

Andrew Leung

International Consultants Ltd

*The implications of the Trans-Pacific Partnership (TPP)
and the One Belt, One Road (OBOR) initiative*

A presentation to the EGN Founding Chairmen Group

Andrew K P Leung, SBS, FRSA

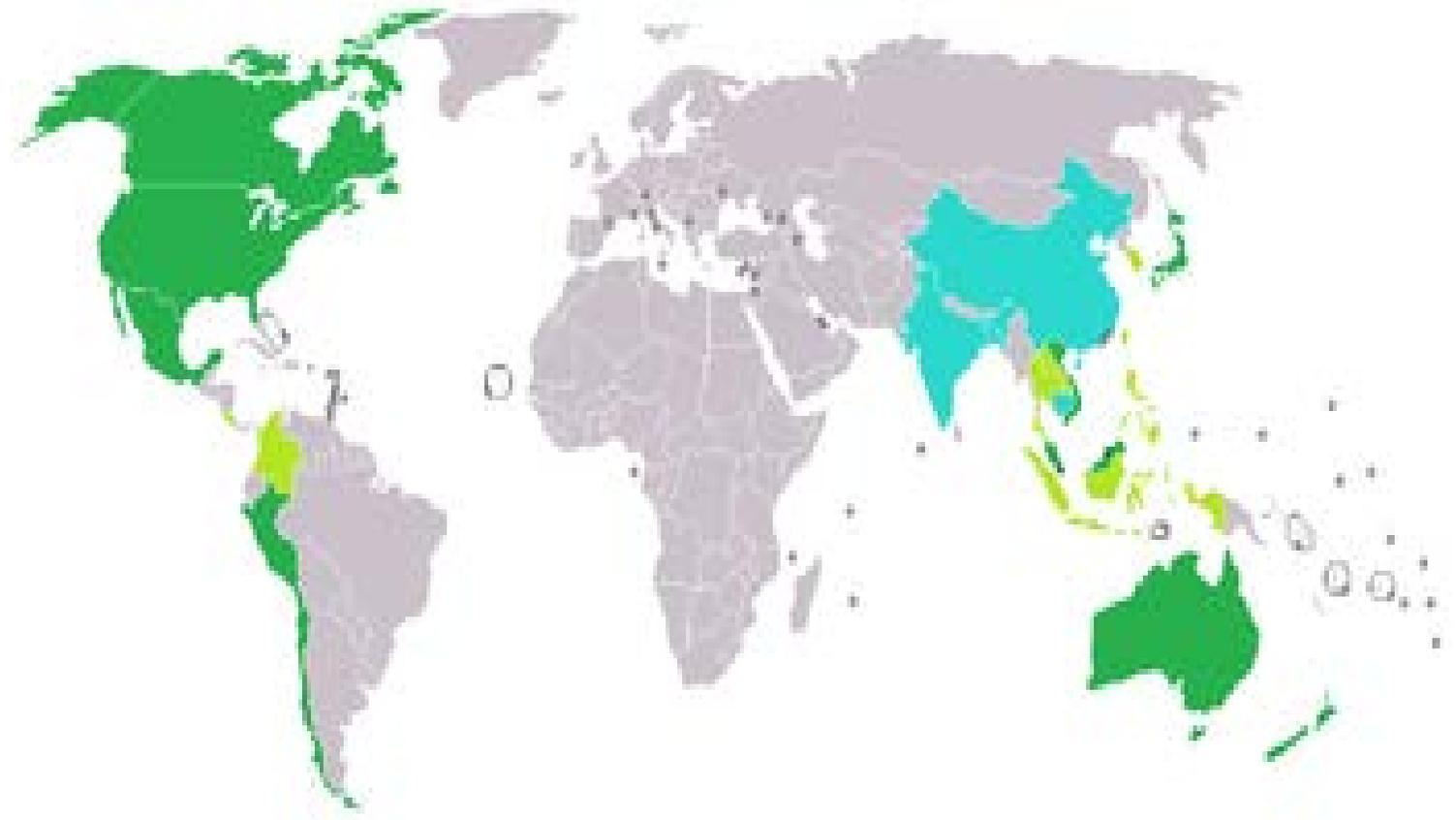
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What are in the TPP?

- **12** - *US, Japan, Australia, New Zealand, Canada, Singapore, Malaysia, Vietnam, Brunei, Mexico, Peru, and Chile* **ABC** (*Anyone But China*)
- **40%** of global economy
- **Tariff elimination, trade liberalization** including agriculture, pharmaceuticals and services, mobility of capital, **higher standards for labor, IPR protection, environment, greater transparency and freedom of information** – 30 chapters and thousands of pages, yet to be released. **Secrete negotiations** – no publicity of details allowed before formal ratification



Reached conclusion on content
*Announced interest in joining
Potential future members

*Columbia, the Philippines, Thailand, Indonesia, Taiwan, and South Korea

What does the United States want (open objectives)?

