Obama’s Pacific Trade Deal Trails Behind China’s Development Vision

Often touted as the centerpiece of the Obama administration’s re-engagement with Asia, a close vote in the US Senate has brought the Trans-Pacific Partnership (TPP) a major step closer to becoming law. Facing significant opposition within his own party, the US president has secured fast-track negotiating authority, limiting Congress’s constitutional authority to regulate the contents of the trade accord.

Though the US Congress and American public will have an opportunity to review the deal before it is voted on, fast-track passage procedure reduces time for debate and prohibits amendments to the proposed legislation, limiting Congress to passing an up-or-down vote on the deal. Negotiated behind closed doors and drafted under tremendous secrecy for nearly a decade, elected representatives have thus far had limited access to the draft text.

The negotiations, intended to eventually create a multilateral trade and foreign investment agreement, involve Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam. Comprising some 40 percent of the world’s economy, the trade pact represents Washington’s response to the rising influence of China, which is not a participant, despite being the region’s largest economy and the largest trading partner of Asia-Pacific economies.

Bringing together a diverse grouping of culturally and economically disparate countries, the pact aims to enforce a common regulatory framework that governs rules for tariffs and trade disputes, patents and intellectual property, banking, foreign investment and more. The deal is widely seen as being representative of Washington’s long-term commitment to the Asia-Pacific region.

Rebranding the Asia Pivot

Described as a “comprehensive trade pact that could help cement our dominance over China in Asia” by a prominent American columnist, Senator Charles E. Schumer claimed the deal’s stated goal is to “lure” other countries “away from China”. If the underlying geopolitics of the deal weren’t clear enough, President Obama himself claimed, “If we don’t write the rules, China will write the rules,” in an interview with the Wall Street Journal. Needless to say, the TPP is no ordinary trade agreement.

Substantial differences have emerged between Democrats and Republicans over trade policy, though the bulk of American policy makers view the deal in terms of its strategic benefits: consolidating a new regional economic architecture in the Asia-Pacific on American terms. Mainstream economists such as Paul Krugman and Joseph Stiglitz have argued that the deal would in fact yield marginal economic benefits for the US, even for the corporate and financial interests that stand to gain most from regulatory liberalizations.

This conclusion likely explains why US stock markets barely reacted to the House’s initial rejection of fast-track, which could have potentially torpedoed the deal. For the United States, the Pacific trade pact is a symbol representing the reversal of declining US dominance and the rebranding of America as a leading market power in eyes of Asia-Pacific nations who have begun casting doubt on Washington’s staying-power.
The terms through which supporters have defended the deal revolve almost exclusively around standing up to China and the reputational damage caused to American prestige if the accord fails to materialize. Truthfully speaking, the notion that a foreign government could shape the global economy through alternative multilateral institutions and displace the US as the world’s dominant economic actor stirs passions in the American psyche, one that is utterly convinced of its own indispensability and exceptionalism.

Far from being an ordinary trade agreement, the Trans-Pacific Partnership is a by-product of 21st century bloc-politics. Of all the countries participating in the negotiations, Southeast Asian nations – Brunei, Malaysia, Singapore, and Vietnam – are the most strategically significant. These small states seek to balance their relations with Washington and Beijing through economic integration without antagonizing either power.

The View from ASEAN

The four participating Southeast Asian nations are opposed to choosing sides and they may potentially have a restraining influence over provocative military activity in the region. If the Pacific deal is perceived as yielding beneficial results in these states, the United States will have greater leverage in bringing second-round entrants onboard, expanding the trade area to incorporate other regional players, which will have repercussions for the Chinese economy.

The deal would give Southeast Asian nations preferential access to US markets, which will initially reduce China’s export competitiveness. Vietnam, for example, seeks to join the TPP to offset its ballooning trade deficit with China. Its textile and garment industries rely on Chinese inputs, but in order to gain tariff-free access to the US apparel market, the materials used must originate within the TPP area, which would force Vietnamese exporters to restructure supply chains to seek alternatives to Chinese products. It should be recognized that these measures impose costs on developing economies and can undermine their capacity to compete.

For American multinationals, the deal opens doors to low-cost offshoring alternatives that would ease dependence on China. Malaysian manufacturers would be in the same position vis-à-vis the deal’s rules of origin, though its multinationals would stand to gain from greater access to new export markets for its natural resources. The pact’s developing economies see widened foreign direct investments as a major incentive, although greater competition between SMEs and multinationals will put downward pressure on wages.

Small states with extensive investment capital and limited domestic markets such as Brunei and Singapore stand to gain most from the TPP, as evidenced by the latter’s aggressive lobbying in favor of the deal. Singapore’s multinational-friendly tax structure and staunch adherence to regulating intellectual property make it a magnet for investment, spurring domestic job growth as its own companies become better positioned to do business with TPP partners to the benefit of the city-state’s financial, shipbuilding and petrochemical sectors.

The View from Beijing

Facing declining commodity and oil prices, lower international and domestic demand, falling industrial production, and the slowest pace of growth in over two decades, China’s leadership has raised concerns that the TPP will undermine its export competitiveness. Though the country has taken steps to move towards a consumption-led growth model, manufacturing and trade is still the engine of the Chinese economy.

