

Behind the Trans-Pacific Partnership Talks

China-US Focus, Jun 05, 2015

By Dan Steinbock

Despite obstacles, the White House continues to push preferential trade deals in Asia and Europe. But neither can reverse the erosion of U.S. innovation and in Asia Pacific the proposed pact is more likely to divide than unify the region.



US President Barack Obama takes part in a meeting with leaders from the Trans-Pacific Partnership at the US Embassy in Beijing on November 10, 2014 in Beijing. From left: Vietnam's Vu Hu Hoang, US Trade Representative Mike Froman, Obama, Singapore Prime Minister Lee Hsien Loong, and Singapore's Ow Foong Pheng. Top leaders and ministers of the 21-member APEC grouping are meeting in Beijing from November 7 to 11. AFP PHOTO/Mandel NGAN

Recently, President Obama said on the U.S. public radio that China could eventually join the Trans-Pacific Partnership (TPP) agreement: “They’ve already started putting out feelers about the possibilities of them participating at some point.” However, that statement may reflect even more the White House’s concern about an impending TPP vote in the U.S. House of Representatives.

Only a day before the President's statement, Wikileaks had announced an effort to crowd-source a \$100,000 reward for the remaining chapters of the TPP deal (it has released three draft chapters of the deal in the past). "The transparency clock has run out on the TPP," Wikileaks founder Julian Assange urged. "No more secrecy. No more excuses. Let's open the TPP once and for all."

What's going on behind the TPP façade?

Why the Obama administration wants the trade deal?

Not so long ago, analysts were still predicting the U.S. growth rate to exceed 3 percent in the years to come. Then came still another harsh winter and U.S. economy contracted -0.7% in the first quarter; almost a percentage point more than initially expected, according to revised data.

In addition to climate change, the short-term reasons extend from strong dollar and labor disputes at West Coast ports, to the plunge of oil prices, whereas consumer spending remains slow. Disinflation may continue until the fall. After contracting three separate quarters since the end of the recession in mid-2009, the current recovery has proved most disappointing since the 1950s.

As Washington is preparing for the post-Obama era, America's economic growth is suboptimal relative to its potential. The proposed "free trade" deals with Europe and Asia are not likely to reverse the long-term growth trend.

In the medium- and longer-term, U.S. innovation and competitiveness have historically supported productivity and growth. Today both are eroding. America's structural erosion in innovation continues, as evidenced by significant shifts in student performance, R&D, and patents.

Since 2000, the U.S. has no longer been featured in the OECD's top-10 PISA (Program for International Student Assessment) lists for mathematics, science, or reading. America's share of the higher-quality triadic patents, which reflect international innovation race, has decreased to less than 30 percent.

U.S. companies still account for more than a third of R&D investment by the top 2000 companies worldwide. However, China's share of R&D spending has grown by

a factor of 15 over the past decade, while spending has decreased in Europe (-1%) and North America (-6%).

While America continues to lead in the international competitiveness rankings, the latter look into the future by staring at the rear-view mirror and China is likely to surpass Europe in R&D spending by the late 2010s and the U.S. by the early 2020s. Since new innovation advantages are less likely to support U.S. competitiveness and twin deficits continue to prevail at home, the White House has been pushing its free-trade agreements aggressively abroad.

But the proposed pacts are less about free trade and more about geopolitical alliances.

Instead of “free trade,” preferential regional pacts

Originally, the Trans-Pacific Partnership (TPP) was a more inclusive free trade agreement (2005) among Brunei, Chile, New Zealand and Singapore. Since 2010, Washington has led to talks for a significantly expanded FTA, which is to be a “high-standard, broad-based regional pact.” It excludes China.

Reminiscent of the proposed Free Trade Agreement of the Americas (FTAA), which in the early 1990s failed to open South America to free trade and effectively split the region, the TPP, in its current form, has the potential to split Asia into two rival blocs. That, in turn, could undermine the promising economic integration in the region.