- A *21st Century Free Trade Agreement across the Asia-Pacific Region*, adding estimated \$305b to global export and \$223b p.a. to global GDP.
- *Comprehensive deal, providing new and meaningful market access for goods and services;*
- *Strong and enforceable labor standards and environmental commitments*
- Groundbreaking new rules to ensure *fair competition between state-owned enterprises (SOEs) and private companies;*
- Commitments that will improve the *transparency and consistency of the regulatory environment for small- and medium-sized businesses* to operate across the region;
- A *robust intellectual property (IP) rights framework* to promote innovation;
- Supporting *access to innovative and generic medicines*
- *Open Internet* to promote a thriving digital economy, including new rules to ensure free flow of data.



US benefits sought

- **18,000 tariff reductions for \$622.5 billion manufactured exports** to TPP countries, adding \$77 billion a year to income and 650,000 new jobs (John Kerry, Secretary of State)
- **U.S. auto parts** - 27% tariff entering Vietnam. Other countries that have an FTA with Vietnam, such as China, Thailand, and Indonesia, export their auto parts to Vietnam duty free.
- **U.S. poultry** - 40% tariff in Malaysia. Zero tariff would make U.S. poultry more affordable.
- **Many U.S. yarns, fabrics, and apparel - up to 20% tariffs.** Carefully *crafted “short supply” list to allow inputs not commercially available in the US or other TPP countries* to be sourced from non-TPP countries and used in production in TPP region without losing duty preference.
- Provisions to enable *service suppliers to supply services without establishing an office* in every TPP country; **Negative List Approach** commitment
- Commitments *to liberalize foreign financial services and insurance markets* while protecting government’s broad flexibility to regulate to ensure stability and integrity of financial system.
- **Liberalized investment access and reduction or elimination of barriers**, including *unlawful expropriation and specified performance requirements; measures that require TPP investors to favor another country’s domestic technology in order to benefit SOEs*, national champions, or other competitors in that country. **Basic rule of law protections** for U.S. investors operating in foreign markets similar to those the U.S. for foreign investors operating in the U.S. Strong protections for **health, safety, and environmental protection.**

US benefits sought (cont'd)

- Adherence to *fundamental labor rights* as recognized by ILO, as well as acceptable conditions of work, *subject to the same dispute settlement mechanism* as other obligations in TPP
- Requirements to support *a single, global Internet*, including ensuring cross-border data flows, consistent with governments' legitimate interest in regulating for purposes of privacy protection; *Rules against localization requirements that force businesses to place computer infrastructure in each market in which they seek to operate*; Commitments to provide; and *reasonable network access for telecommunications suppliers through interconnection and access to physical facilities*
- Commitments *ensuring SOEs act in accordance with commercial considerations and compete fairly without undue advantages* while allowing governments to provide support to SOEs that provide public services domestically; Rules on transparency of government control over and support for SOEs.
- *Commitments discouraging corruption and establishing codes of conduct to promote high ethical standards among public officials*
- Agreement on *cooperative development activities to promote broad-based economic growth and sustainable development, including public-private partnerships, science and technology cooperation*, and other joint development activities

