



PIIE PETERSON INSTITUTE FOR
INTERNATIONAL ECONOMICS

CPTPP and Beyond: Navigating US-China Trade & Investment Tensions

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Multilateralism in crisis...

- WTO unable to negotiate new rules; dispute settlement voided;
- US and China unable to reduce trade and technology tensions;
- US seems unlikely to engage on issues of economic importance to countries in Asia, especially further liberalization;
- China seeking engagement (e.g. CPTPP entry) but terms of exchange are unclear.

Drivers of US-China economics tensions

1. Anxiety about technological dominance by the other.
 2. Concerns over industrial supply chain security.
 3. Belief that other will “weaponize” trade & investment.
- **These challenges intersect and reinforce. They limit options for further integration and liberalization.**

1. Anxiety about technological dominance

- We are on the cusp of great technological change.
 - There are large rewards for those who dominate standards and sit at center of supply chains.
 - New technology expanding definition of “dual use.”
- **US and China see need to meet growth & distributional challenges.**

2. Supply chain security concerns

- Concerns exacerbated by the pandemic shortages and need to ration materials.
 - Demonstrated political risk and economic costs of supply disruption
 - Intertwined with national security in multiple ways:
 - Key technologies must be produced at home
 - Key technologies must not be vulnerable to supply disruptions
 - Key technologies must not be open to foreign spies
- **Strong domestic support for de-integration.**

3. “Weaponized” trade & investment?

- **Yes, the US has weaponized trade and investment**
 - Section 301 tariffs.
 - COMPETES Act from US House subjects outward investment to review.
 - Reliance on financial and trade sanctions to address non-trade issues.
- **Yes, China has weaponized trade and investment**
 - Implicit bans on Australian imports for non-trade purposes
 - Implicit bans on Lithuanian imports for non-trade purposes
 - Implicit quid pro quo of market access for technology transfer

→ **Result is a very low trust environment for negotiations.**

Scenario #1 – Partial decoupling

The US cannot decouple from China without decoupling from Asia

Export shares from row regions to column regions (percent)						
	RCEP	CPTPP	ASEAN	EU-27	China	USA
USA	24.52	43.66	5.48	16.94	8.73	0.00
Japan	45.96	12.87	14.52	10.63	22.54	19.32
China	36.53	20.61	13.51	15.53	11.19	16.06
Korea	54.37	23.58	17.38	9.24	30.15	13.48
India	23.12	12.05	10.18	14.93	8.76	16.77
EU-27	9.40	5.13	1.85	57.62	4.62	7.71
RCEP	46.40	21.19	15.91	12.42	18.32	14.83
CPTPP	39.87	15.03	11.15	8.29	18.59	32.92
ASEAN	56.15	24.75	21.93	10.63	20.29	13.23

Scenario #2 - Clubs and trusted networks

Consistent with multilateral system?

- Yes, open clubs can push the agenda forward! (the EU approach)
 - Open agreements provide incentives for countries to prepare for and adopt higher standards for technology, environment, and labor.
- No, we don't want everyone in our club! (the US approach)
 - Do business with “trusted” suppliers.
 - Realign supply chains by “friend-shoring”.
 - Agreements may appear open but are actually closed.

Scenario #3 – Limit the damage

Will events overtake patience?

- Engage with both US and Chinese needs for secure supply chains.
- Diversify both import sources and export destinations.
- In regional negotiations, seek to minimize complexity and diversity of new rulemaking.
- Be open to integration opportunities, even if smaller than desired.

The road ahead is rocky...

- The world trading system will limp along and that may be the best we can expect.
- US-China tech decoupling has the potential to tear apart global value chains and established trade relations across Asia that feed US markets.
- Limiting the damage of current tensions may be best option among those currently available.



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