With Brussels, President Obama initiated the talks on the Transatlantic Trade and Investment Partnership (TTIP) in early 2013. In contrast to the proposed TPP, the U.S.-EU talks have lingered longer than anticipated.

For all practical purposes, both deals are less about “free trade” than about “preferential regional trade”, as the free trade economist Jagdish Bhagwati has argued, or simply about geopolitical alliances rationalized in the name of trade, as political realists believe.

Nevertheless, in each case, the White House has achieved some success in the past few weeks.

Last week, members of the European Parliament gave thumbs up to the EU-U.S. trade talks backing away from the expected confrontation with the Commission over the controversial issue of investor/state protection rights (ISDS) – although 97 percent of the public opinions requested opposed the inclusion of the ISDS in the final deal.

In order to complete the TPP talks in Asia, the White House requires the fast-track Trade Promotion Authority (TPA), which ensures President Obama the authority to negotiate trade agreements that Congress can accept or decline but not amend or delay. Right before the Memorial Day, after months of nerve-wracking political games, President Obama got his TPA after the Senate passed the trade bill.

While it had bipartisan support, the successful outcome can be attributed mainly to the Majority Leader Mitch McConnell and the Republicans. The 62-to-37 vote was not the kind of awesome demonstration effect that Obama needed to ensure an overwhelming victory in the House.

Like the majority of the Republicans, the Speaker of the House John Boehner supports the TPP agreement. However, only days before the critical vote, barely 10 percent of the House Democrats had come out in favor of the TPA.

Overall, the deal is splitting and alienating Democrats. Most believe the TPP supports big business rather than public interest, including such presidential candidates as the progressive former Governor of Maryland Martin O'Malley; Senator Elizabeth Warren popular for her stress of Americans' financial protection; and the self-described democratic socialist, Vermont Senator Bernie Sanders.

Of the current frontrunners, former Secretary of State Hillary Clinton has tried to shun the issue, which she and other Democratic centrists regard as a form of political plague. However, her nemesis, former Governor of Florida Jeb Bush, does support free trade but more inclusive approach toward China.

The age of disquiet

If the U.S. administration fails to complete the trade talks in the Asia Pacific, President Obama's legacy would be at risk, while the 2016 presidential race would delay or defer new talks. However, even if the deal can be completed, it would not

reverse the relative erosion of U.S. competitiveness and innovation; nor would it mitigate America's twin deficits and unsustainable leverage.

In its current form, any TPP deal could prove a short-term victory, but a medium-term burden. Asia Pacific is big enough for both the United States and China. Consequently, any exclusive trade pact in the region would constrain rather than facilitate trade and investment in the region. What Asia Pacific needs is a broad-based, but inclusive free trade deal.

In turn, the only way to secure high living standards in the United States is adequate productivity and growth, which rest on world-class, cutting-edge innovation.

In the absence of structural reforms, stagnation in America is sustained by historically low policy rates, unsustainable leverage, and half a decade of debt purchases.

In the absence of major policy changes, America is moving toward the age of disquiet. That's not good for the United States but nor is it good for China – and it certainly does not support U.S.-Chinese economic relations.

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Commentaries by Dan Steinbock

Jun 05, 2015

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May 12, 2015

China and India at the Dawn of the 'Asian Century'

China and India are ready for breakthrough diplomacy that has the potential to reorder the face of Asia, while supporting global growth prospects. Of course, there is also concern on both Chinese and Indian sides, due to the lingering border disputes, the shadow of the 1962 war, and the pivot of multiple powers to Asia.



Apr 13, 2015

American Exceptionalism and the AIIB Debacle

Over the past two years, Washington has lobbied against the China-led Asian Infrastructure Investment Bank. Now, nearly 50 countries have joined or applied to become prospective founding members. Dan Steinbock argues that the U.S. opposition reflects a deeper challenge – that of adjusting American exceptionalism into the era of a multipolar world economy.

Mar 09, 2015

A Decade of China-U.S. Currency Friction?

The controversial issue of “currency manipulation” has resurfaced. However, Washington and Beijing have very different perceptions about the identity of the “currency manipulator.” The net effect is currency friction that is likely to prevail until the 2020s.