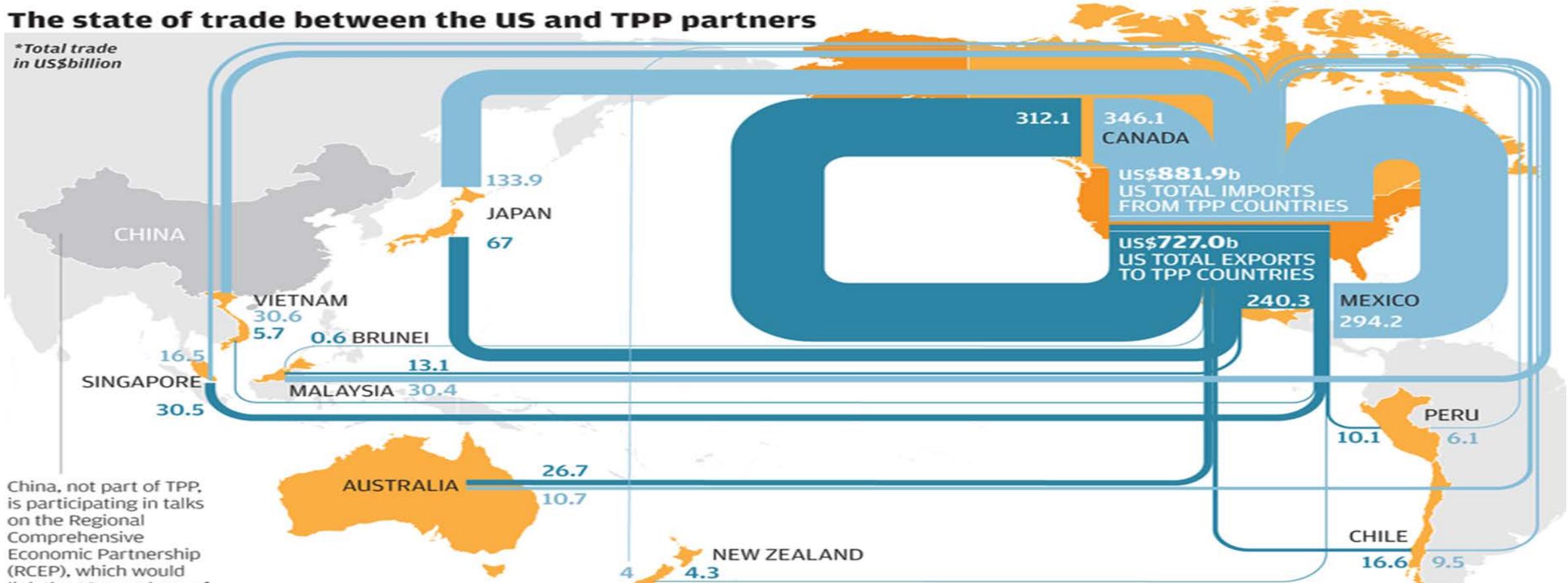
Examples of other TPP partners benefits

- **Vietnam – biggest winner – 70% exports to TPP countries**; GDP growth (exports) likely to skyrocket to 11% (28%) by 2025; rail, low-cost manufacturing (diversion from China); foreign ownership restrictions greatly reduced (100% in real estate)
- **Japan – a big winner** (+ 0.66% to be added to GDP?); imports, consumption, auto, machinery, **capitalizing on global outsourced production** subject to Rules of Origin; but Yen 3 trillion reduction in reduced protection in agriculture (60% of farmers over 65).
- **Malaysia** – to benefit from expanded trade and investment flows from TPP countries – **electronics, chemicals, palm oil, rubber etc offset by higher costs of labor and other standards**
- **Australia** – expanding trade and investment flows from TPP countries but **exports driven largely by China's demand for commodities; need to re-invent economy** following collapse of commodity prices
- **New Zealand** – **agricultural and diary exports boost to TPP countries**
- **Canada** – **boost to exports to TPP countries, trade flows and investment**
- **Mexico** – **to become most-favored offshored production for American markets but higher labour costs and poorer infrastructure than China**
- **Singapore** – Expanded financial and investment flows with Singapore as **TPP's Asian financial hub**

Wins and Compromises

The state of trade between the US and TPP partners

*Total trade in US\$ billion



China, not part of TPP, is participating in talks on the Regional Comprehensive Economic Partnership (RCEP), which would link the 10 members of the Association of Southeast Asian Nations with Australia, China, India, Japan, New Zealand and South Korea, accounting for about 30 per cent of global gross domestic product

	Japan	Australia	Vietnam	Malaysia	United States	Canada	Mexico
Wins	Car parts	Livestock, dairy, agriculture, services, manufacturing	Manufacturing, fishing	Electronics, chemical products, palm oil, rubber	Livestock, agriculture, technology	Livestock, forestry, aerospace	Agriculture, personal hygiene & cosmetics
Compromises	Livestock, rice	Sugar	Pharmaceuticals	Pharmaceuticals	Car parts, pharmaceuticals, manufacturing	Car parts, dairy, poultry	Car parts

