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# 1

## Regional Integration or Disintegration?

*Adrian H. Hearn and Margaret Myers*

FEW DEVELOPMENTS IN THE ASIA PACIFIC REGION HAVE SIMULTANEOUSLY harbored such opportunity and such risk as the Trans-Pacific Partnership (TPP). The TPP is the centerpiece of the US “pivot” to Asia, and 35 percent of global trade is represented by its twelve members: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. Economic projections of the TPP’s impact vary: one widely quoted study by Peter Petri, Michael Plummer, and Fan Zhai (2012) estimates global gains of \$295 billion; while the United Nations Global Policy Model, employed by Jeronim Capaldo, Alex Izurieta, and Jomo Kwame Sundaram (2016), finds that after ten years the TPP would produce negligible growth and 771,000 job losses. The agreement’s policy implications are no less controversial. No prior multilateral proposal has set its sights so far “behind the borders” of signatories to regulate investment, intellectual property, and state-owned enterprises (SOEs). Its wide-ranging implications for labor standards, social services, and freedom of online data portend a comprehensive blueprint for future agreements. And yet, the TPP’s assertive vision of Asia Pacific integration may harbor the seeds of regional disintegration.

The TPP’s core goal is also its greatest liability: it seeks to expand the role of markets in the delivery of healthcare, housing, foreign investment, and services in a region where government programs have long underpinned social welfare, national development, and international cooperation. Vietnam stands out among TPP members for its high level of state intervention, but more significant for the region’s trajectory is China, where the encompassing role of the state in practically all aspects of national and foreign affairs preempts TPP membership (Lim, Elms, and Low 2012). As Eric Stadius and Elizabeth Briggs write, “Beijing’s policy of sustaining state run enterprises, the difficulties surrounding land purchase in China, the Chinese Central Bank’s intentional undervaluation of the currency, and various bar-

## 2 *The Changing Currents of Transpacific Integration*

riers to free trade all violate the principles of the TPP” (2012). Chinese currency manipulation, writes C. Fred Bergsten, has cost the US economy “several hundred billion dollars” and “several million additional jobs” and should therefore be countered through the TPP:

Currency manipulation is, by far, the world’s most protectionist international economic policy in the 21st century, but neither the U.S. government nor the responsible international institutions, the International Monetary Fund and the World Trade Organization, have mounted effective responses. Congress has therefore been expressing great concern over the issue and wants to take the occasion of the forthcoming legislation on new U.S. trade agreements, most notably the Trans-Pacific Partnership (TPP), to promote decisive counteraction. (Bergsten 2015)

To the dismay of many in Congress, the TPP contains no enforceable provisions on currency manipulation. Its guidelines on enhanced transparency and reporting of exchange-rate policies are therefore unlikely to generate a regional environment that would deter China from further devaluing the renminbi, as it did in August 2015.

While the TPP cannot impede currency manipulation in member nations, much less in China, it has provoked criticism from Chinese commentators. Most paint a somber picture of the TPP, noting that trade is already relatively open between its members and that it is therefore likely to harbor ulterior motives. According to Cai Penghong (2011), director of the Asia Pacific Economic Cooperation (APEC) Research Center at the Shanghai Academy of Social Sciences: “It seems that the U.S. is using the TPP as a tool as a part of its Asia Pacific Strategy to contain China.” The agreement is also described as a US-led plan to undermine ASEAN+3 (Association of Southeast Asian Nations), an institution that has leveraged China’s growth to consolidate East Asian economic integration (Li 2012). A prominent foreign contributor to Chinese official media, John Ross (2011), argues that the TPP aims “to reorient trade discussion in the Pacific away from the most dynamic market, China, to the less dynamic one of the U.S. by setting terms which exclude China.” Similarly, according to K. V. Kesavan and Kartikeya Khanna (2012), “the partnership serves to compete with China’s economic interests rather than be complementary.”

