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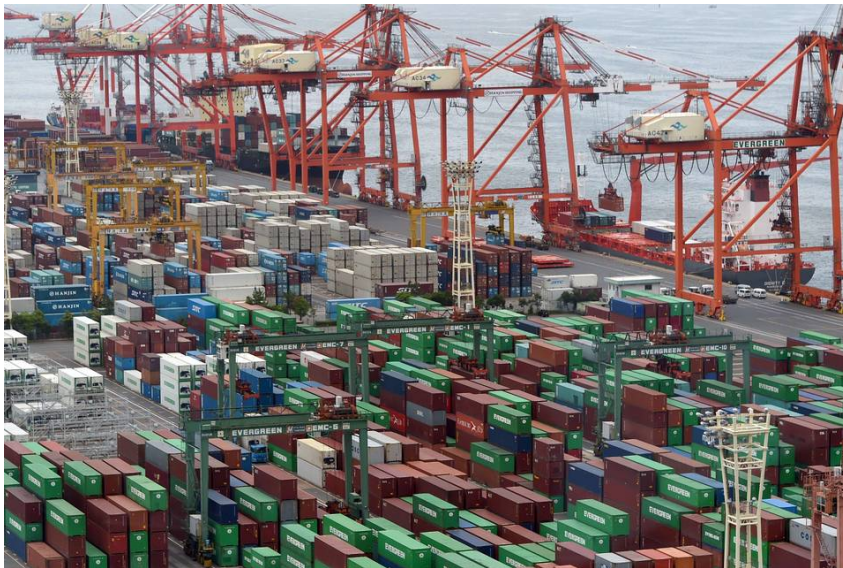
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Trans-Pacific Trade Deal a Setback for China

TPP marks a victory for Japan and other U.S. allies in the battle with China over shaping the future of global commerce.



An international container pier at Tokyo's port. PHOTO: AFP PHOTO / TOSHIFUMI KITAMURA

By **MARK MAGNIER** in Beijing and **MITSURU OBE** in Tokyo

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A sweeping trade deal concluded on Monday marks a victory for Japan and other U.S. allies in the battle with China over shaping the future of global commerce.

The 12-member Trans-Pacific Partnership, which doesn't include China, highlights the price that Beijing is paying for delaying overhauls as other countries write a new rule book for trade across 40% of the global economy, experts say.

Japan's leadership views the agreement as key to its economic and security goals as China expands its influence in the region, especially in Southeast Asia, where Japan has

long been a major investor and aid donor.

“We will help promote regional growth, prosperity and stability by deepening economic ties with countries that share values such as freedom, democracy, basic human rights, and rules of law,” Prime Minister Shinzo Abe said recently.

China is on a weeklong national holiday and officials weren’t immediately available to comment but the official Xinhua News Agency said Sunday that TPP negotiations lacked transparency.

Some Chinese analysts reiterated the long-standing criticism that Washington conceived the trade accord to hold China back. “Will China join? Does the TPP led by the U.S. intend to contain China?” said Fudan University professor Feng Wei on his verified Weibo social media account.

Years in the making, the agreement would lower barriers to the exchange of goods and services among members, which in the Asia-Pacific region also includes Australia, New Zealand, Singapore, Malaysia, Vietnam and Brunei.

China had been invited to join the trade group, but Beijing has been reluctant to comply with many of the required rules, such as opening up the financial sector. By not being a founding member, experts say, China misses the opportunity to help shape an important pillar of the global trading system—a priority for President Xi Jinping.

“The key is whether China’s domestic reforms will be enough or sufficient. If they are not, it will have to follow the U.S. and lose its chance with the TPP to help make the rules,” said Shi Yinhong, director of the Center on American Studies at Renmin University.

THE TRANS-PACIFIC PARTNERSHIP

- See all WSJ coverage of the TPP (<https://flipboard.com/@wsj/the-trans-pacific-partnership-96as1b0ny>)

The trade deal is expected to help

blunt Beijing’s efforts to chart its own course for the region. Those include its own proposed and modest regional trade bloc, the Free Trade Area of the Asia Pacific, and the new Beijing-based Asian Infrastructure Investment Bank, a rival to the Tokyo-led Asian Development Bank, which is based in Manila.

Other Asian countries are more likely to join the TPP rather than a trade bloc led by

Beijing unless China opens up its economy, said Masahiro Kawai, a former Japanese finance ministry official and former World Bank chief economist for East Asia and Pacific.

The world's second-largest economy also misses out on a grouping that includes many technologically advanced countries at a time when it is working hard to introduce high-tech innovation, analysts said. And its economy needs the pressure of foreign competition to give its stalled domestic reform agenda a push, as with the productivity burst China enjoyed after joining the World Trade Organization in 2001, they added.

Two years ago, Mr. Xi announced a broad overhaul to give markets greater sway in an effort to ward off a slowdown and shift the economy to services and consumption and away from industry. Restructuring, however, has been spotty, delayed by opposition from state companies, by the sharpness of the deceleration, corporate and local government debt and excess capacity in housing and industry.

China's own nascent trade architecture—including bilateral agreements with Australia and South Korea and a proposed and relatively modest regional free trade area—is unlikely to give it the trade discipline needed to propel its slowing economy forward, Mr. Shi added.

Still, fear of being excluded and the opportunity to use foreign pressure as a justification to push through domestic restructuring could help pro-reform groups within China over the medium term and potentially accelerate negotiations over a U.S. Bilateral Investment Treaty, analysts said.

“One of the major problems they have is how to break the monopoly of state-owned companies,” said Jing Huang, professor with the National University of Singapore. “TPP may help Chinese leaders who want reform, although of course they don't say that.”

Some Chinese companies aren't waiting for Beijing to act.

Zhang Kui, general manager of Bros Holding Ltd., which operates textile and apparel factories in several Chinese provinces, said its \$300 million investment in TPP member Vietnam since 2012—where wages are about 60% those of eastern China—should allow it to ship goods from that country to other member nations at favorable tariff rates.

Beijing could face significant internal and external hurdles if it eventually moves to join the trade bloc, said University of Chicago professor Dali Yang, especially given concern among some that it hasn't always followed the rules since joining the WTO. Even inside

China, there is growing recognition that China's somewhat capricious system—where regulations can be applied arbitrarily and state-owned companies still dominate large swaths of the economy—makes membership unlikely soon, he added.

“The Chinese economy needs a jolt. It really needs reform,” Mr. Yang said. “Many feel the TPP was borne out of a frustration after the WTO, that China went back on its word in telecommunication, for instance, by not letting foreigners have a major stake.”

But China is setting the stage to join TPP in a few years by lobbying European and other U.S. allies to accept China as a market economy; slowly reforming its state-owned companies and eventually forging an investment deal with the U.S., said University of Singapore's Mr. Huang. “I don't think they want to join very soon, it's not realistic,” he said. “But their view is, ‘We'll get in sooner or later.’ China is keeping its options open,” he added.

Fanfan Wang contributed to this article.

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