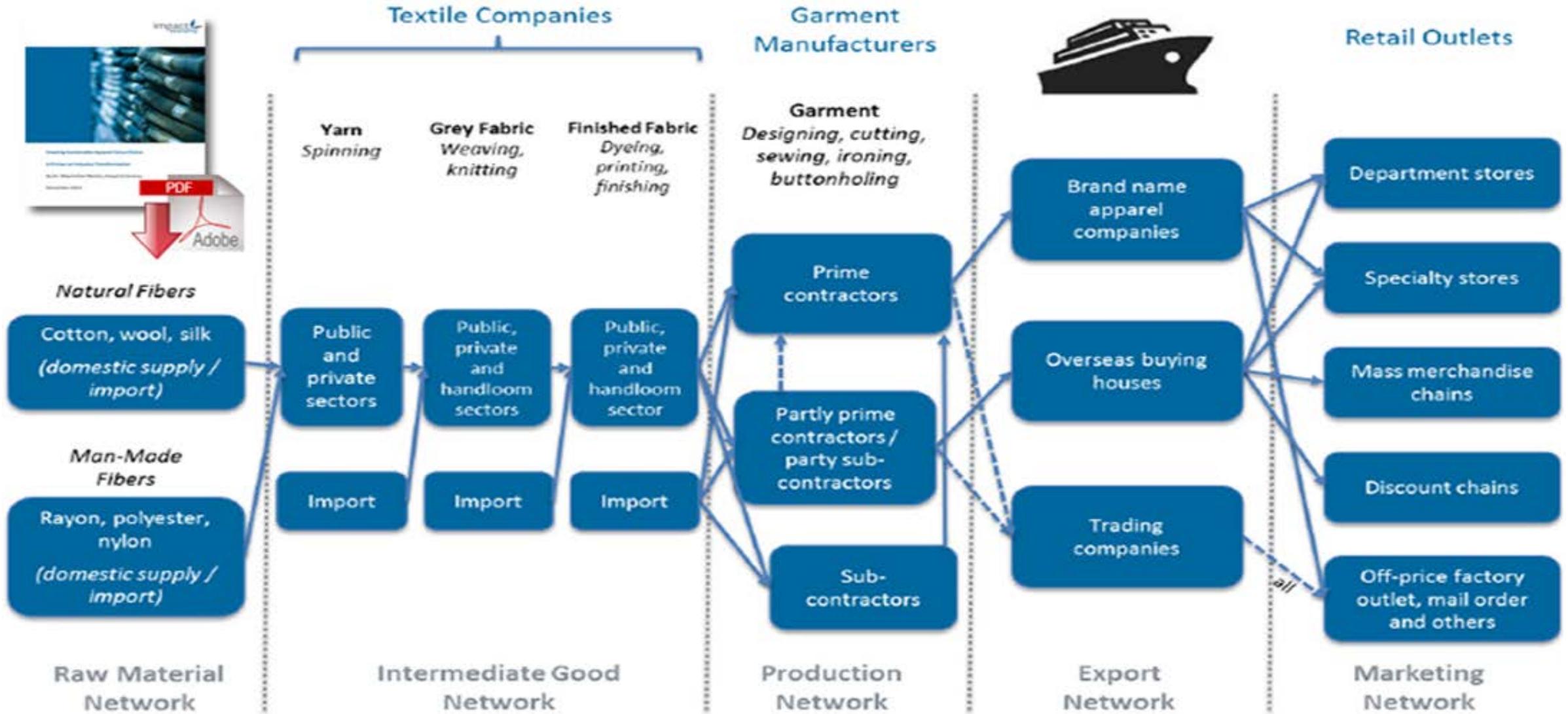
Sources: Bloomberg, Reuters, MarketWatch, Globe and Mail, Financial Review

US grand strategy and remaining resistance

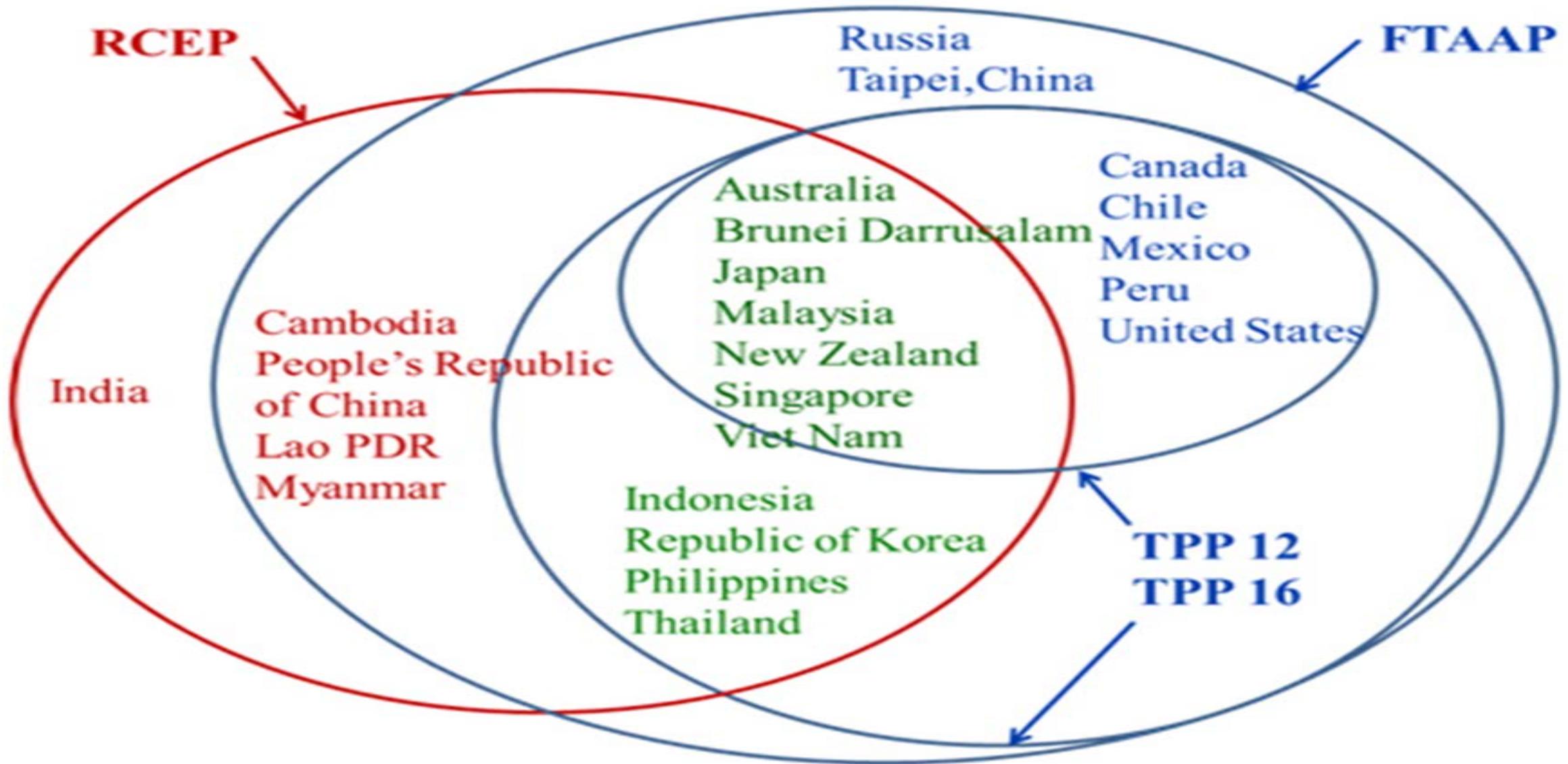
- Part of *US 3-pronged Grand Strategy v China's Rise* – Military (Asia Pivot) , Economic (TPP + TTIP (Transatlantic Trade and Investment Partnership to be negotiated) and Political (values and institutions)
- *Paves the way* for quantum jump in oil/gas exports *when US becomes net energy exporter by 2020.*
- But *China's ODI in the US* has reached \$46b (2000-4), employing 80,000 Americans, expected to increase to \$1-200b, employing 200,000 – 400,000 American workers by 2020.
- *Hilary Clinton declares opposition* for fear of job losses (*outsourcing*), *increased prices for US consumers, and largest benefits accruing to big businesses* (tobacco, auto, pharmas, AT& T, GE, Apple, Dow Chemical, Nike, Walmart, American Petroleum etc); and special rights to sue for loss of profits at expense of workers and consumers
- *Procedure* – President must notify Congress of intention to sign more than 30 days before publishing full texts; publication must precede signing by 60 days
- *Japanese farmers unhappy* (politically powerful) and *New Zealand farmers somewhat disappointed in remaining reserved protection in agricultural markets, Canadian auto-part makers not satisfied with some watered-down rules of origin. Peru and Chile not happy with remaining 5-8 year patent protection for essential drugs.*



