical Barriers to Trade. These aim to reduce transaction costs in international trade resulting from inconsistent systems, regulations and other factors in different countries. The Chapters on Labor and Environment deal with the production costs of enterprises in each country. A country with strict standards for labor and the environment will increase an enterprise’s production costs. Thus, enterprises in a country with loose standards will be more competitive. By setting unified standards for labor and the environment, enterprise cost will not be influenced by these two factors. The Chapters on Competition Policy, State-owned Enterprises and Designated Monopolies, and Small and Medium-Sized Enterprises aim to eliminate government influence so that enterprises will not be at a disadvantage in competition due to government support.

In order to create a fairer environment for international economic and trade competition, the TPP also stresses the concept of openness, which means openness of information. It also refers to transparency, which means that the information provided by the government is not only open to domestic enterprises, but also to foreign enterprises; and that it is not only open to enterprises, but also to consumers. When the government is able to guarantee the transparency of information, foreign enterprises will not lose the opportunity for fair competition due to lack of information availability. Thus, the concept of openness is essentially for the purpose of creating an opportunity for fair competition, and is an extension of fair trade. The TPP attaches much importance to openness and transparency. In terms of statistics, the word “transparency” or “transparent” occurs 102 times in total in the text body of the TPP. Among 31 chapters including the preamble, the quantity of chapters containing the word “transparency” or “transparent” amounts to 21. All of these reflect the principle of openness in the TPP. Among those chapters, the chapter where the aforesaid word occurs most (up to 24 times) is the chapter on State-Owned Enterprises and Designated Monopolies, which indicates that the TPP expects more transparent operations among state-owned enterprises (SOEs). The chapter on Transparency and Anti-Corruption directly deals with the issue of transparency.

In addition to fairness and openness, the TPP also emphasizes the impartiality of dispute settlement by the government. The concepts of fairness and openness attempt to create equal competition opportunities for enterprises prior to and during the process of competition. However, once a dispute occurs involving an enterprise in its competition on the foreign market, the impartiality of the local government becomes very significant. In terms of the subject of the dispute, there are two types involving a foreign enterprise in its competition on the local market. One type involves disputes with local enterprises, and the other involves the disputes with the local government. When a dispute involves domestic and foreign enterprises, in cases where the foreign enterprise is unsatisfied with the resolution, it can raise an objection to the

local government. In this way, these two types of dispute are the same in nature, and both deal with the relationship between the foreign enterprise and the local government. Besides the common dispute settlement mechanism set by various trade agreements, chapters such as Regulatory Coherence, and Administrative and Institutional Provisions aim to encourage the government to maintain impartiality towards local and foreign enterprises in market competition. In the chapter on Investment, Investor-State Dispute Settlement (ISDS) grants foreign investors more power to force the local government to maintain impartiality. In other words, investors can submit disputes directly to third-party procedures and international arbitration, without going through the legal procedures of the host nation.

*(II) The TPP reflects the demand of GVCs for changing international economic and trade rules*

Since the 1990s, global value chains (GVCs) have become predominant in the international division of labor [Baldwin and Lopez-Gonzalez, 2013; Johnson, Robert and Noguera, 2012]. However, existing WTO rules are mainly based on the results of the Uruguay Round of negotiations in 1994 and fail to reflect this point. Currently, many multilateral regional trade agreements reflect the specialization of global value chains, and the TPP reflects it most thoroughly. In the chapter on Competitiveness and Business Facilitation, it proposes the establishment of a Committee on Competitiveness and Business Facilitation to facilitate the development and enhancement of regional supply chains (value chains).

