



# Containment Through Trade? Explaining the US Support for the Trans-Pacific Partnership

Arlo Poletti

**Abstract** The chapter discusses the political-economic factors driving the US government's decision to embark in negotiations for a mega-trade agreement with key Asian partners such as the Trans-Pacific Partnership (TPP). The main argument advanced in this paper is that this strategy was motivated by concerns about the changing relative balance of economic power and, consequently, by the potential prospects for improving the US' relative economic position in the international economy due to the trade and investment diversion effects of the TPP. Evidence for the expected distributive effects of the agreement, the historical unfolding of events and policymakers' motivations, and lobbying by key domestic interest groups lend support to this view. The paper concludes by speculating about the TPP's implications for the stability of the multilateral trading system.

## 1 Introduction

On 4 October 2015, 12 Pacific Rim countries concluded negotiations on the Trans-Pacific Partnership (TPP), the largest, most diverse and potentially most comprehensive Preferential Trade Agreement (PTA) yet. The TPP began as a quadrilateral agreement between Brunei Darussalam, Chile, New Zealand, and Singapore known as the Trans-Pacific Strategic Economic Partnership Agreement. However, this small trade agreement, that covered barely 1% of global GDP, had an openaccess clause whereby excluded countries could negotiate accession, and in February 2008 the United States (US) announced that it would join the negotiations on finance and investment, and explore full accession. Once the US declared its intention to seek full membership, other countries jumped on board. In 2010, formal negotiations began with Australia, Peru, Vietnam, Malaysia and the US, while negotiations with Japan, Canada and Mexico followed suit in 2011.

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A. Poletti (✉)

Department of Sociology and Social Research, University of Trento, Trento, Italy  
e-mail: arlo.poletti@unitn.it

The TPP is part of a broader trend in international trade relations, one characterized by a consistent and steady increase in the number, scope, and depth of PTAs in the last two decades (Dür et al. 2014). However, the TPP stands out in the broader landscape of existing PTAs. Altogether, the TPP's signatories account for around 38% of global GDP and 24% of the aggregate share of world exports. But, it is not only its economic size that makes the TPP different from existing PTAs. The TPP is different from its predecessors because of its systemic ambitions (World Bank 2016). While existing PTAs are either smaller in size or regionally concentrated (e.g. EU and North American Free Trade Agreement), the TPP is explicitly global in conception and scope, with a potential to affect trade rules and flows well beyond its area of application and, ultimately, to shape the architecture of world trade (Winters 2015).

Two other such agreements—usually referred to as mega-regional trade agreements—are currently being negotiated: the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US, and the Regional Comprehensive Economic Partnership (RCEP) between the ASEAN countries, Australia, China, India, Japan, New Zealand and South Korea. Negotiations for the former were launched in 2013 largely because of the EU's fears of economic and political marginalization that could be brought about by the TPP (Winters 2015) and they are nowhere near completion, due to strong domestic opposition in the EU and, more recently, to the uncertainty caused by Brexit. Negotiations for the latter began in 2011 because of China's reaction to the US initiative and to counterbalance its influence in the region (Yong 2013). Negotiations concerning both trade initiatives, however, are still ongoing and the political-economic dynamics that underlie them are, to a significant extent, endogenous to the TPP. Understanding the politics of the TPP is therefore crucial not only to comprehend the motivations driving one of the most important initiatives in contemporary international trade relations, but also to appreciate the evolution of the international trading system at large.

This chapter investigates the political-economic factors driving the US government's decision to embark on negotiations for a mega-regional trade agreement such as the TPP. The main argument advanced here is that this strategy was motivated by concerns about the changing relative balance of economic power and, consequently, by the potential prospects for improving the US relative economic position in the international system. More specifically, the chapter contends that the TPP stems from the US desire to either exclude China from the design of the 21<sup>st</sup>-century trading system, or include it under terms more favourable than those available under status quo conditions or alternative scenarios. All PTAs, but especially those, like the TPP, that are extensive in size, scope, and depth, entail significant negative externalities for non-members, most notably in the form of trade and investment diversion (Baccini and Dür 2015). The TPP is therefore particularly attractive for the US, because it enables it to increase trade with its Asian member-partners, while simultaneously imposing significant material costs on excluded China. In addition, precisely because it worsens China's default condition of the status quo, the TPP increases the US leverage in its interactions with China over the definition of the future architecture of global trade governance.



Overall, and irrespective of China's response to it, the TPP represents the best alternative for the US to increase its relative gains vis à vis China in international trade relations.

