

## China's Responses to Mega-Regional FTAs

### *A Chinese Perspective*

#### ABSTRACT

This paper explores China's responses to mega-regional negotiations, including the Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership. By examining Chinese elite discourse, the policy-oriented study finds that China's approach is related to the domestic political debate on a "second WTO accession" and China's strategy toward the changing regional architecture.

**KEYWORDS:** mega-FTAs, mega-regional negotiations, free trade agreement, strategies, Asia, China policy

#### INTRODUCTION

In recent years, regional and global attention has been drawn to "mega-regional" negotiations, which include the Trans-Pacific Partnership (TPP),<sup>1</sup> the Transatlantic Trade and Investment Partnership (TTIP), the Regional Comprehensive Economic Partnership (RCEP), and the Free Trade Area of the Asia-Pacific (FTAAP).<sup>2</sup> TPP negotiations were concluded on October 5, 2015; RCEP negotiations are expected to wrap up at the end of 2016 or early 2017. Many academics and policy analysts have spared no effort to assess the implications of the negotiations.

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1. The TPP involves 12 negotiating countries: Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, and Vietnam.

2. Following the 2004 and 2006 APEC Summits' initiatives, FTAAP was reactivated in the Beijing Declaration of the 2014 APEC Summit and is supposed to have a feasibility report submitted to the 2016 APEC Summit in Peru in November.

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Since 2010, Chinese scholars and government officials have also been debating how to confront the challenge of a “second WTO accession” and the changing regional architecture of the Asia-Pacific.<sup>3</sup> The first WTO accession consumed 15-plus years of negotiations on China’s eventual 2001 entry into the World Trade Organization [WTO], a process focused on establishing China’s obligations under membership. Within China, some regarded the WTO not only as a “rich club” providing entrée into the global multilateral trading system but also as a “wolf” to menace China’s economic system. China, however, has certainly been of the belief that the WTO as a public good has greatly contributed to the country’s development and rise.

The 2010 TPP negotiation triggered a new wave of debates, in which the issue of China’s joining was painted as part of a new or “second” WTO accession process. The core issue in the debate is how to evaluate TPP. One assessment is that TPP represents the rules of future global trade. Some elites in government and academia regard it as an opportunity: China should move to join immediately lest it one day have to petition for admission. The other argument rejects TPP because some of its articles are unacceptable to China—labor standards, good governance, fair competition with state-owned enterprises (SOEs), and the free flow of information needed for e-commerce. The former argument is reasonable for its economic considerations; the latter is based on political reasons for China to avoid teaming up with the United States, especially since President Barack Obama announced the US “rebalance to Asia” strategy in late 2011.

Although internal politics has had some influence, Xi Jinping, the new leader since the end of 2012, wishes to turn a new historical page by committing to both further opening up and to domestic reform, as set forth in the decision of the 2013 Chinese Communist Party (CPC) Congress’ Third Plenum. In this context, TPP should be a benchmark if China is to play a leading role in setting the rules for next-generation trade. China will likely be embarrassed if it remains outside TPP. Its stature has evolved: the

3. In the 1990s there were debates on whether China should join the WTO. China joined in 2001, and WTO membership has since demonstrated positive effects on China’s economy. When TPP negotiations launched in 2010, a new debate emerged on whether China should join TPP. Some Chinese argued that China would confront a second WTO challenge if China did not join the negotiations: Hai Tian, “Strategic Thinking on China’s Choice at the Background of TPP,” *Journal of Asia-Pacific Economy* no. 4 (2012), p. 20; Zerui Yang, “Is TPP the Path to FTAAP?” *Journal of World Knowledge* no. 6 (2010); Pingli Huangpu, “The U.S. Actively Pushes TPP and Intends to Crumble the East Asia Community,” *Journal of Liao Wang* (2010).

difference between the first and “second” WTO accessions is that China is “rising” past Japan to attempt to catch up with the US economically and as a global force. As a TPP member, China could share the power of setting rules through its participation in regional and global governance. After the 2010 launch of TPP negotiations, the first two to three years saw the debate focusing on whether China should apply for TPP admission.<sup>4</sup>

In fact, the US thwarted Chinese moves in this direction in 2013, as discussed below. Beijing is now actively supporting RCEP, one of the mega-FTAs (free trade agreements), which may be helpful in setting trends for comprehensive partnerships among members of ASEAN and other countries in the Asia-Pacific. For China and other Asian economies, mega-regional FTAs are not only an economic choice but a political and strategic one. However, can this be an adequate response to the question, “What explains China’s action and intention toward mega-FTAs and their implications for the Asia-Pacific?” This paper uses Chinese elite discourse to analyze China’s responses to the rise of mega-FTAs and the implications of this response for regional geopolitics. The first part of this paper describes the method used to assess the development of TPP, the ASEAN-centric RCEP, and FTAAP. The rest of the paper analyzes China’s strategic approach toward these mega-regional FTAs and concludes by exploring the implications of such an approach for regional geopolitics.

## METHODOLOGY

The mega-FTAs are not only an economic policy choice but also a political one, especially for the United States. The Obama administration obviously regards TPP as the core of its rebalance strategy of “pivoting” to Asia.<sup>5</sup> In fact, policies including those that address trade issues in China have also been political. For example, the minister of commerce is unable to make decisions

4. The “second WTO accession” serves more broadly to symbolize China’s potential dynamics aimed at accommodating international standards. Were it to conform to TPP, it could present itself as an ideal destination for international players. Some academics in China now seem to regard the US–China Bilateral Investment Treaty as a new but difficult step in this direction. At the core are American requirements for issues such as market access, transparency of information, protection of US investors’ interests, and a mechanism to review national security.

5. Office of the Press Secretary, The White House, “Press Briefing by National Security Advisor Tom Donilon,” June 8, 2013, <<http://www.whitehouse.gov/the-press-office/2013/06/08/press-briefing-national-security-advisor-tom-donilon>>, accessed on June 10, 2013.

on the policy without approval from the premier or the president.<sup>6</sup> The influence of economic policy on politics (and vice versa) is a reality in China as much as in the US. Therefore, although politicizing economic issues is unwelcome in China, the method this paper uses to understand China's current policy on mega-FTAs is based on China's political economy. China's political economy has its own paradigm, distinct from the orthodox model of the former Soviet Union and the neo-Marxist approach in international political economy.