(1) GVCs mean that goods are manufactured in different countries which undertake different production processes. This implies that goods have to cross borders several times during the manufacturing process. Clearly, compared with the traditional labor-division mode of manufacturing a product in a single country, a product manufactured in GVC will include extra costs for crossing borders, which will increase with the cross-border times. Thus, even if the tariff is lower, the cost may be higher. Hence, GVCs require reducing the goods trade tariff to zero. As shown in the 2014 study by Diakantoni et al., after taking cross-border costs into consideration, the actual tariff faced by each industry is much higher than the nominal tariff. If the tariff is reduced to zero, the actual tariff faced by each industry will be significantly reduced. For TPP parties, the simple average MFN tariff is not high at present. Even the highest tariff, in Vietnam, is only 10.58%, while that of other parties is lower than 7%. While all products in Singapore are zero-tariff, the proportion of zero-tariff products in total product quality in Brunei is the highest, at 75.40%, and in Chile is less than 1%. However, in the first year after the TPP enters into force, the tariffs on most products will be reduced to zero. At that time, the proportion of zero-tariff products in Australia, Brunei, Canada, Chile, Singapore and the US will be up to 90%; that in Japan, Malaysia and Peru will exceed 80%. In Mexico and Vietnam it will be relatively low, but will still reach 76.99% and 64.22% respectively.

(2) GVC specialization requires extending rules across borders to rules within borders. In the traditional labor-division mode, where product manufacturing is completed in a single country and the manufacturing process does not involve other countries, we only need to pay attention to border rules between countries. In a GVC, the product is manufactured in different countries. Thus, to facilitate the smooth completion of the manufacturing process, internal rules of countries should be subjected to appropriate constraints. Evidently, the TPP is more binding on internal rules than in available trade agreements, especially in the manufacturing process. For example, relevant rules in the Investment chapter aim to provide services for transnational corporations to arrange production all over the world; the requirement of yarn forward in the Textiles and Apparel chapter aims to provide services for promoting regional value chain development inside TPP parties.

*Table 2: Average Tariffs of TPP Parties and Zero-Tariff Proportions before and after TPP Implementation (%)*

TPP Party	Simple Average Tariff	Proportion of MFN Zero-Tariff Products	Zero-Tariff Proportion in 1 <sup>st</sup> Year after Implementation of TPP
Australia	2.87	46.19	93.04
Brunei	3.46	75.40	92.04
Canada	3.73	52.23	94.93
Chile	5.98	0.45	94.74
Japan	4.21	40.13	86.11
Malaysia	6.54	60.63	84.71
Mexico	6.84	56.12	76.99
Peru	5.12	52.92	80.04
Singapore	0	99.92	100
US	4.32	36.42	92.96
Vietnam	10.58	32.33	64.22

*Note:* New Zealand is not temporarily included in the table as its schedule of tariff concessions is too complicated to be processed. However, as the levels of trade liberalization of New Zealand and Australia are similar, it is not difficult to infer that the proportion of zero-tariff products in New Zealand will be up to 90% after the TPP enters into force.

*Source:* Obtained by the authors by systemizing the Tariff Elimination Schedules of the TPP.

(3) GVC specialization requires formulating unified standards. When a product is manufactured in different countries, the product standard should be unified in those countries so as to effectively connect each manufacturing process for the product. The tendency towards unifying standards is inevitable. In order to unify standards, the TPP develops special annexes for particular products such as cosmetics, medical devices, pharmaceuticals, information and communication technology products, red wine and distilled spirit, prepackaged goods and food additive formulations, and organic agricultural products. None of these are available in previous agreements.

(4) GVCs require taking development into consideration. GVCs connect different countries deeply, and their development depends on the balanced and coordinated development of each country. If some countries have limited ability to participate in GVCs, they will affect the development of the entire regional value chain. The GVC specialization mode compels developed countries to consider benefits to developing economies. Thus, it is important to cultivate the capabilities of less developed countries to participate in GVCs, which is the content of the Investment chapter in the TPP. The TPP is the first agreement to include the Investment chapter in the US. For this purpose, a Development Committee has been established to help developing members make the most of economic opportunities created by the TPP, so as to realize the development goals of broader economic growth, sustainable development, and poverty reduction.