Beijing’s latest manufacturing plan specifically mentions the US-led trade deal, claiming it would “further impair China’s price advantage in the exports of industrial products and affect Chinese companies’ expansion”. China is the top trading partner of over 120 countries. If the TPP exacerbates the slowdown of China’s economy, export markets worldwide would be adversely affected.

China’s Industrial output has contracted for three consecutive years, while declining performance in the productive economy and mounting property sector debts have begun triggering signs of speculative bubbles. The most favorable outcome of these developments for the United States would be a reduction in the operational scope of the internationalization of the renminbi and China-sponsored multilateral institutions, such as the Asian Infrastructure Investment Bank (AIIB), which the US and Japan have shunned.

The question of whether China would eventually join the TPP as a second-round entrant implies that it would have to accept the reorientation of its economy around the agreed upon result of the TPP negotiations that it did not participate in. The deal’s trade rules would demand of China a significant departure from its traditionally incremental approach to liberalizing reforms and strong state-led organization of the economy.
Given prevailing Chinese attitudes toward the deal, which is largely viewed as representing a policy of containment, and the ongoing antagonisms between China and the US over land reclamation issues in the South China Sea, it would be genuinely surprising if Chinese leaders sought TPP membership. Beijing’s primary focus will continue to be developing a parallel regional economic architecture and alternatives to the existing international financial institutions such as the Western-dominated IMF and World Bank and Japan-led Asian Development Bank.

China & the Asian Infrastructure Investment Bank

Throughout the Asia-Pacific, the most significant obstacles to regional trade result from inadequate networks of infrastructure rather than high tariffs and other protectionist barriers. A study conducted by the World Economic Forum in 2013 concluded that world GDP would rise over six times the current level by reducing supply chain barriers rather than removing all import tariffs. It is in this context that China’s AIIB initiative offers an approach to regional integration through which the TPP provides no equivalence.

China’s AIIB is set to become operational in 2016 with US$100 billion initial capital, drawing investments from a long list of countries that have opted to become AIIB co-founders. Despite pressure from the United States, some of its closest allies – Australia, France, Germany, Saudi Arabia, South Korea, and the United Kingdom – have joined Beijing’s new multilateral development bank, which seeks to reduce the vast gaps in economic infrastructure worldwide.

Beijing has garnered one of the world’s most impressive track records in infrastructure development over the last two decades. Building on this experience, the AIIB will play a key role in China’s “One Belt, One Road” initiative, which aims to modernize two ancient trade routes – the Silk Road Economic Belt linking China with Europe via Central Asia, and the 21st Century Maritime Silk Road connecting China with Southeast Asia – that would serve as two prongs in an evolving global trading regime under Beijing's auspices.

The success of these initiatives would make China, with its whooping US$4 trillion in foreign currency reserves, the central player in the global development landscape. In the prevailing circumstances, where the powers of the region are competing to achieve their own strategic outcomes, it must be asked whether there is any parity between the United States and its path to regional integration through the Trans-Pacific Partnership in comparison to the vision put forward by the Chinese leadership.

Assessing the Trans-Pacific Partnership

A paper published by the East West Center estimated that the projected gains from the TPP for the countries involved would only result in a 0.5 per cent increase of income. The deal’s focus is on dismantling “nontariff barriers” to business, such as regulatory measures to protect labor, consumers and the environment. Countries involved would be required to adopt new regulatory practices built to cater to the needs of multinational business interests, of which American firms – which stand to gain most from radically enhanced protection for patents and copyrights – will be most advantaged.

American manufacturers, large Silicon Valley firms, Hollywood studios and the pharmaceutical industry have been the most vocal proponents of the sweeping intellectual property provisions in the TPP, which would negatively impact developing countries. A study conducted by the Australian National University found that enhanced protections for pharmaceutical corporations would limit access to antiretroviral drugs for an estimated 45,000 Vietnamese HIV patients who would no longer be able to afford their medication.

A panel of UN experts have recently objected to the potentially adverse impact of the TPP, arguing that the deal’s provisions cater disproportionately to the business interests of pharmaceutical monopolies. The most egregious aspect of the trade deal is the Investor-State-Dispute Settlement (ISDS) mechanism, which would allow corporations to seek restitution against states in an international arbitration court for the alleged diminution of their potential future profits as a result of government regulations.

This provision was used by tobacco giant Phillip Morris to sue the South American nation of Uruguay for US$25 million when it enacted health warnings on its cigarettes and laws designed to discourage children and pregnant women from smoking. The ISDS subjects the participating developing countries to expensive arbitration suits that hinder their ability to adopt regulations that protect labor, the environment and public health.

There is no mandate to speak of for ushering in policies that so demonstrably neglect public interest. Granting multinationals new powers that allow national laws and regulations to be challenged in international tribunals represents a step toward a new interpretation of sovereignty: one that shifts away from national governments toward
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that of an international-corporate sovereignty. The proponents and beneficiaries of the Trans-Pacific Partnership must ask themselves whether this deal truly serves the people of the region.