The chapter proceeds as follows. First, I briefly review the relative gains debate and connect it to existing political-economy analyses on the effects of PTAs. This section highlights how, under certain conditions, PTAs can indeed serve the trading nations' aim to improve their gains relative to rival states. Second, I carry out a plausibility probe of my argument by: (1) developing a brief analysis of the expected distributive effects of the TPP and alternative trade strategies; (2) offering a brief historical overview of the events that led the US government to start the TPP negotiations and tracing US policymakers' self-declared motivations; and (3) considering the explanatory power of alternative accounts that focus on the role of domestic trade-related interests. Third, I speculate about the possible implications of the TPP for the existing structures of multilateral trade governance, suggesting that the TPP may end up strengthening, rather than weakening, such architecture. The conclusion summarizes the main findings of the paper and identifies possible avenues for further research.

## 2 Relative Gains and the Political Economy of Trade Agreements

The so-called absolute-relative gains debate stands at the centre of the international relations theory. Such debate started out because of realists' reactions to the publication of Keohane's *After hegemony* (Keohane 1984), the book that inaugurated the influential agenda on international institutions. For these realists, obstacles to cooperation not only lay in the existence of powerful incentives to defect from mutually advantageous agreements, but also in states' preoccupation with their relative capabilities (Grieco 1990; Mearsheimer 1994). This important realist challenge spurred an intense controversy which led to a convergence between realism and liberalism around a common set of epistemological premises, assumptions, and research questions. Ultimately, both realists and liberals came to agree on the view that this debate should not be about what to assume about states' utility functions, but rather, about identifying the conditions under which concerns about relative gains vary (Grieco et al. 1993).

The aim of this chapter is not to develop new theoretical insights into this debate; nor it is to empirically assess the validity of existing propositions about the factors that may lead to significant variations in states' sensitivity to relative gains concerns. More humbly, I am interested in ascertaining, empirically, whether a particular trade policy strategy, in casu the US decision to lead the TPP negotiations, can be plausibly ascribed to US relative gains concerns vis à vis China. Scholars and policy analysts have been engaged for more than a decade now in a normative debate on how the US should manage its economic relations with China. These

positions fall largely within two broad categories: those who believe that increasing patterns of economic interdependence, trust, and transparency are the best way to minimize the chances of conflict with rising China, and conversely, those who advocate policies of containment because they conceive of the continued increase of Chinese relative economic power as the greatest long-term challenge for US national security and economic interests (for an excellent review of these literatures see Christensen 2006).

However, logically prior to any normative debate about the desirability of the TPP, is an attempt to empirically ascertain whether such strategy can be characterized as one of engagement or containment. Doing so requires engaging in two sets of activities. On the one hand, it is important to identify a set of empirically observable implications for each perspective and then ascertain whether observed outcomes are consistent with them. On the other hand, because observed outcomes may be consistent with more than one explanation, it is crucial to discount the plausibility of potential alternative explanations.

To explain in more detail what meeting these challenges means in the specific context of the analysis of the TPP, a brief incursion into the political-economy of trade agreements is in order. The concepts of trade creation and trade diversion introduced by Viner (1950) are critical to understanding the distributive effects generated by trade agreements. Because members of a trade agreement eliminate/reduce tariffs against each other, while continuing to levy tariffs against imports a third country, they produce two effects. On the one hand, they create trade between PTA members because some of the goods produced domestically may become uncompetitive with respect to those produced by other PTA members. On the other hand, they divert trade, in that goods produced by a PTA member can become cheaper than those previously bought from outsiders. The harmonization of investment rules that has become a key feature of so-called 21<sup>st</sup>-century trade agreements (Baldwin 2014), can have a similar effect by making it easier for multinational corporations to invest in PTA members than in outsiders' markets. In sum, the most important feature of PTAs is that they are discriminatory: while they create new trade between signatories, they simultaneously decrease trade and investments between signatories and the outside world (Baccini and Dür 2015).

This brief discussion clearly suggests how PTAs can serve as an effective tool to improve a country's economic position relative to others: not only can a country increase its welfare by engaging in cooperative agreements with other countries, but it can simultaneously worsen the default condition of the status quo for non-PTA members. But, showing that the TPP entails costs in the form of trade and investment diversion for China does not suffice to corroborate the relative gains argument. Logically, for the argument to hold, two further conditions need to be met. First, and more obviously, one needs to show that alternatives to the TPP that could have brought about greater absolute gains were available to policymakers. Second, and perhaps most importantly, it is crucial to be able to show that the TPP strategy was chosen precisely with a view to containing China's rise of relative economic power. When it comes to the empirical analysis of trade policy, the potential for problems of observational equivalence between relative gains-related



arguments and theories that concentrate on the domestic distributional conflicts is very high (Moravcsik 1997). Tracing actors' preferences, motivations, and patterns of political mobilization is therefore crucial to discounting the possibility that the TPP was chosen among existing alternatives that could bring about greater gains because of the political influence of powerful domestic constituencies.