China at heart of global supply, value, and distribution chain



To be consolidated by RCEP and FTAAP



China - Negative impact, likely leverage and long-term aim

- Estimated *negative impact* = 0.5% - 1.2% GDP due to trade and investment diversion, but Ma Jun, PBoC Chief Economist – 2.2% over time?
- But *leverage possible* (*Fortune*, 6.10.15) - country of origin conditions - China to import cotton from Pakistan (existing FTA) to conduct “*upstream*” operations e.g. fabric design, knitting and dyeing. Then ship the fabric to Vietnam (existing FTA). Vietnam to perform “*downstream*” operations (*sewing*) and ship the finished shirts via TPP to Australia, Japan and the United States, cutting off the 5%, 10.9% and 16.5% tariffs compared with direct Chinese exports to same.
- Some midsize Chinese companies, such as Texhong Textile, have *opened facilities in Vietnam* in anticipation of the TPP.
- As China aspires to play at the world’s top table, *likely aim to join as leverage to push further reform* to attain higher standards as a high-income, innovative nation



... the One Belt, One Road (OBOR) initiative

81,000 km (50,000 miles) high-speed rail to be built in 65 countries. Potential investment estimated at \$1.4 trillion = 12 x Marshal Plan (\$120b in today's prices)

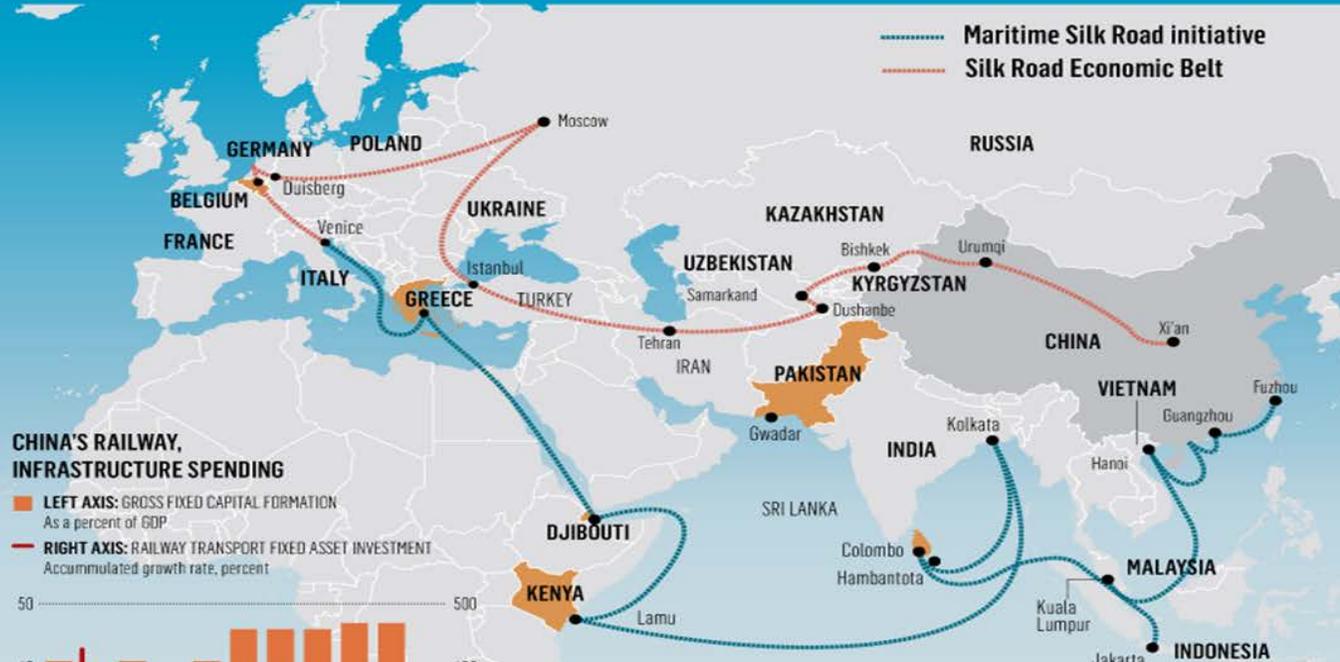
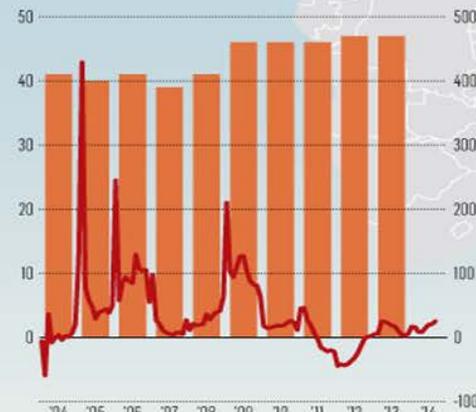
CHINA'S SILK ROAD PUSH

China has just announced a multi-billion dollar fund to revive pancontinental land routes and develop maritime links, aiming to both expand commerce and perhaps give it more influence in a freight system dominated by European shippers.

CHINA'S RAILWAY, INFRASTRUCTURE SPENDING

LEFT AXIS: GROSS FIXED CAPITAL FORMATION As a percent of GDP

RIGHT AXIS: RAILWAY TRANSPORT FIXED ASSET INVESTMENT Accumulated growth rate, percent



According to Reuters calculations, China's state-backed firms have already invested at least \$5 billion in transport infrastructure over the past decade.

BELGIUM
Antwerp At least \$3.94 billion
•Cosco Pacific bought a 25% stake in 2004. China Merchants later got a stake through its part-purchase of Terminal Link. The two now have a 29% interest in Antwerp.

GREECE
Piraeus Port At least \$624 million
•Cosco Pacific, for the right to run and upgrade part of the port.

DJIBOUTI
Port of Djibouti \$185 million
•China Merchants, for a 23.5% stake

KENYA
Lamu Port Mombasa port \$484 million \$66.7 million
•China Road & Bridge
•China Communications Construction Company

Pakistan
Gwadar port \$198 million
•China paid for 80% of the port's Phase I

SRI LANKA
Hambantota port At least \$1.9 billion
Colombo Port City \$1.43 billion
Colombo Port \$500 million

•China Exim Bank
•China Harbour Engineering
•China Communications Construction Company
•China Development Bank

