

## Trade Talks Could Raise Heat on China

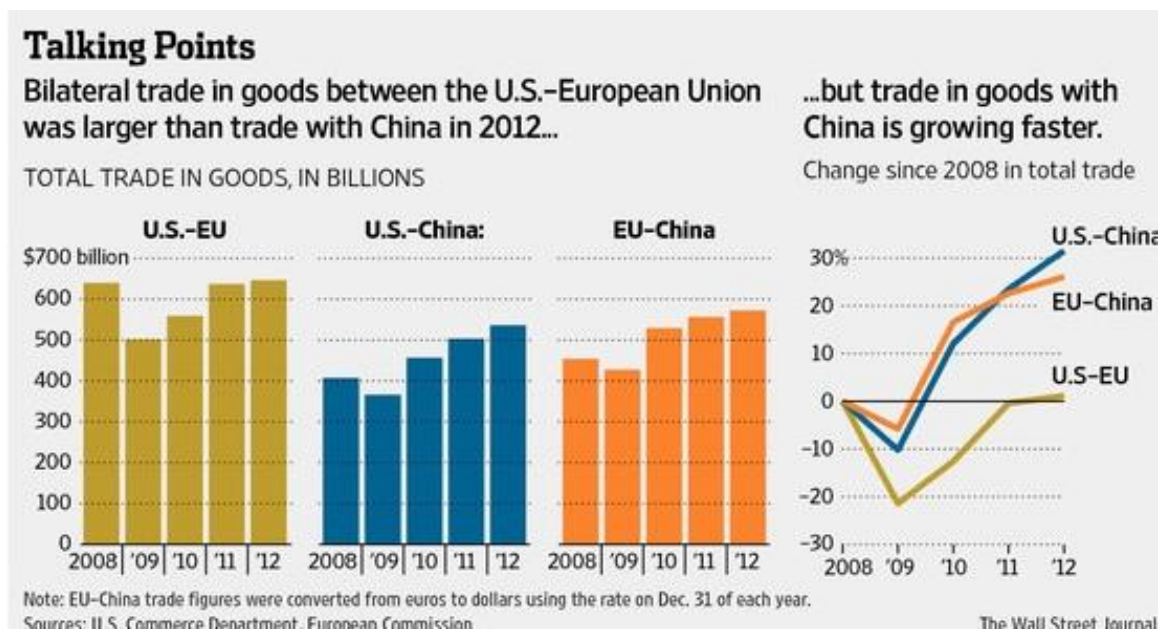
European Union Officials Arrived in Washington to Begin Negotiations Monday

William Mauldin comments in the Wall Street Journal

The U.S. is launching broad trade talks with Europe this week and preparing for the next stage of negotiations with select Asia-Pacific nations, part of the Obama administration's effort to find new fuel for economic growth.

U.S. trade experts and business leaders say they expect the deals will also put pressure on the only major economy absent from the negotiating tables: China.

"China has to decide whether to conform and adapt to the norms of international trade or continue to be an outlier," said Michael Wessel, member of the U.S.-China Economic and Security Review Commission, a U.S. government agency created to monitor the trade and economic relationship between the two countries. "It puts pressure on them to do bilateral deals that might provide them with important access to key markets."



European Union officials arrived in Washington to start talks Monday aimed at eliminating remaining tariffs on exports and imports, recognizing each other's industry standards and granting easier market access for businesses across the Atlantic.

The two sides are looking to clinch deals that would open up their government contracting to foreign companies and allow for freer trade in goods and services. Such methods of lowering trade barriers are a tougher sell in many emerging-market economies such as China.

"Europe and the United States are not just going to wait for China—they're going to move forward," said Myron Brilliant, executive vice president for international affairs at the U.S. Chamber of Commerce.

Proponents of a U.S.-EU trade pact concede, however, that it would take years to negotiate and implement, suggesting that any impact on China would also be far off.

"This is going to be a difficult negotiation," said Mickey Kantor, the former U.S. trade representative who led talks to form the World Trade Organization. "It may take longer than anyone expects."

And China could benefit from a trade deal that boosted growth—and likely imports—in its two largest export markets. The U.S. and EU imported goods worth \$808 billion from China last year.

But watching the U.S. and Europe hammer out a deal also could lead China to work harder on its bilateral trade and investment talks with Washington, U.S. officials hope.

The Obama administration is also preparing this week for the next round of talks for the Trans-Pacific Partnership, or TPP, which includes Japan and many market-oriented economies in Asia and Latin America, but not China.

A free-trade pact among these countries could have a more direct effect on China than the U.S.-EU trade pact. Yukon Huang, former World Bank chief for China and a senior associate at the Carnegie Endowment for International Peace, said it is "very likely the TPP would actually discourage or make it difficult for parts to be shipped" to and from Asian countries outside the group, jeopardizing China's role as the final assembly point for phones and gadgets whose parts come from other countries.

Another sensitive point for China: the Trans-Pacific Partnership talks are looking at limiting the role of state-owned enterprises.

Still, depending on how the Trans-Pacific Partnership rules are structured, the countries in the group could end up boosting trade in products that are partly produced in China, said Mr. Wessel of the U.S.-China Economic and Security Review Commission.

Western leaders say the goal of the two sets of trade negotiations isn't to isolate or "contain" China.

"Our efforts in these negotiations are not aimed at any one country, but at developing high standards and new disciplines that strengthen the international trading system and create a level playing field on which our workers and firms can compete," said U.S. Trade Representative Michael Froman.

In recent weeks Beijing officials have softened their once-critical tone on the trans-Pacific trade talks, saying they would weigh the advantages and disadvantages of joining.

China Daily, the Chinese government's flagship English-language newspaper, last week cited officials growing increasingly "positive" about the possibility of entering the talks. The Chinese embassy in Washington didn't immediately reply to a request for comment on the issue.

China's new leadership appears to be looking at domestic economic reforms, and some trade experts say the chances are good that they will look favorably on expanding international economic ties and allowing more foreign investment.

American businesses want to see fewer barriers to investment in China and greater market access, including in services and new areas such as cloud computing, said John Frisbie, president of the U.S.-China Business Council.

Mr. Froman said in an interview that his office is "engaging very actively with China," adding that his office is "excellent at multitasking" among various trade initiatives.

Meantime, China's breakneck pace of economic expansion is slowing, making it possible that Beijing could look to trade deals with the U.S. as a way to way to re-energize growth.