### 3 A Brief Empirical Analysis of the US Politics of TPP Negotiations

In this section, I present different sets of evidence to make a plausible case that the US decision to push forward TPP negotiations was motivated by a desire to contain China's economic growth. Using a combination of congruence testing and process tracing (George and Bennett 2005), the following subsections show that: (1) the TPP strategy was chosen in the presence of alternative policy strategies that could have brought about greater absolute gains; (2) the relevant trade-related interests in the US were indeed motivated by concerns about the steady increase of China's relative economic power; and (3) alternative explanations do a poor job in accounting for observed patterns of policymaking.

#### 3.1 *The Distributive Effects of TPP and Alternative Scenarios*

Trade can contribute to economic performance by increasing productivity and giving producers and consumers access to a greater variety of goods at lower prices. It also stimulates competition and encourages technology and investment flows. Institutions that sustain cooperative efforts aimed at liberalizing trade are important because states face ever-present incentives to renege on trade liberalization commitments, either to improve their terms to trade relative to other trading nations, or to satisfy demands for protection that arise domestically (Poletti and De Bièvre 2016). Trading nations have long pursued these benefits within the governance system of the General Agreement on Tariffs and Trade (GATT)-World Trade Organization (WTO), but in recent years such multilateral trade negotiations have ebbed, and mega-regional trade agreements have been deemed by some countries as a realistic alternative to move forward and further reap the benefits of trade liberalizations.

The TPP is the first mega-regional trade agreement to have been concluded in the last two decades. The TPP's disciplines for the liberalization of trade among members are deep and far reaching. As for traditional tariff trade liberalizations, the TPP immediately eliminates three-quarters of nonzero tariffs on entry in force and 99% when fully implemented. Moreover, the TPP disciplines members' regulatory

practices, including comprehensive rules for service trade and investment; improves mechanisms for setting food standards and assessing the conformity of products with them; strengthens intellectual property rights (IPRs); includes comprehensive rules on labour and environmental protection; sets new standards for access to telecommunication networks; limits restrictions on cross-border data transfers; improves trade facilitation; and devises an effective dispute settlement mechanism to address disputes that may arise over the implementation of common rules (Petri and Plummer 2016).

In order to provide a first-cut assessment of whether the TPP can be described as a strategy of “containment”, I proceed by presenting evidence of its likely distributive effects. In particular, I review existing studies that have estimated the welfare, trade, and investment flows effects of the TPP, focusing in particular on such effects for the US and the China. In 2012 and 2016, the Peterson Institute of International Economics (PIIE) conducted comprehensive studies, employing a Global Computable General Equilibrium (CGE) model, of the TPPs potential macroeconomic effects. In 2012, the PIIE estimated that the TPP would yield an annual increase in real incomes in the US of 78 billion dollars (0.4% above the projected baseline), largely driven by a 124 billion annual increase in exports (4.4% above the baseline), and that it would yield an annual increase in outward Foreign Direct Investments (FDIs) of 169 billion and inward FDIs of 47 billion (respectively 1 and 1.9% above the baseline) (Schott et al. 2013). The most recent study revised these figures upwards, estimating that the TPP would increase annual real incomes in the US by 131 billion (0.5% above the baseline) and that annual exports would increase by 356 billion (9.1% above the baseline) (Petri and Plummer 2016).

Both studies consistently show that the TPP would also incur significant costs for China, the most important Asian trading partner excluded from the agreement. Indeed, 2013 estimates suggest the TPP bringing about an annual decrease of real incomes by 46.8 billion (0.3% below the baseline), largely due to an annual export decrease of 57.4 billion (1.2% below the baseline). More recent estimates show that China’s losses might be less substantial, although they remain significant. In such studies, the TPP is estimated to bring about an annual decrease in real income of 18 billion (0.1% below the baseline) and a small increase in annual exports by 9 billion (0.2% above the baseline).

In short, these studies clearly show that the TPP could be expected to lead to a change in relative economic power, increasing gains for the US while simultaneously bringing about significant costs for China. But, perhaps more critical, from the perspective of ascertaining whether the US trade strategy can be defined as one of containment, are estimates of the likely distributive effects of alternative trade strategies. The PIIE not only assessed the likely welfare effects of the TPP, but also estimated the gains and losses of alternative scenarios, including one in which the TPP-track and other intra-Asia PTAs were to lead to the hypothetical creation of a Free Trade Area of the Asia Pacific (FTAAP), a potential new mega-regional trade agreement involving the US, China and Japan, the three trade superpowers in the region. The numbers here are impressive. Relative to 2013 estimates on the TPP, a hypothetical FTAAP would bring about almost four times as large an annual real



income increase for the US (266.6 billion, 1.31% above the baseline), and a five times as large annual exports increase (575.9 billion, 20.5% above the baseline). However, China's numbers under this scenario are even more impressive. Such estimates suggest that a FTAAP scenario would yield an annual real income increase for China by 678.1 billion (3.93% above the baseline), driven by an impressive annual export increase by 1505.3 billion (32.7% above the baseline).

