



# Essay Contest

## THE TRANS-PACIFIC PARTNERSHIP

*Canada in the Asian Century*

*Winning submission from the Second Annual Canada 2020 / University of Ottawa  
Student Prize Essay Competition*

### University of Ottawa China Working Group

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### Contents

Introduction _____	1
History of the TPP _____	2
(Brief) History of Canada-China Relations _____	3
Economic Dimensions of the TPP _____	4
Containing China: American Trade Policy _____	5
Policy Recommendations _____	7
Conclusion _____	8
Works Cited _____	9

### About the Paper

Canada 2020 asked the students of the University of Ottawa’s Graduate School of Public and International Affairs (GSPIA) to respond to the following question: What is the single biggest policy challenge facing Canada over the coming decade, and what would a progressive federal government response look like?

Our winning submission, from the student-organized and run “China Working Group” at GSPIA, focuses on the Trans Pacific Partnership (TPP) and the overall need for an “Asia strategy” to properly map Canada’s strategic and careful engagement in the region, as well as balance its existing trade relationships with the United States. The paper is an effective, concise background on a complex policy issue facing Canada’s federal government.

For more information about Canada 2020, visit [canada2020.ca](http://canada2020.ca)

For more information about GSPIA, visit [socialsciences.uottawa.ca/api](http://socialsciences.uottawa.ca/api)

*“The TPP is at the heart of Canada’s engagement in Asia.”*

## Introduction

By opening new market opportunities, Canada’s economic diplomacy outlined in the 2013 Global Market Action Plan (GMAP) is aimed at generating economic prosperity and jobs for Canadians. This is done by positioning Canada in the Asia-Pacific and highlights the Tran-Pacific Partnership (TPP) as the cornerstone of Canada’s foreign policy. The GMAP is an expansion of Canada’s Global Commerce Strategy (GCS), where the government identified 13 strategic emerging markets, including countries like China, to strengthen its bilateral trade and investment relations.

The TPP is at the heart of Canada’s economic engagement in Asia, complementing our diplomatic and foreign policy positioning alongside the United States towards China and countries in East Asia and ASEAN. One of the greatest policy challenges for Canada will be the expansion of new market opportunities in Asia through the TPP without alienating one of its most important trade partners, China.

Canada’s engagement in the TPP is strongly associated with its historic and geographic relationship with the United States. The TPP has multiple trade chapters that would likely effectively preclude China from joining and, as a result, Canada’s participation in the TPP may have a negative impact on Canada-China relations on the near horizon. Thus this paper will examine whether the US is likely using the TPP as a containment strategy for China and suggest that policy options could be utilized by the Canadian government to safeguard its bilateral relationship with China while still participating and gaining competitiveness offered through Canada’s inclusion in the TPP.

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## History of the TPP

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The Trans-Pacific Partnership Agreement (TPPA) is a free trade agreement, currently under negotiation, that aims to liberalize trade and investment across the Asia Pacific region. The aim of the TPPA is to reduce all tariff and non-tariff barriers to increase trade and investment (Fergusson, 21). The trade talks are expected to conclude in 2014. The TPPA was originally announced after the Asia-Pacific Economic Cooperation (APEC) forum in 2002 as P-3, a trade agreement between Chile, New Zealand and Singapore (Rajamoorthy). When Brunei joined the talks in 2005 it became the P-4. In 2008, the United States announced its intentions in joining the TPP negotiations (Rajamoorthy). The 2008 US Presidents' Annual Report on Trade was instrumental in bringing the US into the trade talks. The report recommended US participation in the trade agreement as a trade and foreign policy strategy to further integrate the United States into the Asia-Pacific region to compete with rival nations, including China, who were already developing trade partnerships with regional trade initiatives (Fergusson, 9). There were also geopolitical reasons for joining due to concerns over the growing power and influence of China in the region. US involvement in the agreement was also in line with the United States' geopolitical 'pivot' towards Asia.

