

Welcome To The Free Trade Wars

by Pepe Escobar via Juan - Asia Times *Monday, Aug 31 2015, 3:00am*

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China continues to grow at a not too shabby 7%. And yet, because of the yuan devaluation and the sharp drop in the stock market, in most Western capitals the narrative switched to Armageddon descended over an economic model that generated, over the years, six-fold growth in Chinese GDP.

Few are aware that Beijing, simultaneously, is engaged in a thrice titanic task; to shift its growth vector from exports and massive investment to services; to tackle the negative and/or self-satisfied role of state-owned enterprises; and to deflate at least three bubbles — debt, real estate speculation and the stock market — in the context of a virtual global economic stagnation.

All this while there is virtually no Western coverage of the China-led Eurasian trade integration push, which will help to eventually consolidate the Middle Kingdom as the largest economy in the world.

And that brings us to a crucial subplot in the Big Picture: Southeast Asia.

Four months from now, the 10-member Association of Southeast Asian Nations (ASEAN) is bound to become integrated, via the ASEAN Economic Community (AEC).

AEC is no mean feat. We're talking about the economic integration of a combined market of 620 million people and a collective GDP of \$2.5 trillion.

Of course, this is still a quite divided ASEAN. Roughly, mainland Southeast Asia is closer to China while maritime-border Southeast Asia is more confrontational — not least because of US interference stoking the confrontation. It will be a long haul before there is a South China Sea rules-based code of conduct signed by all participants.

Yet even if mainland and maritime Southeast Asia present a quite contrasted outlook, and their integration might imply more rhetoric than reality — at least short-term — Beijing does not seem to mind the long game. After all, China is inextricably linked with mainland Southeast Asia.

Take Cambodia, Laos, Myanmar and Thailand. That's a collective market of 150 million people and a GDP of over \$500 billion. Include these four in the context of the Greater Mekong sub region, which encompasses the southern Chinese provinces of Guangxi and Yunnan, and we have a market of 350 million people with a GDP of over \$1 trillion. The conclusion, as seen from Beijing, is inevitable; mainland Southeast Asia is southern China's backyard.

TPP vs. RCEP

The US-led Trans-Pacific Partnership (TPP) is widely acknowledged across multiple ASEAN latitudes as a key component of the "pivoting to Asia."

If ASEAN itself is divided, TPP adds to the division. Only four ASEAN nations — Brunei, Malaysia,

Singapore and Vietnam — are involved in TPP negotiations. The other six prefer the Regional Comprehensive Economic Partnership (RCEP).

RCEP is an ambitious idea aiming at becoming the world's biggest free trade agreement; 46% of global population, with a combined GDP of \$17 trillion, and 40% of world trade. RCEP includes the 10 ASEAN nations plus China, Japan, South Korea, India, Australia and New Zealand. Unlike TPP, led by the US, RCEP is led by China.

Even if there is a substantial degree of political will, it will be impossible for these 16 nations to finalize their negotiations in the next four months — and thus announce RCEP simultaneously to the start of AEC. That would be a huge boost to the shared notion of the “centrality” of ASEAN.

Problems, problems everywhere. For starters, the serious China-Japan dispute over the Diaoyu/Senkaku islands. And the ever-evolving China/Vietnam/Philippines tussle in the South China Sea. Competition and distrust is the norm. Many of these nations see Australia as a Trojan horse. So it's unlikely consensus will be reached before 2017.

The RCEP idea was born in November 2012 at an ASEAN summit in Cambodia. There have been nine rounds of negotiations so far. Curiously, the initial idea came from Japan — as a mechanism to combine the plethora of bilateral deals ASEAN has struck with its partners. But now China is in the lead.

And if the TPP vs. RCEP competition was not enough, there's still the Free Trade Area of the Asia-Pacific (FTAAP). That was introduced at the APEC meeting in Beijing late last year by — of course — China, to seduce nations whose top trade partner is China anyway from entertaining TPP notions.

Joseph Purigannan of Foreign Policy in Focus has aptly summarized all this frenzy; “If we connect all these developments of ‘mega-FTAs’, what we are seeing is actually the intensification of what we can call a turf war among the big players.” So, once again, this is a China vs. US proxy war.

