



The Trans-Pacific Partnership: A High Barrier Agreement?

By Edwin Way, Li Xiaoxue

TPP is not only a simple FTA but a “Sample Agreement” that has high hope from USTR (Office of the United States Trade Representative). There are those who are concerned that the TPP is an attempt by the United States to promote American hegemony. What is the true aim of TPP? Why does the United States push forward it? This article will offer some insights.

On the 11th November 2011 the Japanese Prime Minister, Yoshihiko Noda, announced negotiations to join the Trans-Pacific Partnership (TPP). It caused a lot of academic arguments and also media attentions especially from Asian countries like China, Korea and India.

“Sample Agreement” pushed forward by The United States

The Trans-Pacific Partnership (TPP), also known as the Trans-Pacific Strategic Economic Partnership Agreement, is a multilateral free trade agreement that aims to further liberalize the economies of the Asia-Pacific region. The original agreement between the countries of Brunei, Chile, New Zealand and Singapore was signed on June 3, 2005. Six additional countries – Australia, Malaysia, Peru, Japan, United States, and Vietnam – are negotiating

to join the group. On the last day of the 2010 APEC summit, leaders of the nine negotiating countries endorsed the proposal advanced by United States.

Unlike most multinational free trade agreements, TPP is not only a simple FTA but a “Sample Agreement” that has high hope from USTR (Office of the United States Trade Representative). It is dominated and pushed by the United of States.

There are those who are worried that the high-level requirements of the TPP may be designed to exclude countries with large state sectors such as China and India. There are those who are concerned that the TPP is an attempt by the United States to promote American hegemony.

What is the real purpose of the United States?

These concerns may be overdrawn. It is unlikely that anyone in the US business community or in Washington D.C. would be naive enough to expect a country like Vietnam to liquidate its large state owned sector just so that it can export a few more T-shirts to the United States. Vietnam already enjoys a large trade surplus with the United States and Vietnamese companies have established good working relationships with big American retailers such as Wal-Mart. Moreover, the United States has already established free trade agreements with a number of countries that have much larger state-controlled sectors than the United States. Foremost among these is Singapore. In Singapore, companies that are linked to the government’s investment company Temasek Holdings, represent fully 60% of the country’s GDP. The US-Singapore bilateral FTA has been in effect for more than eight years since January 1, 2004 without leading to any major overhaul or diminishment



PPT members



of the Singaporean government's role in the nation's economy. If a country as small as Singapore was not compelled to stop subsidizing publicly controlled companies, why should anyone believe larger countries such as Vietnam or Malaysia would be forced to do so? Needless to say, the US government itself subsidizes many industrial and agricultural concerns and these businesses would not allow their interests to be jeopardized.

The TPP is being publicized as a high-quality agreement that focuses on state-owned companies not because its supporters actually believe a country like Vietnam (let alone China) would be willing to abandon their existing developmental model in exchange for a marginal increase in exports. Instead, this argument is being made to allay American political concerns about free trade agreements. In recent years some American writers, most prominently former Wall Street banker, Ian Bremmer, have hyped the threat posed to the United States by "state-capitalism". Bremmer frames the US trading relationship with East Asian states in zero-sum terms and tries to generate fears about a Cold War ideological battle between state capitalism and the so-called free market system. Emphasis is being placed on the high quality of the TPP by its supporters not because the TPP will actually feature enforceable requirements but in order to allay fears that have been stoked by Bremmer and others. If the TPP's provisions were really as strenuous as some suggest, one wonders why the leaders of Singapore, Malaysia and Vietnam would be willing to participate in these negotiations. It seems unlikely the leaders of Singapore, Malaysia and Vietnam are secretly planning to radically dismantle their entire economic and political systems. What is more likely is that the requirements of the TPP will in practice be flexible enough to accommodate the economic systems of countries like Singapore, which have a single ruling party and an economy dominated by state-invested companies.

From the US perspective one can't rule out the possibility that the goal of the TPP is to begin to build the domestic political coalition necessary

to pave the way for free trade agreements with Asia's other big trade players including China, as well as Japan and India. The US business community is keen to see free trade institutionalized as a permanent US economic policy and to prevent any return to the pre-1970 practice of US industrial protection. US lobby groups and special interest associations are keenly aware that for most of US history the United States had the world's highest industrial tariffs. The period of high tariffs in the 1800's and 1900's also coincided with rapid economic growth and the emergence of a broad middle class. Economists debate whether or not high US tariff walls in the 1800's hindered or helped the US become a wealthy nation. Leaving this technical debate aside, this historical experience has undeniable appeal to those unhappy with deindustrialization, falling incomes and high unemployment.

The path selection and reflection of the United States for free trade agreement

If the TPP agreement is concluded and ratified it will provide a powerful argument for free trade enthusiasts within US domestic politics who want to see the US and China establish a free trade agreement. In signing agreements with Vietnam and Malaysia, the US will have established a free trade agreement with medium-sized Asian countries with low average wages and large state sectors. Supporters of a US-China FTA will then be in the position to argue that if the US already has free trade agreements with a "little dragon" like Vietnam, it would be reasonable to go ahead and conclude an agreement with the "big dragon". Since June 2008, the United States and China have already been moving in this direction, negotiating a Bilateral Investment Treaty that is strongly backed by US business interests including the US Chamber of Commerce. Maurice Greenberg, the former head of disgraced insurance giant, AIG (which was at the heart of the 2008 financial collapse) recently wrote a much-talked-about op-ed in the Wall Street Journal championing the idea of a US-China FTA. Greenberg acknowledged that "the negotiations will not be easy" but claimed that "the

time has come for a new and bolder approach" because pushing for a free trade agreement would "create a better trade climate".

Currently, domestic political and economic considerations make the broaching of a US-China FTA a sensitive issue on both sides of the Pacific. There are many in China who are concerned about rising income inequality and would hesitate to support runaway economic liberalization and complete deregulation. There are even those who wonder if China made too many concessions in its negotiations to join the World Trade Organization. Similarly, in the United States, many labor unions, environmental groups and voters are concerned about free trade agreements and do not feel the US has benefited from the North American Free Trade Agreement or the bilateral FTA's the US has concluded. They associate free trade agreements with the offshoring of US manufacturing and rising unemployment.

Free trade agreements such as the TPP allow leaders on both sides of the Pacific to gradually assess the consequences of establishing free trade agreements with countries with very different political and economic systems. This allows leaders to experiment and learn from free trade agreements with countries operating under different systems in a relatively low-risk manner. China's Free Trade Agreement with New Zealand can also be interpreted in this way. It would be overly pessimistic for Americans to view the China-New Zealand FTA as an attempt by Beijing to lure away a traditional US friend in the region. Instead, the China-New Zealand FTA gives free trade supporters in the US a valuable opportunity to learn about the potential consequences of a US-China FTA. In this manner, the TPP and the China-New Zealand FTA may be interpreted as a part of a collective attempt to "cross the river by feeling the stones". ©

(Authors: Edwin Way, doctoral student in political science at Indiana University; Li Xiaoxue, doctoral student in China Institute for WTO Studies, UIBE (University of International Business and Economics))