Jan 29, 2015

Obama’s Legacy and Sino-US Relations

President Obama’s sixth State of the Union (SOTU) address was heavy on domestic policy and light on foreign policy. The president did not talk much about recent progress in the US-Chinese relations. Instead, he focused on the urgency to complete the U.S.-led Trans-Pacific Partnership (TPP) agreement – without China. There is a reason to the omission and the focus: the Obama White House is increasingly concerned over its legacy.

Jan 16, 2015

Twin Peaks in Sino-US Relations 2015-2020

In 2013, the Sino-US relations ended with concern over strategic mistrust. In 2014, bilateral relations were characterized by a sense of optimism. While bilateral trust may endure through the Obama era, challenges will ensue thereafter.

Nov 05, 2014

The Struggle for Free Trade in Asian Pacific

Dan Steinbock discusses the history of Asian-Pacific regional trade zones, and the U.S.’s geopolitical trade concerns with APEC. For the U.S. to see greater economic cooperation with China, it should consider the more inclusive FTAAP proposal.



Oct 22, 2014

[Time for an Asian Infrastructure Investment Bank](#)

The proposed Asian infrastructure bank could galvanize growth in emerging Asia and boost lingering global recovery.

Sep 29, 2014

[America, China and the Islamic State](#)

Washington has launched still another “war against terror” in the Middle East and beyond. It is the kind of escalation that the Islamic State has hoped. In contrast, Beijing is likely to stick to cautious engagement.

Sep 01, 2014

[The Russia Sanctions Cul-de-sac](#)

The Russia sanctions are likely to have an adverse impact on Russian, U.S. and Chinese economy and could push Europe to a triple-dip recession. A diplomatic solution could deter diminished global prospects.

Aug 15, 2014

[The Balancing Act: Myanmar Between China and the US](#)

After half a century of isolation, Myanmar’s seeks to sustain its reform momentum. It is a challenging balancing act amidst Chinese rebalancing and America’s pivot to Southeast Asia.

Jul 10, 2014

[Time to Acknowledge the Facts: U.S.-Chinese Cyber Security Talks](#)

Despite the recent U.S. indictment of PLA officials on grounds of cyber-hacking, Dan Steinbock argues that the only way forward is for both the U.S. and China to acknowledge the facts of the matter and sincerely work to enhance bilateral relations.

Jun 24, 2014

[The Dream of the 21st Century Caliphate: How much will it cost to the US, China and the rest of the world?](#)

In just a few weeks, Iraq has moved closer to a triangular disintegration. At the same time, the jihadists have advanced dramatically. Adverse scenarios cast a dark shadow over energy prices and growth prospects worldwide.

Jun 17, 2014

[The Rise of Cyber Blackwaters](#)

Recently, the Department of Justice launched its first criminal cyber espionage case against Chinese hackers. But what is more intriguing are the sources of the intelligence in the case -- the rise of the new cyber security startup cooperators.

Jun 03, 2014

Europe's Protest: Rebalancing between the US and China

Europe's right-wing protest seeks independence domestically, distance from the US, rapprochement with Russia and new balance with China.

May 14, 2014

Destabilizing Terror and US-Chinese Counterterrorism

Dan Steinbock argues that forces seeking to destabilize China are undermining the potential for US-Chinese counterterrorism cooperation. Instead of paving the way for future negative scenarios, China and the United States should seek joint interests and find ways to work together.

Apr 01, 2014

Huawei in America: An NSA Retrospective

The U.S. National Security Agency (NSA) infiltrated Chinese telecom giant Huawei years ago. The disclosures highlight the global risks associated with unilateral government surveillance.

Mar 22, 2014

The Promise of Bangladesh Amid US and Chinese Rebalancing

Despite a rebalancing of the United States and China, Bangladesh's ever-modernizing economy is anxious about the future.

Feb 27, 2014

Should China Join the Trans-Pacific Partnership Talks?