Interviews conducted in Beijing between 2012 and 2015 by this volume’s editors confirm that Chinese researchers and policy advisers are uncomfortable with the TPP. For instance, Han Feng, deputy director of the Asia Pacific Institute at the Chinese Academy of Social Sciences, described a concern among Chinese foreign policy advisers that the TPP may seek to eventually incorporate Taiwan and therefore pose a threat to Chinese sovereignty. Wang Honggang, deputy director of US studies at the China Insti-

tute of Contemporary International Relations, noted a widely shared suspicion that the US government is using the TPP negotiations to limit China's international expansion. Similarly, Di Dongsheng, deputy director of the Renmin University Center for Chinese Foreign Strategy Studies, suggested that the TPP's high but unrealistic standards are supportive of US economic goals and afford China only a "take it or leave it" option. Pan Wei, director of the Center for Chinese and Global Affairs at Peking University, asserted that influential TPP signatories such as Australia should advocate the redrafting of controversial chapters of the agreement to facilitate China's membership. In general, Chinese officials are worried that the TPP will entrench divisions between Asia Pacific nations favorable to US interests on the one hand, and those sympathetic to China on the other.

The Taiwan question epitomizes the TPP's political nature, because, as Han Feng suggested, it is inextricable from the sensitive diplomacy of the One China Policy. Taiwan's government under Ma Ying-jeou of the Kuomintang (2008–2016), like other Asia Pacific governments, believed that the TPP could create a regional environment that would facilitate its pursuit of domestic economic reforms. But as Shihoko Goto (2015) writes: "Given its experience in joining the World Trade Organization, whereby it had to wait until China was ready for accession in 2001 so that it could join at the same time, there is growing concern that Taipei would have to wait again for Beijing to be ready." To join the TPP without Beijing's consent would constitute an unprecedented assertion of political autonomy; it would also put unwanted pressure on TPP members to articulate a position on Taiwan's sovereign status. These circumstances have become more likely with the January 2016 election of Tsai Ing-wen of the Democratic Progressive Party, which has previously advocated greater independence from mainland China. The TPP provides Taiwan's new government an opportunity to assert its autonomy, binding the dynamics of cross-Strait relations to the broader debate over the agreement's potential to propel the Asia Pacific region toward integration or disintegration.

In the chapters that follow, the authors find no hard evidence that the TPP seeks to contain or curtail Chinese interests, though its unusually broad remit and apparent resonance with US strategic priorities have understandably provoked suspicions in Beijing. This sentiment has been aggravated by US political rhetoric, including President Barack Obama's attempt to build domestic support for the TPP: "95% of the world's potential customers live outside our borders. Many of them live in the Asia Pacific—the world's fastest-growing region. And as we speak, China is trying to write the rules for trade in the 21st century. That would put our workers and our businesses at a massive disadvantage. We can't let that happen. We should write those rules" (White House 2015). This is a subtle remark compared to US secretary of defense Ashton Carter's statement prior to visiting Japan and South

Korea: “Passing TPP is as important to me as another aircraft carrier . . . it would help us promote a global order that reflects both our interests and our values” (Carter 2015). Intentionally or not, the statement implies coercive unilateralism, playing into the hands of TPP critics. As Sam Roggeveen (2015) of the Lowy Institute for International Policy writes: “It’s a sound-bite tailor made for those Beijing skeptics who see the TPP as a device which deliberately excludes them, and which functions as the economic component of a U.S.-led China containment strategy.”

Commitments by senior officials to internationalizing US “interests and values” may galvanize domestic audiences, but listeners around the world find this rhetoric unsophisticated and sometimes overbearing. A more nuanced message would focus on shared interests and values, and how agreements like the TPP can advance them. As several of the volume’s chapters point out, senior Chinese politicians are currently promoting market reforms and more liberal foreign investment conditions that resonate with TPP goals. The zero-sum language employed by some US officials generates unnecessary foreign anxiety about irreconcilable differences, forceful unilateralism, and the militarization of relationships that are concerned less with strategic posturing than with economic exchange.

While the friction generated by nationalistic statements can be easily avoided, previous US commercial partnerships have in some cases developed a military dimension. This phenomenon is evident in the post-9/11 Security and Prosperity Partnership negotiated by the countries of the North American Free Trade Agreement (NAFTA), and its subsequent evolution into Plan Mexico (also known as the Merida Initiative). Resulting in augmented US military presence in Mexico, the emerging trade-security nexus was articulated by former US assistant secretary of state for Western Hemisphere affairs Thomas Shannon: “We have worked through the Security and Prosperity Partnership to improve our commercial and trading relationship, we have also worked to improve our security cooperation. To a certain extent, we’re armoring NAFTA” (quoted in Fitzpatrick Behrens 2009). Nobody has formally advocated “armoring the TPP,” but the prospect is plausible as China stakes increasingly assertive maritime claims and races to install “multi-use” landing strips and port infrastructure in contested territories.