In short, while the US could have pursued a strategy of inclusion of China in its Asian trade policy strategy, it opted for one that excludes China. The figures provided above show that the former could have brought about much greater absolute gains than the latter. However, in the former scenario, absolute gains would have been even greater for China, leading to a further worsening of the US relative economic power. These very basic findings are in line with the characterization of the TPP as a political strategy of containment of China. It is important to mention that such a broad-based strategy of inclusion of China in a large trade block with all relevant Asian trading partners was not just a theoretical possibility. A few years earlier, confronted with the same problem of how to deal with China's economic rise, US policymakers seriously considered a strategy of inclusion. In 2006, for instance, the US formally proposed to the members of the Asia Pacific Economic Cooperation (APEC) the creation of a Free Trade Area of the Asia Pacific (FTAAP). President Bush suggested at the Hanoi APEC summit in November 2006 to work towards an APEC free trade agreement, with a view to assuring Asian governments that they had disposed of an alternative to processes of regional economic integration dominated by China, and that they could rely on the US continued willingness to exercise a stabilizing role in the region (Hoadley 2007; Terada 2012). The proposal was received coldly by other APEC members and in the end negotiations failed to get off the ground. However, it is important to stress that the possibility of creating an Asian-wide trade block was given serious consideration by US policymakers as a possible response to the perceived risk of being excluded from a China-led process of economic integration in the region.

### 3.2 A Brief Overview of Events and Policymakers' Motivations

The characterization of the TPP as a strategy of containment towards China can be further corroborated by briefly considering how the US decision to lead the TPP negotiations emerged, and by tracing key policymakers' self-declared motivations.

As mentioned above, the US officially started negotiations for the TTIP in November 2010, together with a number of other Pacific countries. In the preceding years, the US had negotiated several PTAs with Asia Pacific countries—Chile, Peru, CAFTA, Singapore and Australia—and had pursued economic cooperation with all regional stakeholders within the framework APEC. As Barfield (2016) notes, the period between the end of the Cold War and the mid-2000s was one



characterized by economic goals taking priority in the making of US trade policy, while China's subsequent economic and political power was still just in the horizon. During this period, trade relations with China were still seen largely through the lens of a strategy of integration, the prevailing US approach towards China since the 1970s (Blackwill and Tellis 2015). As epitomized by the US support for China's accession to the WTO in 2001, the US strategy in this period was consistently shaped by a desire to integrate China in the international economic system.

A number of factors, however, seem to have contributed to shifting the US strategy into one of consistent balancing of China's rise, as means of protecting both the security of the US and its allies, and the position of the US at the apex of the global hierarchy, by preventing changes to its relative power. In the background loomed the effects of the financial crisis, the rapid expansion of the Asian economies, and the stalemate of the Doha round of multilateral trade negotiations. But, most importantly, what determined Obama's administration decision to support the TTP seems to have been the deteriorating diplomatic and security conditions in the Asian region. Three sets of issues played a particularly important role in this context. First, in 2009, North Korea heightened tension in the Korean peninsula and threatened South Korea by conducting nuclear tests, and then shooting off two rounds of short-range missiles across the Sea of Japan. Pressure mounted immediately for a show of support for South Korea, resulting from the administration's own accounts in a decision by the US President to announce a goal of completing negotiations on the stalled US-South Korea PTA (Barfield 2016).

Second, in this period China had hardened its attitude and diplomacy on a raft of disagreements and conflicts with its East Asia neighbours. In May 2009, just after the Obama administration took up office, Beijing published a map of South China containing nine dashed lines in a U-shape that laid claim to the majority of this maritime area, subsequently clashing repeatedly with its neighbours inside this self-proclaimed perimeter—particularly the Philippines and Vietnam. In addition, the PRC grew bolder in contesting the claims of South Korea and Japan, respectively, in the Japan and East China Seas.

Finally, in a move whose reverberations are still rippling outward, in July 2012, the PRC starkly intervened in the deliberations of ASEAN foreign ministers. Behind the scenes, Beijing diplomats leaned heavily—and successfully—on Cambodian officials to block the publication of a joint communiqué alluding to the clashes in the South China Sea and calling for a united ASEAN front on these issues.

