

[Recent](#) estimates show that most members of the Trans-Pacific Partnership will make substantial gains, unlike those who opt not to participate.

US annual real income is expected to increase by 0.5% of GDP while annual exports will increase by 9.1%. Exports of Japan, Vietnam and Malaysia are expected to increase by 23.2%, 30.1% and 20.1% respectively. Non-members, on the other hand, are expected to gain little. China, for example, is expected to gain only 0.2% when the agreement is concluded in 2030.

So was China's decision not to join a big mistake?

In 2013, the 12 countries participating in the TPP accounted for about a third of China's trade in merchandise goods. However the US stands out as it makes up about half of the TPP in terms of exports, and about a quarter when it comes to imports. This would imply that exclusion from the TPP is essentially a lost opportunity for any country trying to secure a Free Trade Agreement (FTA) with the United States.

Meanwhile, a look at the Trade Complementarity Index (TCI) – an indicator of how well the structures of a country's imports and exports match – shows how much could be gained by both the US and China if the latter were included in the TPP.

But are those opportunities enough to get past the hurdles? Since the TPP is an agreement involving both emerging and advanced economies, it has to be more complex than those between economies at the same level of development; and it has to have sufficient room for bargaining. If China had chosen to be part of the TPP, the negotiations would have been slow and perhaps would not have ended with an agreement because of the many sensitive issues involved.

Some of the main stumbling blocks include state-owned enterprises, transparency, labour regulation, market-based competition and investor state disputes.

State-owned enterprises (SOEs)

Why China could never sign on to the Trans-Pacific Partnership

Written by The Conversation

The TPP requires that no subsidies should be provided to an SOE for its international business expansion. The goal: to ensure competition between an SOE and a private enterprise takes place on a level playing field inside the host country.

But [China's 150,000 SOEs](#) form the bedrock of the Chinese economy and therefore have certain privileges.

About a thousand SOEs are listed in the Shanghai or Shenzhen Stock Exchanges, indicating they are commercial in nature. More than 150 of these are managed by the central SASAC, and the list includes some of the largest companies in the world.

The Chinese government assists these SOEs in various [ways](#), including preferential interest rates. Although there have been exceptions under the TPP (for example New Zealand was able to get exemptions for its powerful cooperative Fonterra), it would have been an uphill battle for China to negotiate exemptions for so many of its SOEs engaged in various international operations within TPP member countries.

Transparency and anti-corruption

The TPP commits partners to writing and enforcing anti-bribery laws. It can be argued that enforcement would have been a challenge for China.

In Transparency International's Corruption Perception index, which ranks countries based on the degree of corruption in the public sector, only two TPP countries [ranked](#) below China in 2014 – Vietnam and Mexico. Although one can argue that membership in the TPP could raise the bar for China's efforts at eradicating corruption, the gap between China and important partners (the US and Japan) is significant. The TPP could have been yet another platform for critics to accuse China of lacklustre anti-corruption efforts.

Labour

The inclusion of labour issues in an FTA is rare since labour rights are considered "domestic issues" and interference by external parties jeopardises the sovereignty of individual members. In this regard, the TPP can be considered bold.

The chapter on labour would have been a contentious issue between China and the US. For example China's labour laws, while allowing freedom of association, require all trade unions to be affiliated with the All-China Federation of Trade Unions, which is an agency of the Chinese Communist Party. The agreement, meanwhile, requires TPP partners to adopt a legal framework that upholds fundamental labour rights as recognised by the International Labour Organization.

Free and open competition

A common philosophy within the TPP agreement is free competition among signatories. Firms from any TPP country will be allowed to bid for government contracts in another, for example. Testing and certification awarded by an assessment body in one country should be accepted in other countries as well.

The chapter on competition generally calls for member countries to reach the standards practised in countries like Singapore and New Zealand, known for their ease of doing business. But in the World Bank's Doing Business [rankings](#) for 2016, China was lower than all TPP partners, except Vietnam. China would have had to negotiate hard to get exemptions for its SOEs and SMEs from these open competition clauses and chapters.

Investor-State Dispute Settlement (ISDS)

While it has its [critics](#), the ISDS – a system under which an investing company can seek compensation from a host country if its property rights are violated – has been included in several FTAs recently. This is because it offers an assurance to multinational corporations that expropriation by host governments is only a remote [possibility](#).

Over the last 15 years China has been [signing](#) agreements containing the ISDS clause as it has been [effective](#) in protecting the country's investments abroad. However the World Justice

[Project](#), which ranks countries on the rule of law – and regulatory enforcement in particular – shows that China fares miserably when compared with other TPP countries. Only Mexico is marginally below it.

It's very likely the ISDS would have been a heated issue for China, and it is possible that like Australia, Mexico, Peru and Vietnam, China would have fought for many exemptions.

Opportunity cost limited, for now

China's other international initiatives, as well as its sheer size, reduce the losses of being a TPP outsider. But it has lost an opportunity to commit to an improvement in the general trading and investment climate and drive new impetus to its dwindling export sector.

The agreement offers member countries a road map and a schedule to reform the business environment and make it more competitive. Countries with similar capabilities, like Japan and South Korea on the higher end and Vietnam on the lower end, will be able to divert some trade away from China. It is therefore important for China to build up its productivity to ensure it is able to compete with TPP members for market share.

China has also lost an opportunity to sign an FTA with the US, but following a specified TPP schedule would be seen as the US dictating the reforms in China. And the US is hardly likely to penalise China given its importance to world trade.

China has always reformed using its own timetable. For a country that is establishing its legitimacy as a global economic power, it has to write its own future. The rules of the TPP may not fit the current state of the Chinese economy. China has to mould a domestic economy that is large enough to withstand any global economic slowdown. To create that domestic economy, certain features of the "old" economy may still be required.-

Bala Ramasamy does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

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