### **Power and Money in the Asia Pacific**

While Chinese strategic capabilities in East Asia do not (yet) rival those of the United States, the financial picture is changing more quickly. The China Development Bank and the Export Import Bank of China now provide more loans to the region than the World Bank and the Asian Development Bank

combined. Similarly, research from the Inter-American Dialogue shows that Chinese loans to Latin America have exceeded the combined loans of the World Bank, the Inter-American Development Bank, and the US Export Import Bank to the region since 2010 (Gallagher and Myers 2014).

Kevin Gallagher (2015) compares the significance of China's global distribution of finance to US investment in European reconstruction after World War II: "China-backed finance has the potential to be nothing short of a 21st century Marshall Plan." Supporting this conclusion, the China-led Asian Infrastructure Investment Bank (AIIB)—criticized by the United States for its questionable governance standards but widely embraced in Europe and Asia—has established an initial fund of \$50 billion (\$100 billion including call-in capital) for regional development.

The AIIB's capacity to advance Chinese policy interests, such as opening export markets, is a key point of contention. As Sun Yun writes, "Promoting exports of Chinese goods to absorb excess capacity runs the risks of encouraging anti-dumping lawsuits, undermining Xi's economic restructuring campaign and, more importantly, undermining the AIIB's legitimacy and credibility" (2015: 1–2). And yet a senior researcher at the National Development and Reform Commission (NDRC) has acknowledged that the AIIB's agenda is something other than commercial: "the operation of the AIIB will not seek high returns but rather to break even or earn minimal profits" (quoted in Yun 2015: 2). The AIIB's instigators thus appear to be less concerned with short-term profitability than with creating a regional environment conducive to Chinese infrastructure investment and diplomatic engagement. These objectives resemble the goals of other recent Chinese initiatives, such as the Silk Road Fund, which has earmarked \$46 billion for Central Asian port development, rail and road links, and power generation (coal, wind, solar, and hydro), and the New Development Bank, which the BRICS bloc (Brazil, Russia, India, China, and South Africa), spearheaded by China, launched in 2014 with initial capital of \$100 billion.

As they contend with dominant structures of finance and governance, Chinese loans and investments have inevitably generated tensions. Many of these tensions can be traced to a core disagreement over the merits of free market and state-led development. The TPP sits at the epicenter of this debate. Derek Scissors of the Heritage Foundation argues that, at a time when Chinese government enterprises are investing overseas like never before, the TPP can ensure a competitive world market: "The outlook for Chinese investment is positive, but setbacks will continue to occur, due in part to foreign suspicion of state firms. The U.S. should formulate policy to ensure competition, with the Chinese firms that come here, in the Chinese market, and around the world through the Trans-Pacific Partnership and other agreements that liberalize market access" (2013a: 1). The TPP's gravity, as Scissors implies, resides in its aspiration to extend prevailing mar-

ket economy conditions, and the opportunities they bring for private enterprise, around the world and potentially into China. Since China is not party to the TPP negotiations and is unlikely to meet its conditions in the foreseeable future—much less in light of the Xi Jinping administration’s defense of SOEs—the liberalization agenda focuses for the time being on China’s neighbors.

As noted earlier, infrastructure, industry, and social services in many Southeast Asian nations depend on direct support from government budgets and increasingly on investment from the Chinese state. This injection of Chinese finance is mutually beneficial: the exports it fuels from recipient countries are increasingly bound for China, filling the lower rungs of Chinese production chains and propelling them into more sophisticated and profitable sectors. This symbiosis emerged in force after the 1997 Asian financial crisis and accelerated a decade later with the global financial crisis. The latest wave of Chinese outbound finance, channeled through the AIIB and Silk Road Fund, aims to inject further capital into regional development while consolidating China’s leadership.

