

# CHINA ECONOMIC UPDATE FEBRUARY 2017



Trading places – China is replacing the United States as the advocate for major free trade deals

NAB Group Economics

Anti-globalisation sentiment has been growing in recent years – particularly in advanced economies – culminating in the United States withdrawal from the Trans-Pacific Partnership (TPP). The economic and diplomatic vacuum left by the TPP presents an opportunity for China to exert greater influence over the Asia-Pacific region – a notable shift given China's exclusion from TPP negotiations and membership – and the rules for global trade in coming decades.

## TPP - RIP

On 23 January 2017, US President Donald Trump signed an executive order that formally withdrew the United States from the Trans-Pacific Partnership (TPP), the twelve country trade deal that was driven by the Obama Administration. While some member countries – including Australia – have proposed renegotiating the TPP in the absence of the United States, the refusal of Japan to participate in a TPP minus 1 agreement means that the proposed pact is effectively dead. Japan's government described the TPP without the United States as 'meaningless'.

The US withdrawal from the TPP was hardly surprising – President Trump campaigned strongly against the trade deal during the election campaign, while Democratic candidate Hillary Clinton also expressed her opposition – despite previously favouring the proposal – in attempting to win over the anti-globalisation vote aligned to rival Bernie Sanders. This anti-globalisation sentiment has been growing – with opinion polls showing more Americans believe that globalisation has cost rather benefited the country, particularly in terms of job losses. Under the Trump Administration, the US is far more likely to seek bilateral – rather than multi-lateral – trade deals.

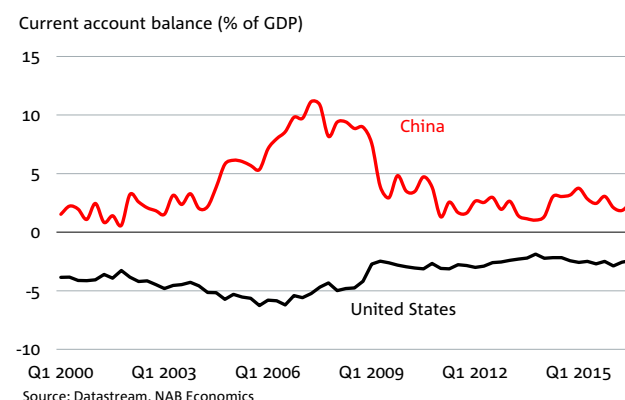
One controversial feature of the TPP was the exclusion of China – now the world's largest economy (on a purchasing power parity basis) and exporter. There were differing views as to the motivation behind China's exclusion. Some argued that it was a deliberate policy of containment – allowing TPP member countries to offset the benefits that China gained from World Trade Organization membership in 2001. Others argue it was designed to encourage China to alter policies on its currency, investment and

state intervention – noting the clear accession mechanism written into the TPP and China's eligibility to apply for membership as an APEC nation.

The US withdrawal presents China with a considerable opportunity – taking the lead in multi-lateral trade negotiations and providing the opportunity to shape the rules around global trade. The two countries have differing influences on global trade. While they are the world's largest and second largest exporters, China has a sizeable current account surplus and the United States a sizeable deficit.

## CURRENT ACCOUNT BALANCES

### China & US different influences on trade



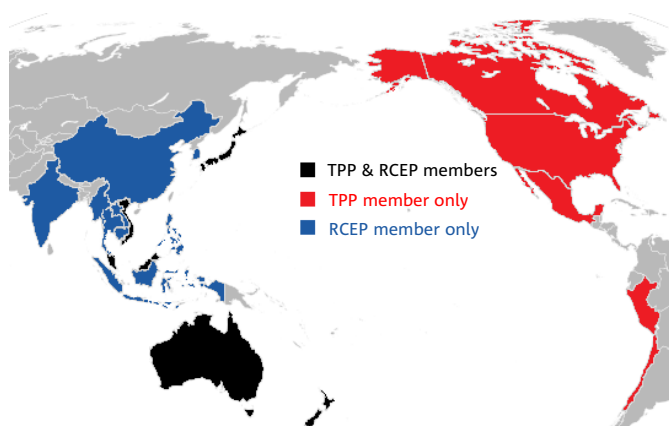
## THE RISE OF THE RCEP

China has been expanding its political and economic influence within the Asia-Pacific region in recent years – most notably with the 'one belt, one road' initiative announced in 2013 and the establishment of the Asian Infrastructure Investment Bank in 2015.

Similarly, China's exclusion from TPP negotiations encouraged Beijing to promote alternative trade pacts – taking the lead role from late 2012 in negotiating the Regional Comprehensive Economic Partnership (RCEP) – a sixteen country free trade agreement centred on the ten members of ASEAN, along with China, India, Japan, South Korea, Australia and New Zealand. The United States is currently excluded from membership, as it requires an existing free trade agreement with ASEAN – something that is unlikely in the current political environment.