Canada, along with Mexico, made their debut in 2012 at the 15th round of the Trans-Pacific Partnership Agreement negotiations in Auckland. For Canada, joining the Trans-Pacific Partnership strengthens Canada's competitiveness in the Asia-Pacific region that will extend and deepen Canada's foothold in the region. Japan is the most recent country to enter negotiations in 2013 bringing the total number of countries in negotiation for the proposed free trade agreement to 12: Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam.

The current TPPA is very different from the original structure of the P-4 agreement (Rajamoorthy). While the original P-4 agreement made gains on increasing economic liberalization, it still provided safeguards for each government to protect national priorities. This is not so with the current agreement which takes a 'negative list' approach to trade negotiations. The negative list approach allows countries to list only those sectors that are not covered by the agreement, all others sectors are then subject by default to the full terms of the agreement. This approach leads to greater liberalization in the areas that are not on the negative lists. There are also concerns by public interest groups in various countries against the TPP as they believed that the TPP will further erode state sovereignty and democratic institutions.

## **(Brief) History of Canada-China Relations**

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The relationship between Canada and China has been relatively warm and positive. Diplomatic relations were first formalized between China and Canada in the 1970s under Prime Minister Trudeau. In the 1990s Prime Minister Chretien visited Beijing to continue to strengthen business and political ties between the two countries. It was during this visit that the Chinese Premier Zhu Rongji referred to Canada as China's 'best friend'. In 2005, President Hu Jintao visited Canada to officially affirm China and Canada's 'strategic partnership' (Potter, 1).

There have been political differences between the two countries over issues of human rights and Canada's relationships with the Dalai Lama. Canada remains ambiguous in its affirmation of the "One China Policy" over Taiwan, which allows Canada to continue to have unofficial trade and cultural relations with Taipei, at the dismay of Beijing. The visit of Prime Minister Stephen Harper to China in 2009 signaled a positive shift in the Canadian government's previous stance towards China and it resulted in a number of bilateral agreements to deepen trade and economic relations (see [China.gc.ca](http://China.gc.ca)). The Canada-China Joint Statement issued during the visit highlights five priority areas: governance, trade and investment, environment, health and education. The most recent example of the deepening of Canada-China ties was the loan of two giant pandas to Canadian zoos. A recent study out of Oxford University found panda loans to symbolize China's willingness to build 'guanxi' – or relationships – between countries that are characterized by trust, reciprocity, longevity and loyalty (Buckingham, 262).

The Trans Pacific Partnership project could be the most important trade agreement of the 21st century as it could cover more than one-third of the world trade and is expected to outweigh the trade in the World Trade Organization (WTO) (Gross). China, who is not currently a partner in the partnership, reacted strongly to the development of the TPP. Ever since its proposal, China has pushed forward two of its own projects: the Regional Comprehensive Economic Partnership (RCEP) and the Trilateral Free Trade Agreements (FTA) with Japan and South Korea. The RCEP is a negotiation that is expected to be completed before 2016. The RCEP includes all 10 ASEAN members and other regional countries involved in free trade agreements with China. The Trilateral FTA aims to bring the three biggest Asian economies together: China, Japan and South Korea. The Trilateral FTA dialogue started in 2012 and is still going through rounds of negotiation.

## Economic Dimensions of the TPP

A 2014 article by Chunding Li and John Whalley, identifies the potential consequences of the TPP on China and other participating countries. It examined the effects of three scenarios that could be proposed under the TPP: the elimination of all trade tariffs and regulations, the elimination of tariffs and only 50% of non-tariff costs, or the elimination of tariffs between member countries only. Each of the three scenarios considers the TPP's effect on China.