*(III) The TPP considers benefits of transnational corporations and SMEs and limits special government support for SOEs*

In the competition market of international economy and trade, enterprises can be divided into two classes in terms of enterprise size: transnational corporations (usually large) and small-

and medium-sized enterprises (SMEs). Transnational corporations are capable of arranging global or regional production and sales as arrangers of GVCs, while SMEs can make arrangements within their respective countries only, and obtain benefits as participants in GVCs. From the point of view of enterprises, their common opponent is state-owned enterprises (SOEs), and they may lose the chance of obtaining benefits from GVCs due to improper government support for state-owned enterprises. The TPP pays attention to the interests of transnational corporations and SMEs, and sets relevant chapters to restrain the behavior of governments and SOEs.

The chapter directly related to transnational corporations is the Temporary Entry for Business Persons. The arrangement of global production by transnational corporations involves markedly increased cross-border business activity of their staff. In order to reduce the resulting cross-border cost, it is necessary to set a relevant chapter to facilitate temporary entry for business persons. In this chapter, each TPP party makes a commitment in the annex to increase transparency of temporary entry for business persons.

The chapter on Electronic Commerce mainly aims to create a low-cost, safe, and reliable environment for enterprises and persons of each TPP party to access and use the internet to conduct electronic business activities and promote the expansion of electronic commerce, and to encourage relevant innovations by building a free, open, safe, and stable Internet. It can thereby create new trade and investment opportunities for contracting countries, increase employment, and promote economic growth. Ultimately, it will create opportunities for transnational corporations to lead GVCs in the background of "Internet+" and for SMEs to utilize the Internet to integrate into GVCs. The TPP sets a standard for electronic commerce that is higher than that in existing trade agreements and its binding force is clearly enhanced.

Compared with previous agreements, the TPP has a noticeable feature in its emphasis on benefits for SMEs. Innovative development of SMEs is always a focal issue for all APEC economies. Since 1994, as one of the ministerial conferences under the framework of APEC, the APEC SME ministerial conference held every year have discussed issues related to the promotion of SME development. However, existing trade agreements do not pay much attention to SMEs. In the TPP executive summary published earlier by USTR, references to "small- and medium-sized enterprises (SMEs)" occur more than 15 times, which indicates the TPP's focus on SMEs' engagement in international economy and trade. For example, in the framework of multilateral agreements, government procurement agreements (GPAs) do not involve SMEs, since government procurement mainly provides services for large enterprises to enter the market of foreign government procurement, and SMEs are not capable of competing for foreign government procurement. However, the Government Procurement chapter in the TPP is the first to incorporate SMEs into the text, and promote SME development by addressing information sharing and establishing a Committee on SMEs.

While paying attention to transnational corporations and SMEs, the TPP also focuses on SOEs. The State-Owned Enterprises chapter of the TPP limits improper behavior of SOEs on direct subsidies, financing concessions, guarantee facilitation, monopolies, and equity lock-up, and ensures that SOEs operate in a purely commercial manner and competely fairly with private enterprises. Its main contents include: (1) non-discriminatory treatment and commercial concerns, which stipulate that SOEs should operate in a purely commercial manner and compete fairly with foreign and private enterprises; (2) non-commercial assistance, which ensures that commercial procurement and sales of SOEs in each TPP party are driven by commercial concerns, unless such behavior is inconsistent with the purpose of public services; (3) transparency, which requires the elimination of SOE financial concessions and the cancellation of preference for SOEs in government procurement, and guarantees the transparency of SOE information,

such as business contents and financial accounting; (4) immunity and exceptions, which stipulate partial immunity for some state-owned organizations. For example, the Sovereign Wealth Fund of Malaysia has a two-year dispute immunity, and Singapore Temasek Holdings and the Government of Singapore Investment Corporation also have partial immunity.