This paper draws primarily on the articles and speeches made by Chinese scholars and officials and on interviews the author personally conducted. Special emphasis is placed on the relevant policy announcements delivered by President Xi Jinping and his new administration. For example, China's mega-FTAs policy choices are made with consideration of domestic reform initiatives, such as "deeply comprehensive reforms," and of how China would play a leading role in building the regional economic order. With that, the details of the research methodology can be described as follows. First, following China's FTA strategy is a basic approach to analyze China's mega-FTA policy. For a long time there was no official transcript of China's FTA strategy until then-President Hu Jintao touched briefly on the issue in 2007—"China must implement an FTA strategy and strengthen bilateral and multilateral trade cooperation."<sup>7</sup> China's FTA policy was lifted to a national strategy level, but no detailed official transcript was published.

President Xi Jinping's policy choices on mega-FTA issues become China's FTA direction. In Xi's administration, starting in early 2013, FTA policy has become an important agenda item in China's foreign policy. At the 2014 APEC (Asia-Pacific Economic Cooperation) summit in Beijing, Xi proposed a new FTA: the Free Trade Area of the Asia-Pacific (FTAAP). Soon after, at a meeting of the CPC Politburo presided over by Xi on December 6, 2014, he emphasized that the FTA strategy was an important part of China's new round of opening up. At the Fifth Plenum of the 18th CPC Central Committee, presided over by Xi on October 29, 2015, he indicated that China must "hasten implementation of FTA strategy." On December 6, the State

6. Yinin Zhao, "Shi Guangsheng Looks Back on the difficult Course of the Negotiations of China's WTO Access," *China Business News Daily*, December 12, 2011; Ling Wang, "Long Yongtu Reveals the Secret of China's WTO Accession," *China Business News Daily*, December 7, 2011.

7. Hu Jintao, "Full Text of Hu Jintao's Report Delivered at the 17th National Congress of the Communist Party of China," People's Press House, Beijing, 2007.

Council published the “Opinions of the State Council on Speeding up Implementation of Free Trade Zone Strategy.” This is actually guidance on China’s FTA strategy for building a high-standard free trade zone network based on the surrounding countries.

Second, the research methods emphasize regional economic and political interactions, with a focus on the four basic values: security, justice, freedom, and wealth of the international political economy.<sup>8</sup> Current trade relations among countries are no longer solely economic but rather political and diplomatic issues. In short, there is a clear relationship between trade and politics. In fact, trade in the twenty-first century is an issue that resonates from traditional “low politics” to “high politics.” Similarly, in the Western international political economy literature, external pressures such as those from the military are recognized as common factors influencing domestic policy decisions. Elaborating on this concept, Gourevitch writes: “Economic relations and military pressures constrain an entire range of domestic behaviors, from policy decisions to political forms.”<sup>9</sup> For example, the Obama administration uses trade as a tool in its rebalance strategy in Asia; thus, TPP is not motivated purely by economic interest but also by political interest.

Finally, this paper analyzes domestic factors such as regulations on the range of sensitive behind-the-border issues in China.<sup>10</sup> When the negotiations on TPP started in 2010, state-owned enterprises and labor standards, among others, were topics of contention and challenge for China. China tried to resolve the issues through further reform, and Xi stressed the importance of reforming state-owned enterprises.<sup>11</sup> Likewise, with the new reform program,

8. Susan Strange, *State and Markets* (London: Bloomsbury Academic, 1998).

9. Peter Gourevitch, “The Second Image Reversed: The International Sources of Domestic Politics,” *International Organization* 32, no. 4 (1978), p. 911.

10. “Behind the border” refers to barriers of a sovereignty country’s policies and regulations to trade and investment from outside its borders. Before the twenty-first century, any commercial activities in the name of free trade had to take place outside a country’s border. Going into a country means access into that country’s market, and thus activities “behind the border.” Those activities are required to abide by that country’s laws and regulations, which however has been regarded as an obstacle to free and fair trade in the twenty-first century. The concept of behind-the-border barriers has been accepted by developed countries but reserved by some developing countries. Jiayi Zou, “China Faces a Different Period of Opportunity,” in *International Environment of Strategic Opportunities for China’s Development*, ed. Yunlin Zhang (Beijing: Social Sciences Academic Press, 2014).

11. “Four Comprehensives” was a new thought Xi Jinping put forward while visiting Jiangsu Province in December 2014. This could be a new doctrine or guidance on the governance of China. The Four Comprehensives are: comprehensively build a moderately prosperous society;

conflicting policy debates on state-owned enterprises and other issues in TPP will no longer be a challenge. Furthermore, although policy-oriented research in the social sciences has been a controversial activity in China, President Xi has announced plans to set up 100 new think tanks under the condition that academics freely offer their perspectives and thoughts based on their expertise. In fact, since any FTA negotiations require intensive deliberation, discussion, assessment, feedback, and more, academic and professional input will be important for the decision-makers.

## THE EVOLUTION OF MEGA-FTAS IN THE ASIA-PACIFIC

### Background and Features

Since the 1990s, with China's accession to APEC in 1991 and the establishment of the WTO in 1995, many countries in Asia have been enthusiastically seeking bilateral and subregional trade arrangements and FTAs. A WTO report shows that as of July 1, 2016, some 635 notifications of regional trade agreements (counting goods, services, and accessions separately) had been received by the GATT/WTO. Of these, 423 were in force. These WTO figures correspond to 460 physical regional trade agreements (counting goods, services, and accessions together), of which 267 are currently in force.<sup>12</sup> As of February 2016, according to the Asian Development Bank (ADB), there were 293 FTAs in Asia cumulatively, including those under negotiation or proposed. At the same time, the total number of Asian FTAs about which the WTO was formally notified is 138.<sup>13</sup> This result comes mainly from the impasse of global multilateral trade talks. In the last five years, initiatives for mega-regional negotiations such as TPP and RCEP have been impacting the economic, political, and security dynamics in the Asia-Pacific. Although FTAs and mega-FTAs are not new, earlier mega-FTAs such as the North American Free Trade Agreement (NAFTA) and the ASEAN Free Trade Area (AFTA) were concluded during the WTO-dominated multilateralism of the 1990s.

The features of the mega-FTAs in the Asia-Pacific are as follows. First, they demonstrate the overlap of geographic regions and membership between

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comprehensively deepen reform; comprehensively govern the country according to the law; and comprehensively apply strictness in governing the party.