Any disruption to the flow of Chinese finance, for instance through a commitment among TPP signatories to favor inbound investment from private rather than public sectors, would alter the trajectory of Asian integration. It stands to reason, then, that China and its neighbors are hedging against the TPP by negotiating parallel free trade agreements (FTAs) with each other. China has already signed bilateral FTAs with TPP members Australia, Chile, New Zealand, Peru, and Singapore; has joined a multilateral FTA (via ASEAN) with TPP members Malaysia, Brunei, and Vietnam; and is seeking further Asia Pacific FTAs. As Chapters 5 and 6 explain, China has worked hard to consolidate these networks by advocating the conclusion of two multilateral initiatives: the Comprehensive Economic Partnership for East Asia (CEPEA, originally proposed by Japan) and the East Asia Free Trade Area (EAFTA, based on ASEAN+3). Largely through China’s efforts, in 2012 the negotiations for these two frameworks were combined under the Regional Comprehensive Economic Partnership (RCEP), whose members include Australia, Brunei, Cambodia, China, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam.

For economist Jianmin Jin (2013), “the sudden rise of the RCEP is in fact due to the many concerns Asia has about the TPP”; and as Han Feng stated in an interview (24 September 2012), “the RCEP agreement is based on combining ASEAN’s existing FTAs and will directly compete with the TPP. . . . [I]t will sustain our regional identity and sovereignty at a time when the United States is trying to reclaim dominance in the region.” China’s strengthening FTA agenda appears to be its clearest response so far to the TPP (Yuan 2012).



Among China's FTA aspirations is a trilateral deal with Japan and South Korea. The prospective advantages of integrating the three economies, whose combined gross domestic product (GDP) amounts to 70 percent of East Asia's GDP and 20 percent of the world's, are important enough to Beijing to balance the defensive concerns of the Chinese automobile sector. A trilateral agreement could reverse the declining share of trade that Japan and South Korea represent for China (see Table 1.1), and enable China to advance a much-needed improvement of political relations with the two.

Japan's conservative government views China's trilateral proposal with mild interest compared to the TPP, and Chinese strategists worry that Japan's accession to the latter could diminish its interest further. The TPP would enable Japan to compete with China more effectively in US markets, leading Guoyou Song and Wen Jin Yuan to observe that from Beijing's perspective, "Japan's joining makes the TPP even more dangerous for China's economic interests" (2012: 210). While China broadens its FTA agenda to hedge against the TPP, Japan appears to be supporting the TPP to hedge against China's growing regional influence. Simultaneously pursuing the trilateral deal with China and the TPP is a logical course for Japan, whose dual strategy of "hedging and engagement" is becoming a regional phenomenon. Australia, another TPP member, has shown that a bilateral FTA with China leaves the door open to the rising tide of Chinese investment (especially in agriculture and infrastructure) despite TPP restrictions on SOEs and government finance (see Chapter 10).

Like Japan, several Latin American nations see benefits in concurrent partnerships with the United States and China. For these nations, the dangers of overreliance on the former, and benefits of deeper integration with the latter, became evident during global financial crisis. Diminishing exports to the United States were offset by Chinese demand for energy and minerals, though the "resource boom" did little for Mexico and others whose economies are oriented to manufacturing. The four members of the Pacific Alliance (PA)—Mexico, Peru, Colombia, and Chile—have articulated their common interest in more extensive engagement with China and other Asian economies, and to this end they are working to harmonize their own trade and investment regulations.

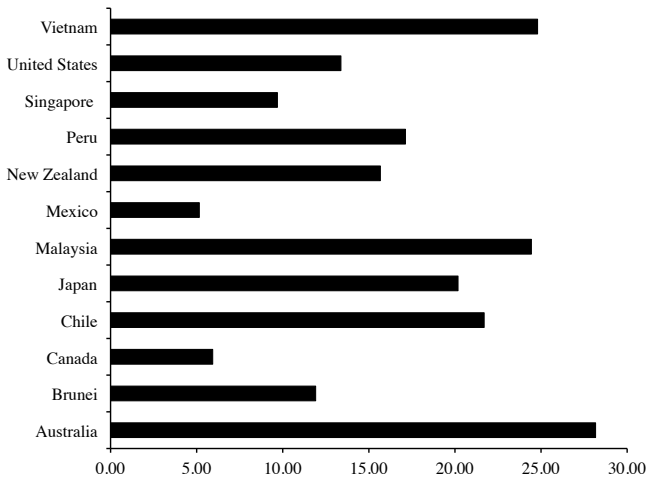
China has been a top economic partner for the PA and TPP nations (see Figure 1.1) and a major investor in Peru in particular. The four nevertheless maintain parallel trade pacts with their traditional partners, including bilateral FTAs with the United States and the European Union. In July 2013 the US government indicated its support for the initiative by becoming an observer. As members of APEC, three of the four—Chile, Mexico, and Peru—are also party to the TPP negotiations. Costa Rica's trade minister has called the Pacific Alliance a "stepping stone" for small countries such