In Beijing, many observers regard the TPP as the economic counterpart of U.S. rebalancing in Asia to contain China's rise. On the other hand, if Beijing would participate in the talks, it could conceivably influence both the process and the future shape of the proposed trade pact.

Dec 16, 2013

US-China Challenges Beyond 2015

In the United States, proposed budget deals may ensure stability in the short-term. In China, the ongoing economic reforms could foster sustained growth in the medium-term. In both cases, new challenges await after 2015.



Nov 14, 2013

China's New Grand Strategy

For the first time since the 1980s, Beijing is redefining China's grand strategy.

Oct 30, 2013

Iran's Sanction Tragedy

The sanctions by Washington are undermining the very goals that it would like to achieve with Iran, while dividing the old U.S. allies and strengthening China's clout in the Middle East.

Oct 14, 2013

The Emerging US-EU-Asia Trade Triangle

After two decades of on-and-off talks, Washington and Brussels hope to conclude their trade and investment partnership. However, it is not a marriage, but a triangle drama. Emerging Asia is the third party.

Sep 27, 2013

How Syria May Pave Wave the Way For Global Governance

The use of chemical weapons in Syria represents legacies of colonialism and Cold War. In the developed world, Russia's diplomatic intervention has been seen as a step back. In reality, it heralds multipolar global governance.

Sep 18, 2013

The Rise of Shanghai's Free Trade Zone

As the proposed free trade zone is about to take off in Shanghai, the megacity's growth will accelerate, China's financial reforms will speed up and the competitive impact will be felt in Hong Kong and Singapore, as well as in New York City and London.

Sep 06, 2013

The Real Bo Xilai Story

In the United States, Bo Xilai's "trial of the century" was reported as a spicy cocktail of sex, power and violence. The real story is about rapid economic development, generational change in politics, and the progress of the rule of law in China.



Aug 19, 2013

The Quest To Demonize China

While most Americans view China as friendly though not as an ally, those who favor demonizing China seek to change both perceptions and realities, writes Dan Steinbock.

Aug 10, 2013

China's Second Urban Revolution

In the fall, China will initiate a massive urbanization plan, which could fuel the mainland's growth prospects in the next two decades. The United States can only provide limited guidance to Chinese policymakers who are tackling challenges of an unprecedented magnitude.

Jul 26, 2013

The Risk of Cybersecurity Spillovers

After the Snowden disclosures, U.S.-China cybersecurity issues threaten to spill over into economic relations. A series of bilateral initiatives would pave the way for multipolar cooperation.

Jul 11, 2013

US-China Climate Change Battle Could Prolong Life

According to new evidence, there is a devastating trade-off between coal-fueled economic growth and human life expectancy. Any progress in the U.S.-Chinese climate change talks could pave way for a truly global solution, writes Dan Steinbock.

Jun 14, 2013

The Rise and Decline of U.S. ICT Dominance

In the past, the global ICT ecosystem was dominated by U.S. companies. Today, that dominance is crumbling. In this view, the commercial success of Huawei and ZTE would be the result of their competitive strategies. The global shift to a multipolar system marks a new era for ICTs and the way that markets emerge.

May 17, 2013

Pakistan's Coming Shift

The victory of Nawaz Sharif and the Pakistan Muslim League (PML) – Pakistan is likely to be more focused on economic development in the future, thanks to the transformative campaign of Imran Khan and his Tehrik-e-Insaf (PTI) party. That, in turn, has substantial implications over U.S. and Chinese interests in South Asia.

Apr 25, 2013

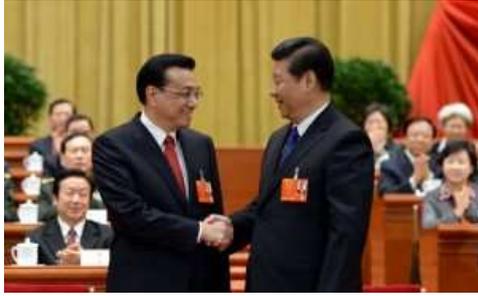
Toward Multipolar Counter-Terrorism

The concern over terrorism is the least common denominator among advanced and emerging economies. Unipolar responses are no longer effective, as evidenced by the Boston marathon bombings. Multipolar counter-terrorist cooperation is essential to peaceful global order.