*(IV) The TPP focuses on the US interests and gives consideration to interests of other TPP parties*

As mentioned previously, the TPP rules reflect the international economic and trade concepts of the US and help to utilize the advantages of the US objectively. From the viewpoint of the text, many provisions are extensions of American domestic laws and regulations to the international level. They can be accepted by the US easily, and mainly create challenges for other members. However, in order to reach a consensus on the negotiation, the TPP also gives consideration to the interests of other TPP parties, and reflects this in the Exceptions chapter and annexes. Different chapters also make special arrangements for different TPP parties. Relevant chapters include Trade in Goods, Investment, Cross Border Trade in Services, Financial Services, Temporary Entry for Business Persons, Government Procurement, State-Owned Enterprises, Intellectual Property, and Exceptions. For example, in the annexes to Trade in Goods, different countries contain different contents. TPP parties such as Austria, Brunei, Chile, New Zealand, Peru and Singapore only include general notes and tariff elimination schedules, while countries such as Canada, Japan, Malaysia, Mexico, the US and Vietnam also include other annexes, such as tariff rate quotas, agricultural safeguard measures, tariff differentials, motor vehicle trade, and earned import allowance. Moreover, different countries have different transition periods. For instance, the US has the longest transition period (30 years) and the transition period of Australia is only four years.

## Comprehensive Influences of TPP on China

*(I) The TPP will have a trade diversion effect on China*

In the short term, the implementation of the TPP will cause trade diversion in China's economy, but this effect is controllable. According to Table 2, upon the implementation of the TPP, the zero-tariff proportion of most TPP parties will exceed 80%. Meanwhile, much of the contents will cause adverse influences on countries beyond the region, for example, measures for customs administration and trade facilitation, strict sanitary and phytosanitary standards, intellectual property standards, and rules of origin for textiles and apparel. Compared with the results calculated through simulation by the main relevant models in both China and abroad, most tariff reductions set by these models are higher than those actually reflected by the text. Based on these models, in the short run, the influence range of the TPP on China's GDP is about 0.1%-0.3%, which is still adoptable. However, further analysis should be made on the consistency between the model-based quantified results of non-tariff barriers and the actual situations.

China has signed free-trade agreements with eight TPP parties other than the US, Japan, Canada and Mexico. These agreements will offset the trade diversion effect caused by the TPP. According to the published TPP text, tariffs between TPP parties will be eliminated step by step. For some industries, such as vehicles imported by the US from Japan, a protection period as long as 30 years is specified. As a result, the trade diversion effect will not be significant in the short term.

However, trade diversion caused by the TPP to China brings about new pressure for the transformation and upgrading of trade in China. The TPP provides new competitive edges for

developing TPP parties in the low-end manufacturing industry. China's high-end manufacturing and other industries have to compete with those of developed countries. Thus, China's manufacturing industry is facing new challenges. In the market of developed countries such as the US, China's labor-intensive products face competition from developing countries such as Vietnam; in the market of other Asia-Pacific TPP parties, the US manufacturing industry will occupy the Asia-Pacific market with a larger market share. Since the financial crisis, the US has paid more attention to the manufacturing industry. From 2009 to 2014, US exports accounted for nearly one third of the US economy. Due to TPP parties' measures such as tariff reduction and reduction of agricultural export subsidies, a large number of US manufacturing commodities, agricultural products, and natural resource products will be exported to other Asia-Pacific TPP parties, putting China under increased pressure on the Asia-Pacific market.

***(II) The TPP will cause an investment diversion effect on China and affect the remodeling of Asia-Pacific value chains***

The TPP provisions on investment aim to establish a stable, transparent, predictable and non-discriminatory protection framework for investors of TPP parties when making overseas investments. The improvement of the investment environment for TPP parties will, to some extent, cause an investment diversion effect on China. In particular, the labor-intensive industry in China will be more inclined to shift to TPP parties in Southeast Asia. However, this diversion conforms, to some degree, to the industrial upgrading and development of China. Furthermore, international investment is affected by comprehensive factors such as market potential, labor cost, and government policy. In general, the TPP investment diversion effect on China is controllable.