**Table 1.1 China's Trade with Japan and South Korea, 2005–2014 (\$ billions)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total trade	1,422	1,760	2,176	2,563	2,207	2,974	3,642	3,867	4,159	4,300
Trade with Japan	184	207	236	267	229	298	343	329	312	312
Trade with South Korea	112	134	160	186	156	207	246	256	274	290
Japan and South Korea as % of total trade	20.84	19.40	18.21	17.67	17.45	16.98	16.16	15.15	14.10	14.01

*Source:* UN Comtrade 2016.

**Figure 1.1 TPP Members' Trade with China as Percentage of Total Trade, 2014**



Source: UN Comtrade 2016.

as Costa Rica and Panama, which are currently candidates for PA membership, to eventually join the TPP. As argued in Chapter 4, second-tier initiatives like the PA help to prepare the way for broader “mega” deals, including the TPP and the Transatlantic Trade and Investment Partnership (TTIP).

By comparison to the PA, the TPP has generated much greater controversy in US politics. The Obama administration characterizes the TPP as an effort to raise the standards of trade and investment among member nations, but even typically pro-trade Republicans have been reluctant to support an Obama-led initiative. Meanwhile, Democratic lawmakers and activists argue that the TPP will hurt American workers, weaken food safety and financial regulations, and undermine environmental and labor standards (Lim, Elms, and Low 2012). Among the TPP’s most vocal opponents is Democratic senator Elizabeth Warren, who believes that the US government’s decision “to sign trade pacts and tax deals that let subsidized manufacturers around the globe sell here in America while good American jobs get shipped overseas” has “left America’s middle class in a deep hole” (quoted in Goldfarb 2015).

China analyst Gordon Chang (2015) argues that US failure to advance the TPP at this stage could deal a remarkable blow not only to the US-backed global trade agenda, but also to US foreign policy in Asia. Whether intentionally or not, the TPP has become a feature of US “rebalancing” and has therefore attained a degree of strategic importance not normally attrib-

uted to trade agreements. US credibility in Asia and the relevance of the US-led trade architecture is largely staked on the success or failure of the TPP, and yet US ratification of the deal is far from certain.

President Obama's request to Congress in June 2015 to grant him trade-promotion authority, or the power to negotiate trade agreements and speed them through Congress with a yea or nay vote, was a litmus test of US resolve to advance the TPP. The House and Senate narrowly approved the authority, enabling the president to proceed with TPP negotiations and to reach an agreement with the eleven other TPP members in October 2015.

The public release of the TPP text in December 2015 did not placate its opponents. The deal's treatment of data-exclusivity for pharmaceuticals, exclusion of tobacco from investor-state dispute settlement, and perceived failure to address currency manipulation are especially controversial elements for US lawmakers. Senators Orrin Hatch, Sherrod Brown, and Lindsey Graham have cited these and other points to argue against it. Lori Wallach of Public Citizen's Global Trade Watch has characterized the TPP as "basically a Trojan horse for every kind of extreme corporate proposal that could not get passed in the sunshine of public debate" (quoted in Hirschfeld Davis 2015).