First, in the case that all trade costs (tariffs, standards, regulation, etc.) are eliminated, China will be disadvantaged. Even if its exports will increase overall, with the increasing demand of the country's goods and hence currency (the Yuan), the reduction in imports due to the sale of goods that are currently bought by China from TPP members will affect the economic well-being of the country. Second, the reduction of 50% of non-tariff costs would also negatively affect China, but less than the complete elimination of trade barriers. Lastly, if TPP only includes a tariff abolishment, China loses even less by not being part of the TPP.

Nevertheless, in all scenarios, China is being cornered and left out of any economic benefits generated by the TPP. From this, we can draw two conclusions: In the first scenario, China's imports will suffer. China's imports will suffer because member countries of the TPP will favour trading between each other and fewer products will be available for China to import at a lower cost. Even if its tariffs do not increase in reality, China's comparative tariffs do see a relative increase as neighbouring countries tariffs are reduced.

The second element of interest about the TPP is its potential capacity to dwarf the WTO, which might force China to reform and liberalize its domestic and economic policy at a faster pace. The International Business Times suggests that the difference between the WTO and the TPP agreement is its impact on domestic policy. Contrary to the WTO, the "TPP would affect the core of a country's business model" (Song). Many experts have commented on the topic of China and the TPP by evaluating the effects of the introduction of China in the World Trade Organization. China's accession to the WTO more than 10 years ago resulted in the gradual change in domestic economic policies to comply with trade liberalization rules and governance. The TPP will go further than the WTO's stipulation in influencing domestic policies to bring China and the other members of the agreement to harmonize domestic trade and investment rules and regulations. The TPP covers more comprehensive chapters that go beyond the WTO such as working conditions, environment, property rights and state-owned enterprises that are designed to preclude China from joining TPP.

## **Containing China: American Trade Policy**

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Canada's engagement in the TPP is deeply embedded in our long relationship with the United States under NAFTA. The three North American NAFTA states of Canada, the United States, and Mexico could be best served under a united regional approach to the Asia-Pacific. The TPP should be viewed through Washington's foreign policy objectives as the US's, and to a lesser extent Canada's, pivot towards Asia. The TPP is also the centrepiece of the United States' economic rebalancing and strategy aimed at reaching its political and regional security aims. China's rapid economic growth in the past decade stirred fears among great powers and poses a significant challenge for the United States both economically and geopolitically. As the US continues to drive the TPP negotiations, the trade agreement could be an instrument to counter and contain China's rise. China's economic prowess allows it to flex its muscles in other strategic arenas. This is reflective of China's increasing military spending and territorial assertiveness in both the South China and the East China Seas.

As a centrepiece of the US's foreign policy, the TPP can be used to confront and contain rather than cooperate with China through the securitization of transpacific trade policy that may see a new Cold-war style realist asymmetric cooperation of opposing blocs. Mearsheimer (30) explains realism as a system that is anarchic, as there is no central authority ruling the international system, and that states are primarily interested in their own survival. As a result, the United States as the hegemon and rising powers like China often act increasingly more aggressive towards each other to minimize security threats and to challenge and gain relative power. Through this lens, the TPP can be viewed as American securitization of multilateral trade policy in a critical catalyst of China's most significant relative power and rise, causing China to cautiously consider joining the TPP. If China does join the TPP, the United States will be able to bring China into an international order governed by the rules it established. Many Chinese academics warn that China will be negatively impacted if it joins the TPP (Song & Yaun, 110). Under the United States' leadership, the TPP saw the inclusion of several provisions, including reforms to environmental and labour standards, intellectual property, and state-owned enterprises that would impede China's accession (Bhagwati).

Observers note that China views American interest in TPP as a regional encroachment that has spurred China to counter-balance. China has accelerated the expansion of China's free trade and increased aid to neighbouring Asian countries (Song & Yaun, 111). Within the last couple of years, China has been actively establishing numerous regional and bilateral trade agreements

to counter the TPP. China has its own parallel trade negotiation for regional economic integration. The most notable of these are the China-ASEAN Free Trade Agreement, Regional Comprehensive Economic Partnership (RCEP), China-Taiwan Economic Cooperation Framework, and the Trilateral FTA talks between China, Korea, and Japan that do not involve the United States (China FTA Network). However, members of ASEAN such as Vietnam and Malaysia, as well as Japan, may also be using the American-led TPP to re-posture and bring a new but changing equilibrium to China's regional dominance in Southeast Asia and East Asia.