While the Bush administration had already started thinking about a *return to Asia*, these sets of factors intensified the perception that time was ripe to upgrade the US role in the Asia Pacific region, raising the region's priority in US military planning, foreign policy and trade policy (Manyin et al. 2012). As a result, the Obama administration came to formalize the so-called “pivot” to Asia, a policy strategy based on two pillars: a military and security one based on a rebalancing US military forces towards Asia, and an economic one based on a more aggressive trade policy embodied in the TPP. Secretary of State Clinton's decision to take her first trip abroad to Asia, rather than to Europe, as was the tradition, was meant to



symbolize this strategic shift. In an effort to show the credibility of the US commitment towards Asia, in 2010 the US took a firm position on the fractious maritime issue—and steadfastly refused to back away from this position, despite a drumfire of criticism from Beijing (Barfield 2016). But, the most important substantive capstone of the US pivot to Asia came with President Obama's nine-day trip to Asia in November 2011, during which he solemnly declared: "As President, I have, therefore, made a deliberate and strategic decision—as a Pacific nation, the United States will play a larger and long-term role in shaping this region and its future, by upholding core principles and in close partnership with our allies and friends" (US Government 2011a).

The brief historical narrative developed so far lends support to the view that a combination of changing structural conditions and heightening tensions with China provided a stimulus for the US administration to push the TPP forcefully forward. An analysis of US key policymakers' self-proclaimed objectives further corroborates this view. In what is perhaps the most systematic exposure of her views about the US pivot to Asia, Secretary of State Clinton boldly declared at the APEC Leaders' meeting in November 2011, that the 21<sup>st</sup> century would be America's Pacific century, justifying such a statement by arguing:

What will happen in Asia in the years ahead will have an enormous impact on our nation's future, and we cannot afford to sit on the sidelines and leave it to others to determine our future for us [...] And there are challenges facing the Asia Pacific right now that demand America's leadership, from ensuring freedom of navigation in the South China Sea to countering North Korea's provocations and proliferation activities to promoting balanced and inclusive economic growth. The United States has unique capacities to bring to bear in these efforts and a strong national interest at stake (US Government 2011b).

A few days later, President Obama further elaborated this view, making a clear the causal links between a strategy of rebalancing and the TPP by stating:

Asia will largely define whether the century ahead will be marked by conflict or cooperation, needless suffering or human progress [...] My guidance is clear. As we plan and budget for the future, we will allocate the resources necessary to maintain our strong military presence in this region. We will preserve our unique ability to project power and deter threats to peace [...] And with Australia and other partners, we're on track to achieve our most ambitious trade agreement yet, and a potential model for the entire region — the Trans-Pacific Partnership [...] We stand for an international order in which the rights and responsibilities of all nations and all people are upheld. Where international law and norms are enforced. Where commerce and freedom of navigation are not impeded. Where emerging powers contribute to regional security, and where disagreements are resolved peacefully. That's the future that we seek (US Government 2011a).

Over time, the US administrations have become even more explicit in arguing that the TPP stands at the intersection of the US diplomatic and security strategies and its broad economic goals in Asia. In 2014, the US Trade Representative (USTR), Michael Froman, explicitly argued,

in the 21<sup>st</sup> century, the oldest and strongest strategic argument for trade — its contribution to the U.S. economy — has only grown stronger. Increasingly, though, economic clout is a key yardstick by which power is measured and a principal means by which influence is

exercised. Today, market changes are watched just as closely as military maneuvers, and decisions in boardrooms can matter as much as those made on battlefields (Froman 2014).

And to clarify how the TPP fits in the context of the above conceptualization of US trade policy, a year later he stated:

TPP is a critical part of our overall Asian architecture. It is perhaps the most concrete manifestation of the President's rebalancing strategy towards Asia. It reflects the fact that we are a Pacific power and that our economic well-being is inextricably linked with the economic well-being of this region — the home to some of the largest and fastest growing economies of the world and the home to what is expected to be the largest middle class in the world. The TPP's significance is not just economic, it's strategic — as a means of embedding the United States in the region, creating habits of cooperation with key partners, and forming a foundation for collaboration on a wide range of broader issues (Froman 2015).

Secretary of Defense, Ash Carter, further stressed this point in a recent speech, arguing:

TPP also makes strong strategic sense, and it is probably one of the most important parts of the rebalance, and that's why it has won such bipartisan support. In fact, you may not expect to hear this from a Secretary of Defense, but in terms of our rebalance in the broadest sense, passing TPP is as important to me as another aircraft carrier. It would deepen our alliances and partnerships abroad and underscore our lasting commitment to the Asia-Pacific. And it would help us promote a global order that reflects both our interests and our values (US Department of Defense 2015).