## TRADE DEAL MEMBERSHIP

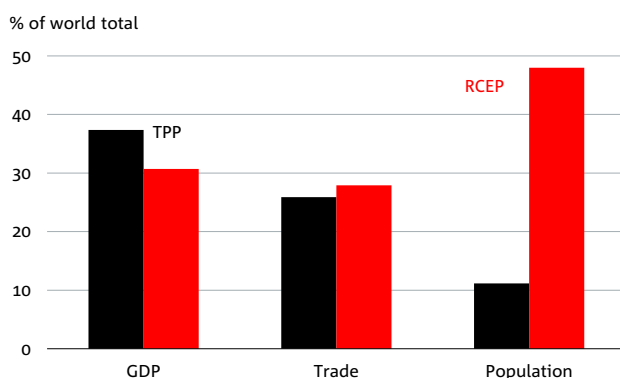
### RCEP focused more on Asia than Pacific



There have already been sixteen rounds of talks on the RCEP and it is expected to gain further prominence following the US withdrawal from the TPP. The trade deal would consolidate trade standards across Asia, unifying the five separate trade deals in place between ASEAN and the other six partners. That said, there are a range of important differences between the RCEP and TPP.

## COMPARISON OF TRADE DEALS

### RCEP greater share of global population



Source: IMF, WTO, UN, NAB Economics

While superficially both are trade deals aimed at lowering barriers between nations, the TPP included trade law in areas such as labour rights, environmental protection, food safety, government procurement and anti-corruption and transparency. These measures were advocated by the United States and were unpopular with a number of countries in the pact. The TPP also featured US led rules around intellectual property and dispute mechanisms, which may differ considerably to negotiated measures in the RCEP. In contrast, the RCEP is more in line with traditional trade deals, along with some measures intended to support developing economies. The Australian Institute of International Affairs argues that the RCEP could be less beneficial in some areas for Australia than the TPP, as the latter would have provided greater support for service sector exports.

The RCEP is still far from settled – though renewed focus means that negotiations could be completed in 2017 – however concerns around proposed tariff reductions in key industrial sectors could delay progress.

## CONCLUSIONS

From a political perspective, President Trump's decision to withdraw from the TPP reflected US sentiment against globalisation, particularly in the mid-west rust belt. However, this move has handed China an opportunity to increase influence on trade policy across the Asia-Pacific region – most likely via the RCEP that excludes the United States.

## CONTACT THE AUTHOR

Gerard Burg

Senior Economist – Asia

[Gerard.Burg@nab.com.au](mailto:Gerard.Burg@nab.com.au)

+613 8634 2788

+61 477 723 768

## Group Economics

Alan Oster  
Group Chief Economist  
+61 3 8634 2927

Jacqui Brand  
Personal Assistant  
+61 3 8634 2181

### Australian Economics and Commodities

Riki Polygenis  
Head of Australian Economics  
+(61 3) 8697 9534

James Glenn  
Senior Economist – Australia  
+(61 3) 9208 8129

Vyanne Lai  
Economist – Australia  
+(61 3) 8634 0198

Phin Ziebell  
Economist – Australia  
+61 (0) 475 940 662

Amy Li  
Economist – Australia  
+(61 3) 8634 1563

### Behavioural & Industry Economics

Dean Pearson  
Head of Behavioural & Industry Economics  
+(61 3) 8634 2331

Robert De Iure  
Senior Economist – Behavioural & Industry Economics  
+(61 3) 8634 4611

Brien McDonald  
Senior Economist – Behavioural & Industry Economics  
+(61 3) 8634 3837

Steven Wu  
Economist – Behavioural & Industry Economics  
+(613) 9208 2929

### International Economics

Tom Taylor  
Head of Economics, International  
+(61 3) 8634 1883

Tony Kelly  
Senior Economist – International  
+(61 3) 9208 5049

Gerard Burg  
Senior Economist – Asia  
+(61 3) 8634 2788

John Sharma  
Economist – Sovereign Risk  
+(61 3) 8634 4514

## Global Markets Research

Peter Jolly  
Global Head of Research  
+61 2 9237 1406

### Australia

#### Economics

Ivan Colhoun  
Chief Economist, Markets  
+61 2 9237 1836

David de Garis  
Senior Economist  
+61 3 8641 3045

Tapas Strickland  
Economist  
+61 2 9237 1980

#### FX Strategy

Ray Attrill  
Global Co-Head of FX Strategy  
+61 2 9237 1848

Rodrigo Catril  
Currency Strategist  
+61 2 9293 7109

#### Interest Rate Strategy

Skye Masters  
Head of Interest Rate Strategy  
+61 2 9295 1196

Alex Stanley  
Senior Interest Rate Strategist  
+61 2 9237 8154

#### Credit Research

Michael Bush  
Head of Credit Research  
+61 3 8641 0575

Simon Fletcher  
Senior Credit Analyst – FI  
+61 29237 1076

Andrew Jones  
Credit Analyst  
+61 3 8641 0978

#### Distribution

Barbara Leong  
Research Production Manager  
+61 2 9237 8151

### New Zealand

Stephen Toplis  
Head of Research, NZ  
+64 4 474 6905

Craig Ebert  
Senior Economist  
+64 4 474 6799

Doug Steel  
Senior Economist  
+64 4 474 6923

Kymerly Martin  
Senior Market Strategist  
+64 4 924 7654

Jason Wong  
Currency Strategist  
+64 4 924 7652

Yvonne Liew  
Publications & Web Administrator  
+64 4 474 9771

### UK/Europe

Nick Parsons  
Head of Research, UK/Europe, and Global Co-Head of FX Strategy  
+44207710 2993

Gavin Friend  
Senior Markets Strategist  
+44 207 710 2155

Derek Allassani  
Research Production Manager  
+44 207 710 1532

### Asia

Christy Tan  
Head of Markets Strategy/Research, Asia  
+852 2822 5350

Julian Wee  
Senior Markets Strategist, Asia  
+65 6632 8055

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