However, unlike the United States, Canada is a middle power, equal to Australia or South Korea. This gives it the advantage of being able to create new strategic spaces to balance potentially competing powers and to promote Canada's interests in the Asia-Pacific. China is now Canada's second largest single-nation trading partner, and our most important market in Asia. Despite China's exclusion from the TPP, Canada has pursued other channels to strategically position itself towards China. These Canada-China bilateral economic channels include the successful conclusion of the 2012 negotiation of the Canada-China Foreign Investment Promotion and Protection Agreement (FIPA), the Canada-China Joint Economic and Trade Commission, and also the establishment of ten Trade Commissioner offices in the country (Fact Sheet).



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## Policy Recommendations

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Considering the potential economic benefits of being incorporated into a third of the world's trade, it would be unwise to shy away from the TPP negotiation table (Iverson). However, Canada should be mindful of the TPP's impact on its relations with China, our second largest global trading partner. The Canadian government could consider taking a more dominant and critical approach to the TPP negotiations rather than an increasingly passive role. Canada is becoming a prominent world exporter, especially in the energy sector, so it is unfortunate that the country has been unable to see the government avoid a more prominent stance in advancing Canada's economic advocacy in trade agreement. Canada must deepen its bilateral interests, maintaining a favourable relationship with China while at the same time ensuring Canada's participation in the TPP is purely economic.

This is not recommending that Canada should not join the TPP if China is restricted from participating, since to do so would alienate one of Canada's closest allies, the United States. However, Canada could suggest that the American approach to the TPP, that recommends the enforcement or creation of extremely strong intellectual property rights, labour standards, and democratic institutions, could be relaxed in order for it to be more inclusive. Current negotiating members of the TPP, such as Vietnam, do not have such standards in place and yet they are encouraged to join the partnership. If Canada was to advocate for dilution or exemption of such standards, it would be easier to include China in the TPP dialogue.

Thus this paper is recommending that Canada should advocate for less stringent standards in order to potentially give China the ability, within the near future, to reach the standards outlined in the TPP. In the meantime, Canada could push for China to be included in the partnership, but with restricted membership. Placing China under observer status in the TPP decreases the view that the agreement is primarily for containment and thus warms bilateral relations. The current structure of the TPP will likely only serve to push China towards implementing counter containment strategies, which will benefit neither Canada nor China. Including China would then incentivize them to undergo desirable changes in order to attain membership, similar to what occurred when China wanted to join the World Trade Organization over a decade ago. When they did this, China changed its domestic policies and liberalized, so it could reap the economic benefits of membership. This is what could occur if the TPP were made attainable for China.

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## Conclusion

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China and Canada have enjoyed a mostly positive relationship and their economic interdependence continues to grow. Canada's current foreign policy stresses engagement in the Asia-Pacific region. The TPP is an excellent opportunity for Canada to strengthen its multilateral trade and investment relations to generate economic prosperity and create jobs. However, the TPP could be viewed as a US containment strategy for China, and exclusion from the TPP could have serious economic impacts on China. In order for Canada to safeguard its valuable trade relationship with China, a policy strategy that involves coordinating compromises on key issues such as property rights, labour standards and domestic institutions could help to create a more inclusive trade agreement that China, and also other emerging powers, would be more likely to comply with. Using the incentive of economic benefit could go a long way to motivating China to develop more democratic and liberal policies. Exclusion will likely have a negative impact and could possibly force China to adopt counter containment strategies. Canada should adopt a policy strategy of inclusion to face the emerging challenge of China's relationship with the TPP agreement.

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