Big Pharma rules

TPP is spun in the US as aiming at setting common standards for nearly half of the world economy.

And yet TPP — negotiated in utmost secret by hefty corporate lobbies with absolutely no public scrutiny — is essentially NATO on trade (and a close companion of the EU-targeted TTIP). TPP has been developed as the economic/trade arm of the “pivoting to Asia” — with two inbuilt wet dreams; excluding China and diluting the influence of Japan. And most of all, TPP aims at preventing most of Asia — and inside it, ASEAN nations — from reaching any agreement that does not include the US.

China's reaction is subtle, not frontal. Beijing is betting in fact on multiplying agreements — from RCEP to FTAA. The ultimate objective is to reduce the hegemony of the US dollar (don't forget: TPP is dollar-based).

Even after securing US Congress approval last month for a fast track leading to a deal, President Obama and the all-powerful TPP business lobby is having a very hard time convincing the 12 TPP — very unequal — partners.

On next generation biological drugs, for instance, TPP privileges Big Pharma such as Pfizer and Japan's Takeda. TPP goes against state-owned enterprises — very important in economies such as Singapore, Malaysia and Vietnam — to the benefit of foreign competitors fighting for government

contracts.

TPP wants to get rid of Malaysia's preferential treatment to ethnic Malays on business, housing, education and government contracts – a staple of Malaysia's development model.

Under the pretext of cutting tariffs on “sensitive” clothing, big US textile corporations such as Unifil aim to stop Vietnam from selling cheap clothing made in China in the US market.

And the US and Japan remain at serious odds on agriculture and the automobile industry, still debating, for instance, when a vehicle has enough local content to qualify for duty-free.

General Prime Minister Prayut Chan-ocha is convinced that TPP can make or break Thailand – with an emphasis on “break.” That's what he told an imposing visiting group of the US-ASEAN Business Council.

Bangkok is terrified that its laws on patent medicine – as in the right to produce generic medicine – will be replaced by mega-restrictive patent laws dictated by the usual suspects: Big Pharma.

One Belt, One Road, one bank

In the end, it all comes back to Chinese President Xi Jinping's by now legendary I Tai I Lu (“One Belt, One Road”); a.k.a. the New Silk Road(s) strategy, where one of the key components is the export of all manner of Chinese connectivity technology to other ASEAN nations.

That starts with the \$40 billion Silk Road Fund announced late last year. But other investment avenues for infrastructure networks — roads, railways, ports — should come via the Asian Infrastructure Investment Bank (AIIB).

So AIIB may also be interpreted as an extension of China's export model. The difference is that instead of exporting goods and services China will be exporting infrastructure expertise, as well as its excessive domestic production capacity.

One of these projects is a railway from Yunnan province through Laos and Thailand to Malaysia and Singapore – with Indonesia just a short trip away (where China is already battling Japan for the contract to build Indonesia's first 160 km high-speed rail between Jakarta and Bandung). China has built no less than 17,000 km of high-speed railway – 55% of the world's total — in only 12 years.

Washington is not exactly beaming at closer and closer Beijing-Bangkok relations. China, for its part, would like its ties with Thailand to be the prototype for relations with other ASEAN nations.

Thus, the eagerness of Chinese businesses to invest in ASEAN using Thailand as their regional investment hub. That's all about investing in nations with excellent potential to become Chinese production bases.

In the immediate future real economic integration is inevitable in mainland Southeast Asia. It is already possible to hit the road from Myanmar to Vietnam. And soon by rail from southern China through Laos to the Gulf of Thailand and through Myanmar to the Indian Ocean.

The labor market is increasingly integrated. There are five million people from Myanmar, Cambodia and Laos already working in Thailand – most of them legally. Border trade is booming – as institutionalized “borders” don't mean much in mainland Southeast Asia (as they don't mean much

between Afghanistan and Pakistan, for example).

It's still a very open game though. It's about connectivity. It's about global production chains. It's about harmonized rules of trade. But most of all it's a tremendously high-stakes power play; who - the US or China - will eventually set the global rules on trade and investment.

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