12. Full text at <[http://www.wto.org/english/tratop\\_e/region\\_e/region\\_e.htm](http://www.wto.org/english/tratop_e/region_e/region_e.htm)>.

13. From Asian Development Bank data, at <<https://aric.adb.org/fta>>.

TPP agreement countries, which include economies across the Americas, Oceania, and East and Southeast Asia; and the RCEP, which covers East Asia, Southeast Asia, South Asia, and Oceania. Second, the largest economic powers exclude each other, but each is leading a competing mega-FTA. China is excluded from TPP, and the US is not a member of RCEP. Third, China officially rejects being the flag-holder of RCEP but supports ASEAN's playing a mediating role. ASEAN should be a convener, supplying venues for meetings, but its role as a driver of RCEP negotiations cannot be easy for the 10 ASEAN member states, much less the US or China. ASEAN countries typically depend on China for trade and on the US for security. Fourth, geopolitical factors clearly affect future cooperation. China and Japan are rival powers in Asia, and whether they cooperate will have positive or negative consequences. Finally, Sino-US relations could affect the mega-FTAs' smooth development. With TPP on the brink of failure at this writing in Fall 2016 and an unclear future for RCEP, the best way forward for both sides is to find a peaceful win-win solution. This is an opportunity for China and the US to play a cooperative but competitive game.

China has repeatedly stated that it respects American interests in the Asia-Pacific and has no intention of challenging American hegemony. China has proposed a regional Asian Infrastructure Investment Bank (AIIB) and plans to carry out the bank's international financial activities within the current international financial order, without challenging the US-dominated global banking system.<sup>14</sup> The US at first seemed annoyed about AIIB and tried to deter its Asian allies from joining. However, the diplomatic effort was not successful: old American allies, including Great Britain, have swarmed into the China-led, newly established international banking group. Objectively, US domination of the international financial system is still strong, and no one can challenge it. But some European countries are lining up to apply for the AIIB, and this reflects the weakening status of the US.

14. Xinhua News Agency, "Xi Jinping Presides over the Eighth Meeting of Central Financial Leading Group," November 7, 2014, <[http://www.gov.cn/xinwen/2014-11/06/content\\_2775891.htm](http://www.gov.cn/xinwen/2014-11/06/content_2775891.htm)>, accessed November 7, 2014. Vice Premier Wang Yang said in a widely publicized speech that China "does not have any ideas or capabilities" to challenge the US as the world's leading superpower: Ministry of Commerce, People's Republic of China, "The Road of Sino-U.S. Economic Partnership Will Be Broader and Brighter, a Keynote Speech by Vice Premier Wang Yang at the Forum on Sino-U.S. Commercial Relations," December 17, 2014, <[http://origin.www.uscc.gov/sites/default/files/trade\\_bulletins/January%202015%20Trade%20Bulletin.pdf](http://origin.www.uscc.gov/sites/default/files/trade_bulletins/January%202015%20Trade%20Bulletin.pdf)>.

Since the beginning of the new century, a unique phenomenon has emerged: Asian countries' dependence on China for trade. China's rise and more extensive economic integration, with the possible failure of TPP, will likely further weaken the American status quo. Japan and China, as regional rival powers, are still cooperating in RCEP negotiations, and recently China, Japan, and Korea resumed trilateral negotiations on promoting their mutual cooperation. The effectiveness of the US effort to persist in military supremacy seems unclear for some of the Asian countries that are dependent on the US for security. A zero-sum approach might have been effective during the Cold War, but in this new century it may encourage American friends in the Asia-Pacific to take a cautious stance or even to wait and keep some distance from the "benign hegemon."

### **TPP under the Framework of the US Rebalance Strategy**

During the TPP negotiations, China never overlooked its development goals.<sup>15</sup> TPP can be traced back to an earlier agreement among Chile, New Zealand, Singapore, and Brunei Darussalam, which was put into effect in 2006. This was referred to as the Trans-Pacific Strategic Economic Partnership (TPSEP). The Bush administration considered joining TPSEP, but the 2008 election postponed the issue. In 2009, the Obama administration announced that the US would join.

Negotiations on TPP began in March 2010 and ended more than five years later, on October 5, 2015. All 12 TPP negotiating countries, along with other non-negotiating countries in Asia, praised the result. The leaders of the 12 TPP agreement countries signed the agreement on February 4, 2016. China did not join the negotiations or signature, but its governmental position on the conclusion was open and the response was quick. Chinese Commerce Minister Gao Hucheng remarked soon after the negotiations' conclusion that "China is open to any trade mechanism as long as it follows the rules of the World Trade Organization and is good for economic integration of the Asia-Pacific region."<sup>16</sup>

15. Zhu Hong, "A speech by Zhu Hong, Deputy Director of International Department of Chinese Ministry of Commerce," Sina Corp, January 14, 2011, <<http://finance.sina.com.cn/hy/20110129/23019330994.shtml>>, accessed May 25, 2014.

16. "Commerce Minister Gao Hucheng Receives Interview on TPP Conclusion," *People's Daily*, October 8, 2015, p. 2.

Now the procedure shifts to TPP ratification. As of the end of May 2016, six countries are in the ratification process: Malaysia, Mexico, Japan, New Zealand, Vietnam, and Brunei. It is reported that the legislatures in Japan and New Zealand are on track to ratify TPP before the end of 2016.<sup>17</sup> Vietnam was expected to be among the first to ratify the TPP agreement but the new expectation is that the ratification will not be on the agenda for the next Vietnamese parliament session, starting on October 20.<sup>18</sup> The most indefinite is the US, because of domestic politics during an election year; such uncertainty has kept its partners' focus on the US. TPP has now become divisive, and the issue has also arisen of the credibility of the US pivot to Asia. If the US fails to ratify the TPP agreement, its image and credibility will be hurt. The US allies and partners in Asia must be cautious in view of US uncertainty, and seek new ways to protect their interests.

In China, some academic opinions shifted after the TPP negotiations ended. First, some Chinese who once viewed TPP as an absolute success in forging new international trade rules have shifted to the position that TPP cannot be ratified in the US. The main reason is the policy convergence of the two political parties on TPP. Both presidential candidates, Donald Trump and Hillary Clinton, have announced their opposition to TPP—an extraordinary phenomenon in history.<sup>19</sup> Second, those viewing TPP as part of the US containment strategy have shifted to the new concept that the pivot to Asia is moving to a new stage.<sup>20</sup> In an effort to alleviate the doubts US allies have increasingly expressed regarding American security assurances, Secretary of Defense Ash Carter said TPP was “as important as another aircraft carrier” in the Asia-Pacific. It is rare for a US secretary of defense to stress trade affairs.