This brief review of policy statements by key US officials suggests that the US political elite shared the concerns of those who feared that, without a trade strategy of containment, China would continue along the path to becoming a conventional great power with the full panoply of political and military capabilities, all oriented towards realizing the goal of recovering from the US the primacy it once enjoyed in Asia, as a prelude to exerting global influence in the future (Blackwill and Tellis 2015).

### 3.3 What About the Domestic Politics?

The evidence presented so far makes a plausible case for characterizing the TPP as a strategy of containment of China's growing role in the international economic system and within the Asian region. The *relative-gains* argument, focusing exclusively on states as the relevant actors in international politics, overlooks the role that powerful domestic constituencies can play in shaping states' trade policy strategies. Neglecting the role of these domestic actors however, can be problematic from an empirical standpoint, because observed outcomes can be equally accounted for by explanations that focus on such domestic political processes. To be more specific, a trade strategy that maximizes relative, rather than absolute, gains may have nothing to do with states' preoccupations with the distribution of relative power in the international system, but instead may be driven by powerful



protectionist forces that manage to capture policymakers. The endogenous trade tariff literature has long noted that the preferences, and organizational and political action by domestic interests matter in shaping trade policy outcomes, showing how special interests can systematically bias trade policy towards protection, irrespective of whether trade liberalization increases the aggregate welfare of societies or not (Grossman and Helpman 2001). In short, when empirically assessing the plausibility of the relative gains argument, the possibility that such an argument is observationally equivalent to explanations that focus on the role of domestic organized constituencies, needs to be accounted for (Moravcsik 1997). Logically, in this context, this would mean showing that the TPP cannot be fully traced back to the preferences and political influence of organized societal stakeholders and, therefore, that systemic factors, i.e. relative gains concerns, have played an independent causal effect. And this is of course difficult, because ideally one would need to analyse such groups' preferences on the TPP and alternative trade strategies, while only preferences over the TPP can be traced, given that alternative trade strategies did not materialize, i.e. FTAAP. With this caveat in mind, I briefly review the preferences of domestic trade-related interests over the TPP, and then conduct a brief counterfactual exercise to try and deduce what their preferences over alternative scenarios would look like.

The TPP negotiations have, from the very beginning, been broadly supported by US business groups. Business Roundtable supported the agreement from the very start and recently Chairman Tom Linebarger described the TPP as a "significant agreement that will promote U.S. economic leadership and much-needed U.S. growth and jobs by expanding U.S. trade opportunities and setting strong new rules for international commerce" (Business Roundtable 2016). The American Chamber of Commerce similarly supported the deal throughout negotiations, deeming the prospective agreement as an opportunity to "boost economic growth, provide new opportunities for small businesses, and enhance job creation in the U.S. and the other TPP nations" (US Chamber of Commerce 2016). Similar enthusiastic statements in support of the TPP have been released by the association representing farmers' interests, the American Farm Bureau Federation (2015), the National Small Business Association (2015), and the National Retail Federation (2015). While initially quite tepid about the prospective agreement, the National Association of Manufacturers also greeted the successful conclusion of negotiations with enthusiasm (National Association of Manufacturers 2016).

The TPP negotiations have also attracted criticism. The confederation of US trade unions, the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) for instance, has consistently and vocally opposed the agreement (AFL-CIO 2016). The most vocal opposition to the agreement, however, has come from various types of civil society organizations claiming that it would harm social, consumer and environmental justice (Citizens Trade Campaign 2016).

The TPP received wide support from key business constituencies, but was met with vocal resistance by civil society organizations skillfully engaging in the strategic use of social media to shape and vocalize constituency preferences, a configuration of the domestic political trade conflict that is quite typical of trade

agreements that reach deeply into practices of domestic governance such as the TPP (Young 2016). The ability of these groups to make their voice heard and weigh politically is witnessed by the recent decision by pro-TPP business groups to ramp up their lobbying efforts to target undecided Congress members, and thus secure approval of the TPP in Congress. However, the fact that the TPP was met with opposition by organizations representing civil society interests is not sufficient for discounting mainstream political-economy accounts of trade policy as fully implausible. In the end, all these accounts share the view that, given the collective action problems groups face when deciding to mobilize politically, the trade policymaking process is largely skewed in favour of concentrated interests (Olson 1965).

In order to weaken the domestic politics argument, and thus make a stronger case for the relative gains argument, one would need to show that, while supporting the TPP, business groups had a stronger preference for alternative trade strategies. As mentioned above, tracing preferences with respect to such alternative strategies is difficult because the US idea of supporting an Asia Pacific-wide trade agreement, the FTAAP, never got off the ground and was soon replaced by the TPP strategy. However, it is reasonable to argue that business preferences would have been equally, if not more, supportive, of a strategy of trade liberalization in the Asian region that included China.