More attention should be paid to the influence of the TPP on existing Asia-Pacific value chains. The global production and trade pattern has changed from the traditional trade pattern focusing on final products, to the trade pattern focusing on value chains. The TPP Rules of Origin chapter points out clearly that its purpose is to "promote regional supply chains, and help ensure the TPP countries rather than non-participants are the primary beneficiaries of the Agreement." This chapter stipulates the regional accumulation rules regarding the rules of origin. In other words, raw materials from one TPP party are treated the same as materials from any other TPP party, if used to produce a product in any TPP party. These provisions promote production and supply chain integration among TPP parties, and are favorable for forming a single and integrated Asia-Pacific market. Currently, the two centers of Asia-Pacific value chains are China and the US, and Japan is the sub-center. In the Asia-Pacific region, the Sino-US economic and trade relationship is the core which connects other Asia-Pacific countries into a complicated value chain network. The exclusion of China from the TPP breaks the existing Asia-Pacific production network. The high-standard rules of the 21st century represented by the behind-the-border rules proposed by the TPP provide the institutional foundation for a new regional production network based on TPP parties. China should accelerate the construction of the Free Trade Area of the Asia-Pacific (FTAAP) and avoid being marginalized in the reconstruction of the Asia-Pacific production network. From the perspective of specific industries influenced in the Textiles and Apparel chapter of the TPP text, the "yarn forward" requirement is proposed, which means that a TPP party should use yarns and fabrics within the region as originating materials so as to promote supply and investment portfolios within the region, and only products in the list of "supply shortages" can use specific yarns and fabrics supplied by a non-contracting party as raw materials. Thus, the export of yarns and fabrics produced by China will be affected. Besides, in the Cross-Border Trade in Services chapter, the discriminatory provision on SOEs will limit Chinese enterprises' expansion to international

markets; and the provision on intellectual property increases the production costs of China's enterprises and influences their upgrading in the global value chain. It also greatly enhances protection for pharmaceutical patents. All these will have influences on the overseas layout of China's enterprises.

***(III) The TPP will influence industrial development, market operation and management systems in China***

In the long run, by influencing the market competition environment, setting new technical standards for traditional industries, and establishing new rules framework for emerging industries, the TPP will influence industrial development, market operation and management systems in China.

With the aim of promoting the economic and trade development of TPP parties, the TPP proposes high-standard rules for constructing a new market competition environment. For example, it provides simpler and clearer trade facilitation measures to enhance the customs efficiency of TPP parties, and to help SMEs in their commercial development. By recognizing the best practices in trade remedies, it increases transparency in trade remedies and the legitimacy of procedures, and facilitates temporary entry for business persons. Regarding sanitary and phytosanitary measures, it provides science-based new standards and high requirements for food safety, etc. On the aspect of technical barriers to trade, it proposes new standards and sets specific standards for cosmetics, medical devices, pharmaceuticals, products of information and communication technology, etc. Besides, it stipulates higher requirements for the competition environment faced by China regarding cross-cutting issues such as intellectual property, labor and the environment.

The TPP establishes a new framework of rules for the service industry and emerging industries such as cross-border trade in services, financial services, telecommunications, and electronic commerce. All of these set high standards for China to participate in competition within the global service industry. In respect of new and emerging industries such as telecommunications and electronic commerce, the standards of the TPP are set in accordance with the development situations of countries such as the US. As a decisive country in the development of world electronic commerce, especially as a large country in cross-border consumption, China should strengthen its voice in setting rules for these new industries.

The TPP expands some domestic policies previously under the governance of a country to the whole region, for instance, the chapters on State-Owned Enterprises and Designated Monopolies, and on Regulatory Coherence. The purpose of these rules is to use the framework of domestic policies in developed countries like the US to restrain the operation and supervision behaviors of other countries, so as to form unified business environment and market standards, and to convey the business values of the US. After these rules are extended to become international rules, they will have great influence and impact on the operation of China's enterprises, and on government supervision behavior.

From the above discussions, the traditional trade division effects of TPP on China's economy are controllable, while the exclusion of China from the TPP breaks the existing Asia-Pacific production network. In the long run, the new 21<sup>st</sup> standard rules in TPP will influence industrial development, market operation, and management systems in China. TPP represents the interests of developed countries, and developing and emerging economies should push for the formation of new trade and investment rules to increase the inclusiveness of global value chains.

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