Carter's remark encouraged China to take a cautious attitude toward TPP. Keeping this in mind, there are three different views on how Beijing should

17. *Inside U.S. Trade*, May 20, 2016.

18. Fanny Potkin, “Vietnam Delays TPP Ratification in Crucial Blow to Obama's Ambitions,” *Forbes*, <<http://www.forbes.com/sites/fannypotkin/2016/09/19/vietnam-delays-tpp-ratification-in-crucial-blow-to-obamas-ambitions>>.

19. Mei Xinyue, “A Revelation from TPP Being Doomed to Failure,” *21st Century Economic Herald*, August 18, 2016, p. 4.

20. Zhang Jianping, “How Far Away Is China from TPP?,” draft presentation to international conference, New Development and Future of Regional Economic Integration in Asia Pacific, hosted by Pacific Economic Cooperation Council China, November 14–15, 2013, Beijing; Li Xiangyang, *Annual Report on Development of Asia Pacific*, 2016, Social Sciences Academic Press, May 2016, p. 7.

best deal with TPP. The first is to reject TPP because it is part of the United States' rebalancing strategy. The argument is that the conclusion of TPP negotiations not only weakens China's economic diplomacy in Asia but also enhances American leverage in politics and security. The US could take advantage of this momentum to design a community of political economy on the foundation of the US-led bilateral security alliances. With that political posture and security landscape, why would China join the TPP club?<sup>21</sup> The second maintains that China should join TPP, but gradually.<sup>22</sup> The logic behind this view is that TPP alone cannot fulfill China's mission of regional integration. It holds that TPP is an excellent benchmark for new rules of global trade and therefore it is also an outside pressure on China's domestic reform. This external pressure mechanism is beneficial to China's fundamental interests.<sup>23</sup> Nonetheless, TPP could not be regarded as a successful FTA in the Asia-Pacific without China's participation, because almost every TPP member has deep economic relations with China.

The third argument is that China's accession to TPP would be helpful in accelerating the domestic reform President Xi Jinping has initiated.<sup>24</sup> This argument is based on the new reform strategy put forward by the ruling party's Third Plenum of the 18th Congress, presided over by Xi in November 2013. This reform plan, labeled as Xi's reform strategy, is to reach a new stage of China's development in an effort to realize the "Chinese Dream," a term Xi proposed in 2012, which requires two steps. The first is for China to realize a moderately prosperous society by 2021, and the second is to advance China to be among the great countries in the world by 2049. This is one of the most

21. Song Wei, "TPP and American Asia Pacific Rebalance Strategy," in *Blue Book Of Asia-Pacific 2016*, ed. by Li Xiangyang (Beijing: Social Sciences Academic Press, 2016), p. 31.

22. Ministry of Commerce, People's Republic of China, "Spokesman of the Ministry of Commerce Shen Danyang Gives a Joint Interview to Media on Several Hot Issues Concerning Economy and Trade," <<http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/201306/2013060158222.shtml>>, accessed July 3, 2013.

23. Long Yongtu (former chief representative of China for WTO accession negotiation), "The Opinion That China Is Excluded from TPP Is Not Consistent with Reality," People's Daily Website, November 22, 2015, <<http://world.people.com.cn/n/2015/1122/c1002-27842047.html>>.

24. Wei Jianguo argues that China should take an active attitude and participate in TPP. Wei used to be the deputy minister of the commercial department of China. His view is taken from the interview with *Oriental Morning's* report of April 4, 2014. See Sha Hailin and others in the Fourth Special Group of Research Project of Economic Construction and Jingji System Reform, 58th Advanced Training Class, Central Party School, "Positive Response to TPP with Open-up Attitude," *Theoretical Horizon*, November 2015, pp. 75–79.

ambitious economic and social-policy reform plans in PRC history and seems to link up with Deng Xiaoping's reform initiative in 1978 to blaze a new trail to rejuvenate China to greatness.

The domestic reform emphasizes the rule of governance covering almost every sector of government, from economic to military. In the economic sector, given the current global economic situation, Xi's reform considers shifting the previously export-oriented economy to internal markets; that is, a larger share of Chinese-made products now destined for other countries must be targeted to Chinese consumers. Given that in general Chinese incomes are lower than those in developed countries, how to increase and transfer wealth to Chinese households is an issue. Xi's plan has been welcomed because it assures the general population that by 2020 their pay will be twice that of 2010. Even Deng Xiaoping was not so bold as to declare a policy of "putting more in your pocket in a well-defined period framework." But Xi is that bold, and his real target must be the second step toward building a middle-class, digital-age economy in 30 years.

Most elements of the TPP agreement are now actually considered and incorporated into China's FTA strategy in Xi's economic reform. There is no official transcript of China's FTA strategy 10 years ago, though then-President Hu Jintao touched briefly on the issue in 2007.<sup>25</sup> President Xi has been paying a good deal of attention to the TPP issue because it is important for China not to be left out of regional integration. As the leader of a great country, Xi must consider participating in activities defining global and regional trade rules, including building the Asia-Pacific economic order. Only three months after his inaugural ceremony, Xi raised the issue of TPP when he met President Obama at Sunnylands in California in June 2013, but he returned with no positive response.<sup>26</sup> Almost three years later, President Obama revealed why he did not want to allow China in. In an op-ed, he wrote that he considered the TPP agreement important for US security, that the US should seize the opportunity to lead the way in writing the rules of global trade, and that China should not be allowed to carry out the undertaking.<sup>27</sup>

25. Hu Jintao, "Full Text of Hu Jintao's Report Delivered at the 17th National Congress of the Communist Party of China," People's Press House, Beijing, 2007.