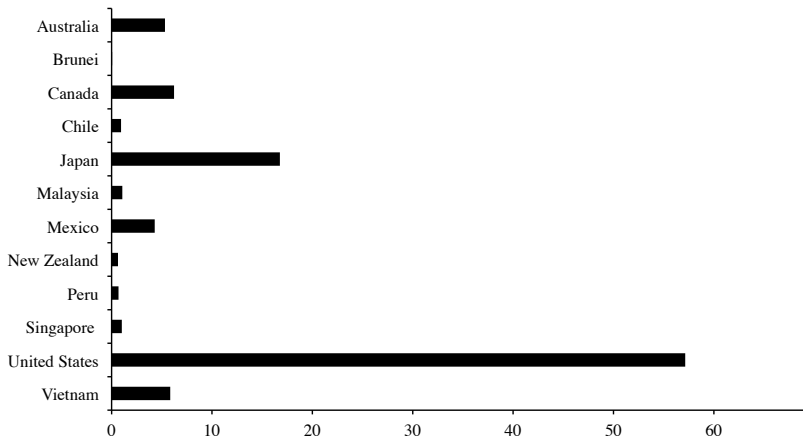
The United States and other TPP members have until February 2018 to ratify the agreement. Little opposition is expected among the TPP's Latin American members, but ratification in Malaysia and Australia could prove challenging. The Obama administration, according to *Politico* and other domestic news sources, faces an uphill battle as US trade agreements have historically required at least two presidential terms to achieve ratification.

required at least two presidential terms to achieve ratification. Neither window is especially promising, however, as US trade agreements have historically required at least two presidential terms to achieve ratification.

As the US domestic debate rages, the other eleven TPP countries are acutely aware that without US support the deal is unlikely to progress. At least six signatories—comprising 85 percent of the TPP's total GDP—must ratify it to ensure implementation. This will require ratification by the United States and Japan, which together account for more than two-thirds of the TPP's total GDP (see Figure 1.2).

If the TPP eventually comes into force, the uncertainties will only multiply as the signatories roll out unprecedented new governance frameworks for business, government, and society. The uncertainties extend to China, where perspectives of the TPP are also in flux. The criticisms voiced above by Chinese analysts contrast with their foreign ministry's reaction when the TPP was signed in October 2015: "China is open to any mechanism that follows rules of the World Trade Organization and can boost the economic integration of the Asia-Pacific. . . . China hopes the TPP pact and other free trade arrangements in the region can boost each

**Figure 1.2 Members' Share of Overall TPP  
Gross Domestic Product, 2014**



Source: World Bank 2014.

other and contribute to the Asia-Pacific's trade, investment and economic growth" (*Xinhua News* 2015).

The Chinese government has periodically signaled that eventually it may consider joining the TPP (Hearn 2013b). Several of the book's contributors find that this position aligns with the government's plan to deepen domestic economic reforms. China's reformers are advocating controversial propositions such as the expansion of the Shanghai Free Trade Zone and bilateral investment treaties with the United States and the European Union, and they believe the TPP could create an economic environment conducive to these goals. But powerful domestic interest groups, including the heavily subsidized automobile industry, oppose further liberalization of the Chinese economy. Which party prevails in this argument, and how comprehensively it does so, will condition China's relationship with the TPP and in turn propel the region either toward integration or disintegration.

## Outline of the Book

The volume assesses the prospects for Asia Pacific integration at a time when new approaches to multilateral cooperation, and the domestic reforms it demands, are reformulating the regional landscape. The project originated in a workshop titled "China, Latin America, and the Changing Architecture of Trans-Pacific Engagement," cohosted in Washington, D.C., in May 2013

by the Latin American Studies Association (LASA) Section for Asia and the Americas and the Inter-American Dialogue's China and Latin America program. Funded by the Open Society Foundations and the Worldwide Universities Network, that exchange of ideas inspired the book's convocation of ten experts with diverse disciplinary backgrounds, professional affiliations, and personal perspectives.

For the three nations that are party to both the Pacific Alliance and the Transpacific Partnership (Chile, Mexico, and Peru), the former is viewed as a preparatory step for the latter, which may eventually attract other Latin American members. Ariel Armony, Nashira Chávez, and Adrian Hearn find in Chapter 2 that diplomats, policy advisers, and scholars interviewed in these three countries aspire to capitalize particularly on China's growing significance for Latin America, albeit with distinct domestic agendas. The PA countries have always *faced* West, but only recently have they *looked* West and envisioned themselves as a collective coastal frontier or "Pacific Corridor" to channel intensifying transpacific trade and investment. While the PA's embrace of market liberalization resonates with the (abandoned) US proposal to establish a Free Trade Area of the Americas (FTAA), the chapter notes Chilean president Michelle Bachelet's simultaneous commitment to deepening relations with the more state-oriented Mercosur (Southern Common Market) bloc. The resulting ideological tensions, the authors find, reflect a broader regional debate about the international leadership credentials of the United States.