Sources: World Bank; National Bureau of Statistics of China; Reuters

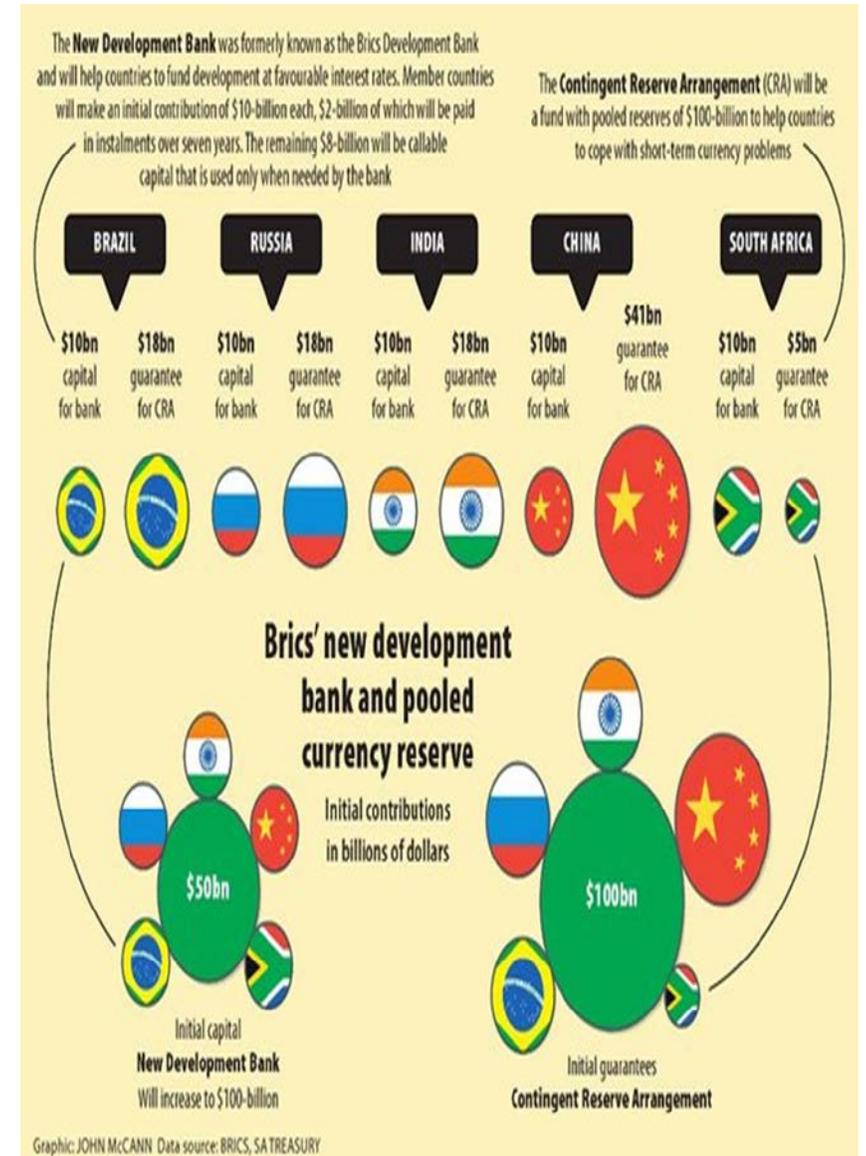
.... the AIIB and the New Development Bank

AIIB - 51 Member Countries including key US allies, operational end 2015, \$50b capital to increase to \$100b