China has emerged in recent years as a key hub in the context of so-called Global Value Chains, that is processes of production increasingly fragmented and dispersed across different jurisdictions (Gereffi et al. 2005). As a result of an improved and more efficient telecommunications and transportation infrastructure, trade and investment liberalization, along with greater competition, have significantly shifted the final assembly of many categories of US consumer goods to China, with components and parts supplied by several other Asian economies. Thus, the economies of the US and China have experienced a dramatic increase in their level of interdependence as a result of these processes of globalization of production (Nanto 2010).

This evolution has important consequences for the politics of US-China trade relations. In general, the integration of countries in Global Value Chains (GVCs) greatly increases the domestic support for trade liberalization, not only because it increase opportunities to access foreign markets, but because it also lowers the costs for imported inputs (Eckhardt and Poletti 2016). In other words, GVCs change the domestic political conflict over trade policy and increase trade liberalization preferences because import-dependent firms—goods-producing firms for which imports play a pivotal role in the production process (Eckhardt 2015)—become key political players next to traditional exporters. These dynamics are particularly relevant in the context of US-China trade relations because in recent years more than 80% of US merchandise exports and imports has taken place within global networks of production and distribution that have China at their core (Bernard et al. 2005).

With these considerations in mind, it thus seems eminently plausible to argue that the observed business support for the TPP should be equally, if not more intensely, observed in a scenario in which the US were to push forward a trade



strategy in the Asian region that included China. While this counterfactual exercise does not definitively disconfirm a domestic politics explanation for the TPP, it lends support to the view that domestic pressures alone can hardly account for why the US decided to exclude China from its Asian trade policy strategy.

## 4 Implications for Global Trade Governance

Systematically engaging with the normative debate on the desirability of different strategies to cope with rising China is beyond the scope of this chapter. However, its findings are of some relevance to those involved in such debate. In particular, the observation that the TPP is part of a broader strategic shift, centred on the idea that the US should actively seek to contain China's rising power, begs the question of what the implications for existing structures of multilateral trade governance of such strategy are. Whether PTAs are building or stumbling blocks for the multilateral trading systems has been hotly debated for years (Ravenhill 2008). The signing of the TPP and the ongoing negotiations concerning other mega-regional trade agreements make this question even more compelling. Can the WTO continue to play a role as an institutional forum to effectively pursue negotiated multilateral trade liberalization, or should we come to terms with the idea that PTAs, and mega-regional trade agreements in particular, will be the only hothouses where tomorrow's negotiated trade liberalization are going take place?

One way of addressing this question is to ask whether there are mechanisms to ensure that trade liberalization commitments undertaken in these trade agreements will be compatible with existing WTO commitments. The answer to this question is clearly negative. While it is true that trade liberalization commitments undertaken in mega-regional trade agreements can have a *public good* character, in that they can generate benefits that can also be appropriated by non-members (Pauwelyn 2015), it has been widely noted that existing rules and political dynamics in the WTO do not allow for an effective monitoring of the consistency between WTO and PTA rules (Mavroidis 2015; Winters 2015). For all its relevance, however, this debate obscures the fundamental question of whether mega-regional trade agreements can generate political dynamics that are, in the long term, instrumental to reviving the centrality of the WTO as a governance system that can effectively foster negotiated trade liberalization at a multilateral level. This is a crucial question for International Relations theorists because it directly speaks to the debate on the political foundations of the post-World War II multilateral order.

Some commentators argue that mega-regional trade agreements do not bode well for the WTO. Winters (2015, pp.15–16), for instance, argues that mega-regional trade agreements are likely to “leave the world trading system fractured and discriminatory [...] undermining what has been one of the major triumphs of the post-war settlement”.

While it is impossible at this stage to fully anticipate the consequences of these agreements, I argue that there is more ground for optimism than the above

interpretations suggest. And it is, in fact, precisely the discriminatory nature of the TPP, and potentially of other mega-regional trade agreements, which provides room for such optimism. The TPP's likely implications for the multilateral trading system will depend largely on China's response to it, which, in turn, will critically hinge on the severity of the negative distributional consequences of the agreement. In abstract, China's possible responses to a mega-regional trade agreement such as the TPP include: investing even more political capital in pushing forward a rival block such as the RCEP; the unilateral adoption of TPP rules and standards; joining the club; or a multilateralization of TPP rules via a comprehensive WTO agreement (Aggarwal and Evenett 2015). The choice China will make depends largely on how much the TPP worsens the default condition of the status quo for China. Paradoxically, the more the TPP hurts China, the weaker its bargaining position, and the greater the likelihood that it will be willing to pursue a strategy of constructive engagement with its main trading partners (Dür 2007).