26. Office of the Press Secretary, "Press Briefing by National Security Advisor Tom Donilon."

27. Barack Obama, "President Obama: The TPP Would Let America, not China, Lead the Way on Global Trade," *Washington Post*, May 2, 2016, <<https://www.washingtonpost.com/opinions/>

Upset by the response from his counterpart at Sunnylands, Xi decided to accelerate the implementation of China's own FTA strategy, with a stress on geographical proximity. He took a new proactive posture toward regional FTAs by proposing an FTA for the Asia-Pacific at the 2014 APEC Summit. Professor Shi Yinhong, director of the American Study Institute at Chinese People's University, points out that as a result the proposal of the FTAAP was made without much prior notice.<sup>28</sup> Moreover, President Xi continued to seek diplomatic ways to deal with TPP by maintaining an open and inclusive position, but without applying for membership. Likewise, though no official transcript has been published, it is certain that Xi highlights FTAs as a major economic and political issue.<sup>29</sup>

Xi Jinping's approach is firm but flexible, whether on managing domestic politics or implementing FTA strategy. Methods can be flexible, but any style of FTA accession must meet China's interests. One may regard TPP as a phase of regional economic integration and acknowledge it as a benchmark for mega-FTAs.<sup>30</sup> China can learn and catch up with TPP's pace, but it has good reasons not to apply for membership right now. The argument is that the US prioritizes an approach to commercial and political diplomacy that emphasizes shared values and maintains political alliances rather than supporting TPP accession without conditions. On this issue, Richard Feinberg argues that:

Aware of the asymmetries of market power and issue salience that enhance US bargaining leverage, the US has been aggressively pursuing a variety of commercial and diplomatic interests, both tactical and strategic, that include bolstering local democratic institutions and processes of economic reform, strengthening US security ties, accelerating region-wide commercial liberalisation by allying with a regional leader, establishing new precedents to use as

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president-obama-the-tpp-would-let-america-not-china-lead-the-way-on-global-trade/2016/05/02/680540e4-ofdo-11e6-93ae-50921721165d\_story.html>.

28. Yinhong Shi, "The Grand Strategy of Xi Jinping's Diplomacy Is Taking Shape," *New York Times*, January 20, 2015.

29. CPC Central Committee, "Decision on Major Issues Concerning Comprehensively Deepening Reforms Adopted at the Close of the Third Plenary Session of the 18th CPC Central Committee," November 16, 2013; CPC Central Committee, "Xi Jinping Delivers a Speech at the 19th Group Study of Political Bureau of the Communist Party of China Central Committee Calling for Accelerated Fulfillment of the Free Trade Area Strategy and the Building of a New Economic System of Openness," *People's Daily*, December 7, 2014.

30. Yihan Xu, "The Trend of TPP and China's Strategic Choices," *Journal of International Finance* 12 (2014), pp. 48–54.

bench markers [*sic*] in future trade negotiations, and otherwise using free trade accords to advance its comprehensive global trade policy agenda.<sup>31</sup>

Feinberg's argument deserves considerable attention.<sup>32</sup> For the US, TPP would be a way to integrate the Asia-Pacific in order to crush the Pax Sinica and build a pan-Pacific architecture under its own leadership.<sup>33</sup>

Likewise, although China does not want to challenge American dominance in the Asia-Pacific, it still faces serious challenges and even a Cold War-style threat from the "imperialist West." This term in China refers to the US and its alliance system as a security threat, because the US still maintains military alliances established during the Cold War whose main target is China; thus we can surmise that as a nation, China feels insecure, at least psychologically.

On the other hand, for the US, TPP embodies the three core components of its rebalancing effort in Asia: security, economy, and freedom.<sup>34</sup> Therefore, in order to demonstrate a comprehensive (and not merely military) strategy in Asia, the Obama administration intends to conclude TPP negotiations and ratify TPP as soon as possible. In response, it is natural for China to consider the political influence of TPP. In fact, most leading perspectives in the Asia-Pacific reflect awareness that the strategic rebalancing of the US is designed to prevent the rise of China as a major actor with a capacity and capability to shape Asia according to its own terms and rules.<sup>35</sup> Li Xiangyang, dean of the Asia-Pacific and Global Strategy Institute at the Chinese Academy of Social Sciences, comments that TPP is not only an economic design but a strategic consideration as well.<sup>36</sup> This judgment seems justified by US Secretary of State John Kerry's statement, in a speech in September 2016, that TPP is not

31. Richard Feinberg, "The Political Economy of United States' Free Trade Arrangements," paper prepared for a Pacific Economic Cooperation Council conference, Washington, DC, April 22–23, 2003.

32. Penghong Cai, "Analysis on the Prospects of China-US Cooperation in Building Trans-Pacific Partnership," *Journal of International Review* 130, no. 3 (2014), pp. 29–43.

33. Remarks by Christopher Padilla, Undersecretary of Commerce for International Trade, to the American Enterprise Institute, Washington, DC, July 7, 2008.

34. Office of the Press Secretary, "Press Briefing by National Security Advisor Tom Donilon."

35. National Bureau of Asian Research, "Roundtable: Regional Perspectives on U.S. Strategic Rebalancing," *Asia Policy* no. 15 (2013).

36. Li Xiangyang (ed.), *Blue Book of Asia-Pacific 2016* (Beijing: Social Sciences Academic Press, 2016), p. 8.

only a trade contract but also an agreement about strengthening [US] national security and strategic leadership in Asia and across the globe.<sup>37</sup>

### RCEP under an ASEAN-led Framework

RCEP is a plan for a regional trade agreement endorsed at the 19th ASEAN Summit, November 17, 2011, and launched at the 21st ASEAN Summit, in November 2012.<sup>38</sup> It has 16 initial members and is also referred as ASEAN+3+3. In recent years, RCEP has drawn regional attention as a rival to the US-led TPP.<sup>39</sup> As TPP enters a critical time, RCEP is becoming much more a focus than ever before. Many reports describe it as a zero-sum game: if TPP is ratified it will augur well for the United States' success, and if TPP fails, China will be the winner. The key issue in this game is that the TPP negotiations exclude China, and the RCEP negotiations exclude the US. Since this is not solely for economic reasons, the competition is intense.

In August 2012 the 16 RCEP negotiating countries (Australia, Brunei, Cambodia, China, India, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, Philippines, Singapore, South Korea, Thailand, and Vietnam) passed the "Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership," defining the goals, domain, and range of RCEP negotiation.<sup>40</sup> In November 2012, the leaders of ASEAN and its free-trade partners released their "Joint Declaration on the Launch of Negotiations for the Regional Comprehensive Economic Partnership," putting forward the goal of concluding the negotiations by the end of 2015.

