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SIMULTANEOUS APPLICATION FOR CPTPP MEMBERSHIP BY CHINA AND TAIWAN: A VALUABLE PLATFORM FOR DIALOGUE WITH CHINA?

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- The biggest impediment to China becoming a member of the CPTPP is its state capitalist regime, which is huge and hard to change in a short period of time. This article further explains the problems that Chinese economy faces.
- Nonetheless, Japan should welcome China's application accompanied by Taiwan's. The negotiations will be a valuable platform for dialogue with China on various problems. Japan also needs such a positive issue in its diplomatic dealings with China.
- It will take time for China to change its current state capitalist regime and for the US to change its attitude on the CPTPP. We should patiently wait and continue negotiations.

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In September 2021, China applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). A week later, Taiwan followed suit.

However, there arose negative responses in Japan and the United States to China's application for membership. Underlying this response are negative assessments of China's accession to the WTO: "China joined the WTO by cheating us" and "China did not abide by its commitments and only benefited from the WTO."

The year 2021 marked the twentieth anniversary of China's accession to the WTO, and over the past two decades China's GDP has grown by leaps and bounds, almost tenfold, to 70% that of the United States and three times that of Japan.

It is not fair to say that only China has benefited from its accession to the WTO, because the world has also benefited greatly from China's growth.

Is it correct to claim that "China did not keep its promises?" The answer is yes and no. While China has made good on its market access promises such as lowering tariffs, it has also clearly failed to live up to some promises, such as "the Government of China will not influence, directly or indirectly, commercial decisions on the part of state-owned or state-invested enterprises, including on the quantity, value or country of origin of any goods purchased or sold" (Source: World Trade Organization, *REPORT OF THE WORKING PARTY ON THE ACCESSION OF CHINA*, paragraph 46).

In 2020, China, upset with the Australian government's words and actions over the source of COVID-19, instructed Chinese (state owned) steel and power companies to stop importing Australian coal. This action was a clear violation of the above-mentioned commitment.

Twenty years ago, China had no choice but to downsize its state-owned enterprises (SOEs) in the face of the state's and SOEs' serious financial difficulties, so it had no difficulty in making the promises mentioned above. Since joining the WTO, however, China has achieved rapid economic growth and much of the wealth gained has gone into the pockets of the government and state-owned enterprises.

This accumulation of wealth has turned China into a state capitalist system in which the government, with its vast wealth, wields enormous power over the economy. The greatest miscalculation concerning China's accession to the WTO lies here.

The problem does not stop with influence over state-owned enterprises. Even private enterprises find it virtually impossible to defy the will of the government. Thus, if China is allowed to join the CPTPP as it is, the value of the CPTPP, which aims to be a "high-level trade agreement", will be lost. Similar language to the above commitments is also used in the CPTPP (Chapter 17), but given the lessons learned from China's WTO

accession, it is unlikely that this problem will be rectified by re-drafting the language of the agreement.

Going back to China's application to join the CPTPP, there is good news and bad news. The bad news is that, even if China joins the CPTPP, it is unlikely that the world will benefit again from growth as dramatic as that seen over the past 20 years since China joined the WTO because China's future economic prospects are not as favorable as before.

China's state capitalist growth model has relied too heavily on inefficient real estate and government infrastructure investment financed with huge debt to support that model, whose side effects have become a major impediment to future growth. The problem of state capitalism is so systemic and deep-rooted that China will be unable to change course until the stagnation of growth is evident.

The good news for the rest of the world is that, for the same reason, China cannot continue indefinitely with state capitalism that distorts the market economy.

It will take time for China to change its state capitalism regime, so China's accession to the CPTPP needs to involve long-lasting negotiations. Japan should not hesitate to welcome China's application accompanied by that of Taiwan, because applications from both China and Taiwan will bring great opportunities for Japan's foreign and trade policies.

There are three reasons for this.

First, these negotiations will be a valuable platform for dialogue with China not only for Japan but also for the rest of the world. Discussing the content of the agreement provides a "good reason" to negotiate on such issues as free labor unions and forced labor that China tends to refer to as "internal affairs". After the UK (whose membership application has already proceeded to the negotiation stage) joins the CPTPP, the platform will gain further value for the international community.

Second, Japan-China relations face a difficult road ahead over issues such as Taiwan contingency and the ability to attack enemy bases, a controversial issue on the consistency with Japan's constitutional law. Using a "balance sheet" analogy, Japan-China relations will face a mountain of "liabilities". If Japan does not prepare any "asset" (positive topic) to balance out its relations with China, its diplomacy with China will become as stuck as Japan's diplomacy with North Korea is today.

Third, sentiment within Japan toward negotiations on Chinese membership is negative but if a survey of the other ten CPTPP member countries is held, the majority would welcome or at least don't oppose to hold negotiations on China's accession (the

gap in sentiment with ASEAN seems particularly large). If Japan proves reluctant on this point, consultations will proceed without Japan here and there, and Japan may lose its position as leader of the CPTPP.

What should Japan say to the United States? We hear voices from the US insisting that Japan not allow China to join. It was the US that originally started the TPP to keep countries like China from writing the rules of the global economy so it is disappointing to hear the US, from outside the ring after withdrawing from the TPP, demanding that China not be let in. Southeast Asian countries are questioning the seriousness of the US's "return to Asia." Japan should tell the US that, if it is genuinely concerned about the negotiations on China's accession, it should return to the agreement to show that it is in fact serious about returning to Asia.

It will take time for China to change its state capitalist course and for the United States to change its attitude towards the CPTPP. We should patiently wait and continue negotiations. 

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