Card-carrying members



SCMP

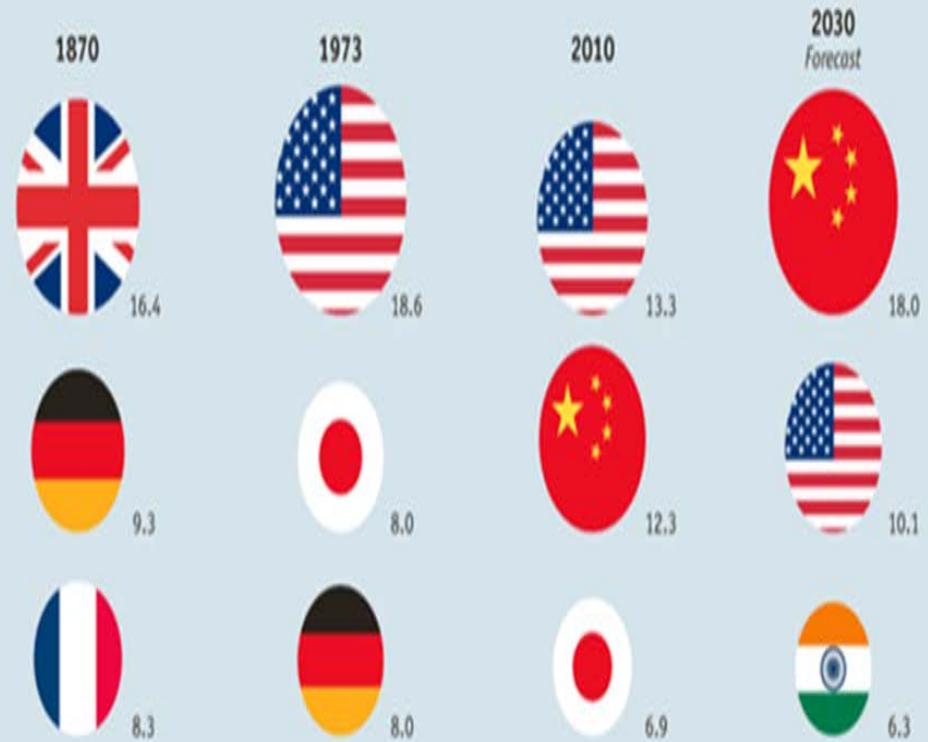


Inevitable swing of the pendulum

Changing of the tide

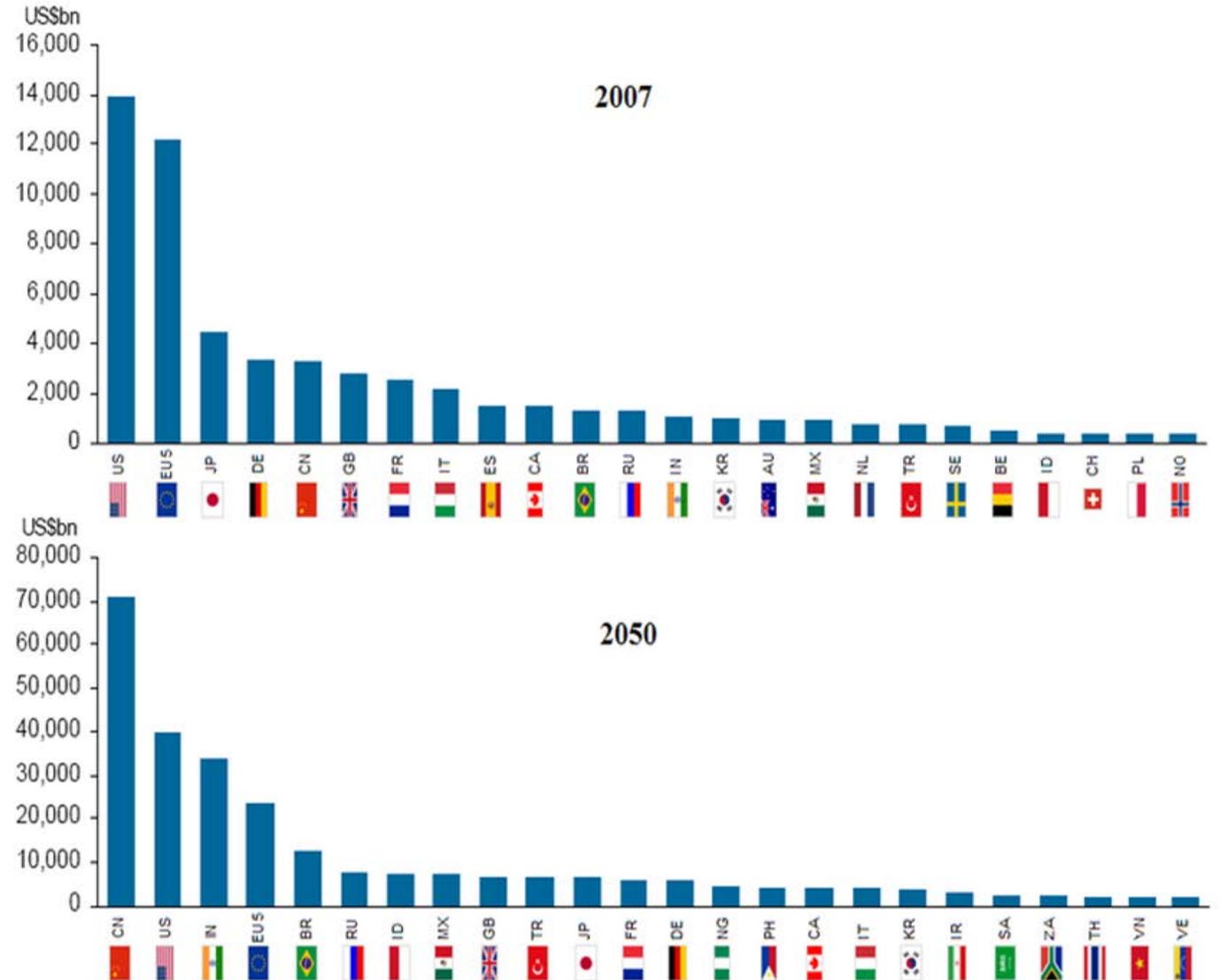
Waxing and waning

Top three countries by economic dominance, % share* of global economic power



Source: Arvind Subramanian

*Weighted by share of world GDP, trade and net capital exports



Thank you

Andrew K P Leung, SBS, FRSA

www.andrewleunginternationalconsultants.com

International and independent China Specialist with over 40 years professional experience covering Hong Kong and Mainland China. Chairman of Andrew Leung International Consultants, founded in London now relocated to Hong Kong. Provides strategic advice on China-related finance, investment, politics and economics globally, including both business and governments. China Futures Fellow selected worldwide by Berkshire Publishing Group, Massachusetts. On the Brain Trust of Evian Group, a Lausanne-based think-tank. Founding Chairman of China Group of Institute of Directors City Branch, London. Advisory Board Member of China Policy Institute, Nottingham University, 2005-10. Governing Council, King's College London, 2004-10. Visiting Professor with Metropolitan University Business School. Helped set up Standard Chartered Bank's first merchant-banking subsidiary in Hong Kong (1983); oversaw the trans-migration of industries into China as Deputy Director-General of Industry; US-government sponsored month-long visit to brief Fortune 50 CEOs on China beyond Tiananmen Square (1990); Editor-at-Large of a London-based international consultancy on China's energies (2007). Sponsored Speaker on China at international conferences, including Forum Istanbul, Turkey, Annual African Banking and Financial Institutions Conference in Accra, Ghana, and Low Carbon Earth Summit in Dalian, China. Regular interviewee on live television with CNBC, Aljazeera English, Times Now of India, BBC and other international channels. Awarded Hong Kong's Silver Bauhinia Star (SBS) and included in UK's Who's Who since 2002.