RCEP has not been fulfilled as scheduled. The negotiations, however, have continued in 2016. China and other countries want them to be finalized by December but unexpected factors may affect the schedule. As of the end of August, RCEP countries had held four ministerial meetings and 14 rounds of

37. Secretary of State John Kerry, "Remarks on the Trans-Pacific Partnership," Wilson Center, Washington, DC, September 28, 2016, <<http://www.state.gov/e/eb/tpp/bta/fta/tpp/index.htm>>.

38. 21st ASEAN Summit, "Joint Declaration on the Launch of Negotiations for the Regional Comprehensive Economic Partnership," <[http://www.mofa.go.jp/announce/announce/2012/11/1120\\_03.html](http://www.mofa.go.jp/announce/announce/2012/11/1120_03.html)>.

39. In the first term of the Obama administration, US Trade Representative Ron Kirk appeared to acknowledge that RCEP poses competition for TPP: *Inside U.S. Trade* 30, no. 49 (2012).

40. ASEAN+6 Economic Ministers, "Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership," August 30, 2012, <[http://www.meti.go.jp/policy/trade\\_policy/east\\_asia/dl/RCEP\\_GP\\_EN.pdf](http://www.meti.go.jp/policy/trade_policy/east_asia/dl/RCEP_GP_EN.pdf)>.

negotiations; the next round is set for Tianjin, China, at the end of October. If the negotiations can conclude smoothly and on schedule, RCEP will be the world's largest free-trade area, with 48% of the world's population, 30% of world GDP, and 28% of global trade.<sup>41</sup>

Successfully wrapping up the negotiations requires overcoming some obstacles. In the first three rounds, liberalization of market access and discussions about the text made substantial progress, and the parties reached initial consensus on tariff reduction, rules of origin, customs procedures, and trade facilitation, as well as mechanisms for enacting the rules. The fourth round of negotiations achieved active progress on goods, services, investment, and the framework of the agreement. The emphasis of the fifth round was on goods, services, investment, economic and technology cooperation, intellectual property rights, competition, and the rule of law. The framework of the agreement of RCEP negotiations was also discussed. Since the sixth round of negotiations, members have continued to work toward defining the scope and parameters in the core areas of goods, services, and investment.<sup>42</sup>

With the world's economic situation remaining volatile, and China's economic adjustment and the recovery of global trade still slow, RCEP negotiations seemed in 2015 to occur in a kind of impasse. The main issues included tariff liberalization, safe food, medicines, and agriculture. China now indicates that it wishes the negotiations to be concluded by the end of 2016 and supports ASEAN centrality in the negotiations. As ASEAN's degree of integration is still impaired, its role remains to be seen. Some Chinese academics are concerned that questions regarding the size of population, income level, and degree of openness among participating nations have also caused difficulties in conducting relevant negotiations.

41. Data based on China's official statement, "China's WTO Consultation Office under Ministry of Commerce, PRC," <<http://chinawto.mofcom.gov.cn/article/e/s/201608/20160801378419.shtml>>; see also "Joint Statement on the RCEP Negotiations 22 November 2015, Kuala Lumpur, Malaysia," <[http://www.asean.org/wp-content/uploads/2015/12/RCEP-Leaders-Joint-Statement\\_22-Nov-2015\\_FINAL.pdf](http://www.asean.org/wp-content/uploads/2015/12/RCEP-Leaders-Joint-Statement_22-Nov-2015_FINAL.pdf)>.

42. "Wang Shouwen, Vice Minister, Ministry of Commerce of People's Republic of China Receives Interview on RCEP with Central Media in Beijing on August 27, 2015," <[http://fta.mofcom.gov.cn/article/rcep/rcepnews/201508/28156\\_1.html](http://fta.mofcom.gov.cn/article/rcep/rcepnews/201508/28156_1.html)>; "Wang Shouwen Opening Remarks to the Fourth Round RCEP Meeting at Nanning, Guangxi on March 31, 2014," <[http://fta.mofcom.gov.cn/article/rcep/rcepnews/201609/33310\\_1.html](http://fta.mofcom.gov.cn/article/rcep/rcepnews/201609/33310_1.html)>; see also Sanchita Basu Das, "The Regional Comprehensive Economic Partnership: New Paradigm or Old Wine in a New Bottle?" *Asia Pacific Bulletin* no. 301 (2015).

Moreover, East Asian political issues could be a major challenge for RCEP negotiations. First, as a major player in the Pacific, the US has been attempting to exert its power through trade rules in East Asia, as seen in efforts to marginalize the influence of APEC, a forum in which China participates. Furthermore, even if TPP is not implemented in the near future, the US could still apply various resources and methods to hinder progress on RCEP. Second, tense Sino–Japanese relations have become another factor thwarting a conclusion to RCEP. If China and Japan, the largest economies in East Asia, lack mutual political trust, then an agreement on this economic partnership is not likely to happen soon. At present, Japan’s main objective appears to be to push for the facilitation of TPP. Third, the South China Sea issue that triggered geopolitical instability has substantially hurt political trust of China among ASEAN members and Australia. Such a situation can hardly hasten the progress of RCEP talks.<sup>43</sup>

#### FTAAP

Although there were suggestions to set up a larger FTA across the Pacific before the twenty-first century began, the proposal for the FTAAP within APEC was submitted by Robert Schollay (director of the New Zealand APEC Study Center) in 2003. He also wrote an FTAAP report for APEC’s Business Advisory Council, which was submitted to the APEC Summit in 2004. But that proposal did not receive a very positive response. Former President George Bush proposed it again at the APEC Summit in Hanoi in 2006.

An analytical study by officials generated some positive suggestions, but challenges do exist in creating the FTAAP.<sup>44</sup> A key issue concerns the nature of APEC. APEC is a forum, not officially a binding institution or regional organization, whereas FTAAP is expected to be a legally binding mechanism. APEC carries out work with its unique approach of voluntary, consensus-based decision-making but cannot take responsibility for any legally binding negotiations, such as FTAs.

43. “China Should Boost RCEP Strategic Value,” *Global Times* (China), August 11, 2016.

44. “2008 APEC Leaders Declaration,” Lima, Peru, November 22, 2008, <[http://www.apec.org/Meeting-Papers/Leaders-Declarations/2008/2008\\_aelm.aspx](http://www.apec.org/Meeting-Papers/Leaders-Declarations/2008/2008_aelm.aspx)>.