Given the concentration of China's exports and investments in countries such as the US and Japan, with which it has not yet signed a PTA, respectively the first and third largest markets for Chinese exports and the most important investors from the developed economies, China is obviously the TPP's major loser (Deardoff 2014). Moreover, the interconnectedness of China's economy with the TPP members' economies, in the context of global value chains, makes it unlikely that the creation of a rival block, e.g. the RCEP, will be seen as a viable alternative to fully offset the TPP's losses. Given this constellation of distributive effects and political alternatives, multilateralizing the rules of a mega-regional trade agreement such as the TPP might therefore plausibly end up being the most effective strategy for China, allowing it to get something in exchange for taking on the TPP's provisions (Aggarwal and Evenett 2015).

Anecdotal evidence suggests the plausibility of this view. Chinese elites promoted China's entry in the WTO—a political move that epitomizes China's strategic shift from multilateral sceptic to multilateral champion in the second half on the 1990s—also as a response to what they perceived as a US power politics attitude in the region (Christensen 2006). Xiatong (2015) considers Chinese reactions to mega-regional trade negotiations that exclude China, such as the TPP and the TTIP, and reports key Chinese trade officials claiming “the regional trade arrangements that we are now discussing might be multilateralized [...] the pendulum of trade liberalization might swing back to multilateralism at the end of the day” (Sun 2013, quoted in Xiatong 2015, p. 122). In a similar vein, Eliasson and Garcia-Duran (2016) report evidence suggesting that China and India consented to the WTO trade facilitation agreement when they realized that the TPP was being concluded, as well as when the EU systematically engaged in PTA negotiations with their Asian partners. Of course, the possibility remains that China will decidedly move towards strategies of confrontation that might ultimately undermine the multilateral trade governance structures. However, given the importance of the TPP members' markets for China, and their increasing interpenetration of global value chains, I believe that strategies of constructive engagement within the existing multilateral order are more likely to materialize.



## 5 Conclusion

This paper aimed to make a plausible case that TPP is part of a broader strategic shift in the US approach towards China, one that prioritizes containment over integration. In a recent report titled *Revising US Grand Strategy Toward China* and published by the Council on Foreign Relations, Blackwill and Tellis (2015, P. 4) note that, “because the American effort to integrate China into the liberal international order has now generated new threats to U.S. primacy in Asia—and could eventually result in a consequential challenge to American power globally—Washington needs a new grand strategy toward China that centers on balancing the rise of Chinese power rather than continuing to assist its ascendancy”. Sustaining the US status in the face of China’s rising power, according to the report’s authors, would require, among other things, “creating new preferential trading arrangements among US friends and allies to increase their mutual gains through instruments that consciously exclude China” (Ibidem: 5).

This paper has shown empirically that it is precisely this view about how the future of US-China relations should evolve that has influenced the US decision to strongly support negotiations for an ambitious, comprehensive, and deep mega-regional trade agreement such as TPP up until the last presidential elections. Such an agreement was viewed by the Obama administration as consistent with a strategy of containment or rebalancing of China because it would enable the US and its Asia-Pacific allies to increase mutual gains, while simultaneously imposing costs on China. To put it more succinctly, the TPP was devised with a view to increasing US relative gains *vis à vis* China.

At the time of writing, the presidential race ended with the surprising victory of Donald Trump. In line with the critical stance he took on the TPP and other free trade agreements throughout the campaign, in a statement outlining his policy plans for his first hundred days in office, Donald Trump vowed to issue a note of intent to withdraw from the TPP “from day one”, calling it “a potential disaster for our country”, and aiming for a shift towards the negotiation of “fair bilateral trade deals that bring jobs and industry back” (The Guardian 2016). And on his fourth day in office President Trump kept his promises, signing an executive order formally ending the US participation in the TPP after discussing American manufacturing with business leaders (The Washington Post 2017). This article has shown that a retreat from TPP may actually turn out to weaken the US capacity to compete against China in the global economy. Mr. Trump’s himself on many occasions throughout the electoral campaign bashed China on trade and currency issues and identified in China’s economic competition one of the main dangers for domestic industry growth. And yet, he decided to stick to its promise to withdraw from one of the only policy instruments that can effectively contain China’s growing economic power. There are already signs that China may take full advantage of the American trade policy shift. As the New York Times reports, the RCEP, the China-led rival trade pact that aims to excludes Washington from the Asian region, is already getting new attention from countries such as Peru and Malaysia who signed TPP



and now plan to focus on trade negotiations with China (The New York Times 2016). More generally, those who advocated the US withdrawal from TPP overlook its potential in fostering international stability by putting political pressure on China to play a key role in revitalizing existing multilateral trade institutions.

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