US preeminence is also on the minds of Chinese strategists, particularly as the TPP sets out to liberalize the rules of East Asian integration. Jianmin Jin argues in Chapter 3 that the TPP forces a choice upon Beijing: join a US-led initiative or risk being excluded from a process that may shape the region's future economic trajectory. Jin finds that the prior option is less problematic than it may seem, as the TPP coincides to an extent with the Xi administration's efforts to introduce market reforms into the Chinese economy. These efforts are evident in the Shanghai Free Trade Zone, the State Council's announcement that a negative list will be applied to foreign investors in China's health services sector, and nascent Chinese investment agreements with the United States and the European Union. The TPP therefore constitutes an external justification for the government to carry out its domestic reform agenda. The endgame for Beijing is a robust domestic economy that underpins a regional leadership position capable of withstanding prospective foreign challenges. Jin notes the resulting paradox: cooperating with the United States over the long term will reduce the capacity of a US-led alliance to contain China.

If the TPP comes into force its proponents will gradually seek to expand its membership, which at present is limited to APEC nations. To this end, the Pacific Alliance may serve as a conduit for new Latin Ameri-

can members, particularly if the objectives of the two initiatives continue to align. As well as TPP members Chile, Mexico, and Peru, the PA also includes Colombia (and prospectively Costa Rica), countries that are seeking entry to APEC and that may eventually be admitted to the TPP if they adopt the required regulatory reforms. Chapter 4 by Barbara Kotschwar explores this prospect, noting that a parallel process is under way in East Asia, driven by China's regional ambitions. ASEAN has ten core members (four of which are included in the TPP) and has established FTAs with its six main trade partners. With Chinese support, ASEAN has proposed to unify the region's fragmented institutional landscape through RCEP, which as noted earlier has the capacity to compete with the TPP. And yet, Kotschwar argues, RCEP and the TPP harbor enough similarities to come together in support of APEC's long-standing ambition to create a Free Trade Area of the Asia Pacific (FTAAP).

The TPP and RCEP both seek to liberalize trade and investment, but they approach this goal from different orientations. The former seeks strict adherence to provisions on state-owned enterprises, intellectual property, and investor-state dispute settlement, while the latter permits its members flexibility in setting the timeframe and scope of reforms. RCEP's ASEAN-style "consensus" approach augments its appeal for some members, but as Zhang Xuegang argues in Chapter 5, resulting exemptions and exceptions also weaken its cohesion. Zhang finds that RCEP poses three main challenges for China: (1) to open its agriculture, finance, and energy sectors to external competition at a time when domestic sectoral interest groups are gaining political influence; (2) to rapidly establish bilateral FTAs (particularly with Japan, South Korea, and India) that would formulate detailed country-level strategies and thus prepare the way for RCEP; and (3) to support RCEP as an alternative to the TPP while simultaneously deepening economic integration with the United States. These challenges, Zhang argues, are integral to President Xi's proposed "new type of great power relations."

The TPP has accelerated China's pursuit of alternative multilateral agreements that might diminish the TPP's influence, but the Chinese Ministries of Commerce and Foreign Affairs have also signaled that their government has an "open mind" about joining the TPP. Tim Summers argues in Chapter 6 that these seemingly diverging signals reflect China's post-Cold War strategy of simultaneous "engagement" and "diversification." This is evident in Beijing's "turn to multilateralism" through accession to APEC, ASEAN, and the ASEAN Regional Forum (ARF) on the one hand, and concurrent openness to new bilateral FTAs and institutions like RCEP (and ostensibly the TPP) on the other. The former trend engages China in an expanding network of trade and cooperation agreements, while the latter diversifies the regional institutional landscape in order to dilute the impact of potentially hostile alliances. The goal of China's dual strategy,

Summers concludes, is to see the TPP become “one more noodle in the bowl.”