Regional politics is another obstacle. A successful FTAAP depends on political feasibility in the near term.<sup>45</sup> Several years have passed, and the US has already shifted its interest from FTAAP to TPP. FTAAP is well supported with respect to economic benefits, as in Peter Petri's proposal, which resulted from his TPP research project just before RCEP launched. There was a two-track model, that is, a US-led TPP and a China-led Asia track in the APEC region. If each track works individually, the participants on either side may have gains, but economic gains will presumably be greater if the two tracks are combined. The combination of TPP and RCEP into FTAAP would create larger income gains in 2025 for countries not only in the Asia-Pacific but also in other regions, even worldwide.<sup>46</sup>

FTAAP can be described as a better plan for regional economic integration, although different arguments exist. Theoretically, the international political economy approach is to evaluate the integration process through three essential dimensions: political security, economic cooperation, and social-cultural and people-to-people exchange. The realization of FTAAP in 2025 would be expected to provide huge benefits and income gains for its members, but political coordination may be essential to the objective, not only for economic gains but also for political considerations. The key is in the hands of the US and China; each should take responsibility to link the others to FTAAP.

But inharmonious actions between the US and China exist. China clearly wanted to take quick action on the FTAAP and believed that this larger FTA would solve the problems caused by barriers between different FTAs, such as distinct rules and requirements. According to President Xi, with regard to the relations between the FTAAP and other regional FTAs, the FTAAP is a strong aggregation of existing free trade arrangements. To advance the construction of the FTAAP, APEC fellow members should cement the integration process and define long-term goals. The FTAAP is in nature no contradiction to the existing free trade arrangements, which serve as a feasible path to realize the

45. Charles E. Morrison and Eduardo Pedrosa (eds.), *An APEC Agenda? The Political Economy of a Free Trade of the Asia Pacific* (Singapore: Pacific Economic Cooperation Council and Institute of Southeast Asian Studies, 2007), p. 7.

46. Peter A. Petri, Michael G. Plummer, and Fan Zhai, *The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment*, Peterson Institute for International Economics, East-West Center, November 2012.

FTAAP.<sup>47</sup> China then tried to set a time frame to reach the goal in 2025. The US was not interested in the Chinese proposal but suggested that the region should first consider TPP, putting off FTAAP for later.<sup>48</sup> Now, the official summary of TPP defines it as a platform for regional integration<sup>49</sup> and seemingly denies the existence of other FTAs and APEC's FTAAP process. This does not fully consider the APEC summit declarations, particularly the 2014 Beijing Summit Declaration, which clearly states that APEC leaders,

... recognizing APEC has a critical role to play in shaping and nurturing regional economic integration, ... agree that APEC should make more important and meaningful contributions as an incubator to translate the Free Trade Area of the Asia-Pacific (FTAAP) from a vision to reality. We reaffirm our commitment to the eventual FTAAP as a major instrument to further APEC's regional economic integration agenda.

China's policy is that the Asia-Pacific must not stop the FTAAP process but continue its feasibility study of FTAAP, which was supported by the APEC Summit Communiqué issued in Beijing on November 11, 2014.

#### CHINA'S RESPONSE TO MEGA-FTAS AND CHANGING REGIONAL ARCHITECTURE

While observers often see China as being instinctively strategic in its planning, it had no strategic plan to play a leading role when it entered APEC in 1991. At that time China was diligently working toward achieving a US\$ 1,000 per capita annual income by the end of the 1990s.<sup>50</sup> Its eventual development pace has been unprecedented, accelerating to become the

47. "Xi Jinping Attends Dialogue between APEC Leaders and ABAC Representatives," Ministry of Foreign Affairs, PRC, November 10, 2014, <[http://www.fmprc.gov.cn/mfa\\_eng/topics\\_665678/yjzhzdrsrdrfzshyjxghd/t1209907.shtml](http://www.fmprc.gov.cn/mfa_eng/topics_665678/yjzhzdrsrdrfzshyjxghd/t1209907.shtml)>.

48. At the APEC Center Study annual conference in Qingdao, China in May 2014, the author asked American scholar Jeffrey J. Schott, of the Peterson Institute for International Economics, this question. He argued that before FTAAP, the region needs to consider taking part in TPP.

49. "Summary of the Trans-Pacific Partnership Agreement," Office of the United States Trade Representative, <<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2015/october/summary-trans-pacific-partnership>>.

50. Deng Xiaoping, "Speech at a Meeting with the Members of the Committee for Drafting the Basic Law of the Hong Kong Special Administrative Region," April 17, 1987, in *Selected Deng Xiaoping Works*, Vol. 3, p. 215 (Beijing: People's Publishing House, 1992).

world's second-largest economy, where annual earnings per capita have surpassed US\$ 7,000.

President Xi sees his FTA and diplomatic strategy working in concert, “strengthening overall planning and taking bold initiatives.”<sup>51</sup> This strategic thinking comes out of a new assessment of the changing international environment and China's reality. Deng Xiaoping stressed developing China because the external economic and political environments in the 1980s were appropriate, notably in terms of attracting foreign investment. Xi Jinping pursues an opening-up and reform strategy and emphasizes the present as a new period of strategic opportunity. The author's understanding is that this exists largely inside rather than outside China and reflects the country's global position and huge foreign reserves of US dollars.

Meanwhile, this second-largest economy is confronting enormous external pressure, including from the US. From a historical perspective, the US has always been leery of countries that might become challengers. Both the former Soviet Union and Japan, previously the second-largest global economy, faced powerful US pressures, including, for the former, complete economic sanctions, regular military surveillance, and a massive arms race. Washington also forced Japanese currency appreciation. This does not mean that China no longer has any international opportunities, but rather that it should take the advantage of its own economic force to shift its economy to a new stage. China must pursue active and bold initiatives to create a new miracle in this environment that is so very different from that of the 1980s. A feasible way is to take full advantage of China's economic leverage:

1. China's mega-regional FTA strategy must revolve around its national strategy. Economic policy and choices must be a political issue. It is not only domestic politics but also external politics. China's FTA strategy has been defined as an indispensable component of China's new strategy. President Xi Jinping pointed out that implementing an FTA strategy was a significant means to reach the goal of China's national strategy, including its external strategy.<sup>52</sup>
2. The activist goal of China involves the intention to be a constructor of international rules, not simply a participator. Negotiating FTAs with

51. “Xi Jinping Presides over the Central Conference on Work Relating to Foreign Affairs Convened in Beijing,” *People's Daily*, November 30, 2014, p. 1.