In contrast to US foreign investment policies, Chinese president Xi has contended that the free movement of finance across borders undermines economic stability in the developing world. Kevin Gallagher argues in Chapter 7 that to stabilize twenty-first-century trade and investment, the TPP must widen rather than diminish the ability of signatories to regulate the inflow and outflow of capital and to restructure their sovereign debts. Gallagher’s textual dissection of the US-Peru Trade Treaty and the US Model Bilateral Investment Treaty leads him to argue that the TPP offers an opportunity to improve on past practice. This position is supported by the International Monetary Fund’s recent warning about the “limited flexibility” of emerging trade and investment agreements. US negotiators eventually conceded more flexibility on financial regulation in the TPP, but only after Chile, Malaysia, and progressive members of the US Congress threatened to otherwise withdraw support. The lesson to be drawn, writes Gallagher, is that regional integration under the TPP (or any other model) will attract greater support when governments are afforded the legal ability to protect their financial systems from capital flight.

While the flow of finance across borders stirs diplomatic tensions, the flow of food provokes controversy across government, business, and society. Agriculture disputes precipitated the demise of the World Trade Organization (WTO) Doha round, and as Alan Smart and Josephine Smart write in Chapter 8, “agricultural exceptionalism” now jeopardizes the TPP. The proposed tariff reductions favor large export-oriented agribusiness, but pose challenges for small farmers unable to compete with international economies of scale. Furthermore, conflicts between producers and consumers over the health and safety risks of mass production—and how these risks are scientifically assessed—echo disputes since the 1980s about the institutional causes of mad cow disease and foot and mouth disease. The TPP’s critics argue that the agreement will magnify these risks by insisting that food products are safe unless scientifically proven otherwise, and by undermining the livelihoods of small farmers and the well-being of consumers. According to the chapter’s authors, the new politics of food safety, combined with the old politics of agricultural protection, constitutes a minefield of political risk standing in the path of reform. Investments from Chinese state enterprises in the agriculture sectors of TPP members Australia, Canada, and the United States add heat to the debate as regulators wrestle with the encroachment of foreign SOEs on national land and concerns about the safety of their large-scale operations.

Whether or not Chinese SOEs prioritize political interests over profitability in their overseas operations is debatable. More certain is that existing regulatory frameworks are better equipped to govern investment from



private than government sources, and that the TPP seeks to redress this regulatory gap. Chapter 9 by Adrian Hearn examines Chinese outbound agriculture investment, finding that similar reactions, including allegations of tax avoidance and land grabs, have emerged in contexts as diverse as Australia and Brazil. While the TPP may enable Australia to limit the activities of national and foreign SOEs within its borders, Hearn argues that Chinese investors and their foreign partners have at their disposal countermeasures to circumvent any such restrictions. These include bilateral FTAs that carve out exceptions to the TPP (such as the China-Australia FTA), acquisition of large multinational private firms (such as Noble Group and Nidera in 2014), and empowerment of the Chinese private sector to conduct overseas deals. In light of these countermeasures, the chapter concludes that the TPP should aim less to limit the capacities of SOEs than to encourage foreign investment—whether public or private—that expands value-adding segments of agriculture production chains.

The final chapter, by Adrian Hearn and Margaret Myers, draws together the book's contents, noting that sophisticated diplomacy is becoming more necessary as governments try to balance the opportunities created by China's rise, with participation in emerging international frameworks of trade and investment. The ideological and practical dilemmas of this balance are forcing Asia Pacific nations to consider how closer integration with China may or may not coexist with market-oriented multilateralism. The resulting challenge they face is to formulate strategies that leverage simultaneous benefits from the distinct models of governance that are vying for regional preeminence.

The chapters invite reflection on the changing currents of transpacific integration at a critical moment in Asia Pacific history. The Eastward shift of global economic dynamism brings with it new competitive tensions and cooperative opportunities underpinned by different visions of regionalism. Whether these visions are flexible enough to avert antagonism or too rigid to accommodate each other will determine the meaning of "Asia Pacific" in the twenty-first century. How the emerging "mega-region" is defined will ultimately provide an answer to the encompassing question: Is the Asia Pacific on the cusp of integration or disintegration?