52. “President Xi Demands Accelerated FTA Strategy,” *People's Daily*, December 7, 2014, p. 1.

other countries gives China an opportunity to promote its own domestic reform through constructing new economic rules. It is necessary for China first to comply with the rules established by the international community, including the US and other Western countries. Gradualism is one approach, but in the twenty-first century China should be spurred to catch up with global standards. Being involved in the process of mega-negotiations undoubtedly benefits China by providing chances for it to abide by and create new rules. Rule-based architecture building is not a zero-sum game but a collaborative process.

3. Its neighbors are the immediate and essential targets for China in carrying out its FTA strategy. China currently lacks a published complete national FTA strategy. Still, President Xi presented his new FTA strategic thinking with an emphasis on the neighboring region (*zhou bian di qu*). This term refers to those countries and areas closely connected with China, including the surrounding countries in Asia. A newer term, extended neighboring region (*da zhou bian*), extends to the Pacific and Indian Oceans. China has already completed or signed FTAs with the Republic of Korea, Singapore, New Zealand, Australia, ASEAN, and others, but Japan should be Beijing's next major target. With those FTAs in place and other initiatives such as the Asia Infrastructure Investment Bank<sup>53</sup> and the two major Silk Road infrastructural projects, the Silk Road Economic Belt and the 21st Century Maritime Silk Road, known as "One Belt, One Road," China has the possibility of establishing major FTA networks. Its efforts should offset some possible adverse effects.
4. China takes an open and inclusive attitude toward TPP, but it is impossible for it to consider applying for TPP membership anytime soon. With both US presidential candidates opposed to the accord, the American Congress's attitude is ambivalent. China should be cautious regarding American candidates' remarks made during a race to the White House. Therefore, China should quicken the pace of internal reform. China seems to have an inclusive and open attitude to TPP,

53. The initiative to build the AIIB was put forward by President Xi Jinping on his visit to Indonesia in fall 2013. It is now being realized as a multilateral development bank (<http://euweb.aiib.org/>). AIIB's articles of agreement, a principal document related to the bank's establishment, entered into force on December 25, 2015. There are 57 prospective founding members, and the committed capital is \$100 billion. The first two project loans have been approved, totaling \$320 million, for the energy sectors of Pakistan and Myanmar, in September 2016. AIIB is expected to extend financing of \$1.2 billion in 2016.

given Premier Li Keqiang's remarks at the opening ceremony of the 2014 Boao Forum for Asia and more recently Commerce Minister Gao Hucheng's quick response to the conclusion of TPP, that China is open to TPP and "China hopes the TPP pact and other free trade arrangements in the region can boost each other and contribute to the Asia-Pacific's trade, investment, and economic growth."<sup>54</sup> These remarks have an optimistic tone, but my argument is that China is not ready to apply for TPP membership because of some negative factors, including the American attitude and some difficulties China will face from TPP members in one-on-one negotiations before entering.

The most significant issue is that TPP is part of the American rebalance strategy. China might take a "dual track" strategic approach. One track is to be open and inclusive to TPP because it represents a twenty-first-century standard. The other track is to support ASEAN centrality in RCEP and offset the influence of TPP. China's strategic goals in integrating with regional FTAs might place an emphasis on RCEP in order to assist the nation in successfully upgrading its economy and rejuvenating the Chinese nation or realizing Xi's "Chinese Dream."

China supports open regionalism toward regional regimes but does not reject TPP's aim to establish rules. It appears to seek a mutually agreeable way to deal with Asian countries. This is different from the American approach, which stresses politics and security from the beginning and then moves on to the economic area. As National Security Advisor Susan Rice put it, "security . . . is the underpinning of all progress."<sup>55</sup> The Chinese economic way may well be more effective and less controversial both domestically and abroad. China has a lot to contribute to regional stability and security, but it needs patience and time, awaiting acceptance and recognition from other countries in the Asia-Pacific. China's rise has already changed the regional economic architecture, and its influence has reached historic levels. Some countries in the region seek American assistance in security, or depend on the US for security but on China for economic progress. This approach, for better or worse, is likely to change the geopolitical landscape (and seascape).

54. "Interview with Commerce Minister Gao Hucheng on TPP," *People's Daily*, October 9, 2015, p. 2.

55. Susan Rice, "America's Future in Asia," address at Georgetown University, Washington, DC, November 20, 2013, <<https://www.whitehouse.gov/the-press-office/2013/11/21/remarks-prepared-delivery-national-security-advisor-susan-e-rice>>.

## CONCLUSION

TPP negotiations have ended, and a new game has begun over which mechanism will be the final platform of regional integration, TPP, RCEP or FTAAP. This paper has briefly touched on the development of regionalism and mega-regional FTAs in the Asia-Pacific and their implications for regional architectures. For China, mega-regional FTAs should be a new choice for its strategy of regional and global free trade agreements, and should help in the country's further opening up and engagement in Asia and the Pacific. China has engaged in the regional institutions APEC and ASEAN, but it was only the past decade that saw a proactive China and its practice in matters related to regional institutions. China needs not only bold but also cautious measures and policies to meet the dynamic environment.

The impacts of mega-regional FTAs on regional politics are as yet uncertain. The American-led TPP style demonstrates a strong political and security inclination. There are two models: the one from the US wants to bind the mega-regionals like TPP with security in its rebalance strategy; the one from China stresses an economic way to cope with the mega-regional FTAs. In the region, the rising power China and others like India and Japan all have their own visions of regional economic and security order. The US as an established power has long been anchored in the Asia-Pacific with its vision of the regional architecture. Different views are shaped gradually by their own histories and status quo, and cannot be changed overnight.

Peaceful competition is a choice. China's economic approach demonstrates the Chinese intention to take a peaceful path. China remembers well that other fellow APEC members, in particular the US, spurred China to become a member of WTO as well as of APEC. Now perhaps it is time for reciprocation, and China should give a generous response. China's recent AIIB and One Belt, One Road proposals are regarded as a soft-power response. The relationship between these proposals and the mega-FTAs calls for taking time to study; the implications for regional politics are also a new issue to study. In any case, peaceful competition is the most rational approach for China and its competitors to adopt.