Mar 28, 2013

BRICS Summit: Moving Ahead, Slower

As the large emerging economies met at this year's BRICS Summit in Durban, South Africa, they focused on proposals for a BRICS development bank and the future of the global economy in an attempt to counter reduced growth prospects.



Mar 22, 2013

China Under Xi-Li

With the end of the National People's Congress, Dan Steinbock writes that China should expect economic and financial reforms, international recalibration, and gradual political transition. Xi Jinping and Li Keqiang must also balance regional interests to fulfill the "Chinese Dream."

Feb 26, 2013

The Asian Deal: Relocating FDI

As FDI is shifting from manufacturing to services in China, the emerging Asia stands to benefit and U.S.-Chinese investment opportunities are moving to a new age.

Jan 10, 2013

The Time To Re-engage North Korea Is Now

In the West, North Korea's recent missile launch has been framed as still another example of nuclear blackmail. The launch, the counter-productive international sanctions, the mounting nuclear threats and Kim Jong-un's call for "radical turn" suggest a new diplomatic opportunity for Washington and Beijing alike and it should be seized now.



Dec 28, 2012

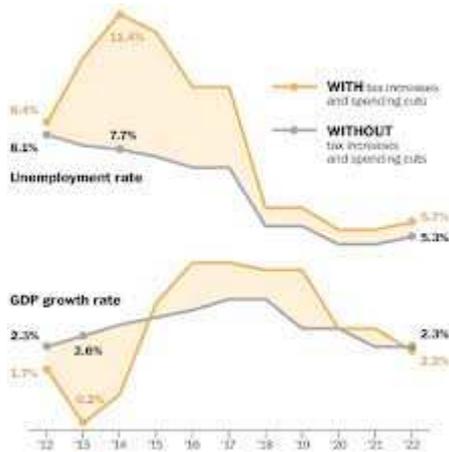
Western Resistance to Huawei

Reportedly, an internal EU analysis has led European officials to weigh steps over Chinese vendors Huawei and ZTE. An unmanaged friction has the potential to escalate into trade friction between the EU and China.

Dec 11, 2012

Guangdong and Chongqing: Two Sides of the Same Coin

After the 18th Party Congress, China is moving toward reforms that are tailored differently in different parts of the nation.



Nov 11, 2012

U.S.-China relations amidst America's fiscal cliff

In Washington, Obama's second term begins with great uncertainty. In Beijing, it starts with some relief. With U.S.-Chinese relations, it translates to a shift.



Oct 29, 2012

From Investment-Driven Growth to Consumption: Chinese Leadership Transition

On Thursday, November 8—only a day after the U.S. presidential election—the 18th National Congress of the Communist Party of China will begin in Beijing.



Sep 20, 2012

Unipolar Trade In A Multipolar World: The Case for Huawei in America

As the House Intelligence Committee continues its investigation into China-based telecom companies over alleged security threats; Dr. Dan Steinbock examines the barriers companies like Huawei face when entering US markets.

Aug 23, 2012

The Return of China Neocons: 2012 US Elections

As the national conventions loom ahead, Americans prepare to choose the next president on the basis of economic issues. But it is the return of the neoconservatives that will overshadow the discourse on foreign policy – and China.

Jul 24, 2012

How China's Stimulus Lite Works

Despite prophecies of gloom and doom, China is moving toward rebound – through stimulus lite.

May 25, 2012

From Economic Reforms to Financial Reforms

Recently, the U.S.-Chinese Strategic & Economic Dialogue (S&ED) was overshadowed by international politics, rapid escalation of challenges in the Eurozone, and debates on the slowdown in Asia. Nonetheless, the Dialogue was surprisingly productive, in light of the magnitude of challenges facing the global economy and Sino-U.S. bilateral relations today. Most [...]

Mar 23, 2012

Two Policies, One Agenda: How 2012 Elections May Endanger US-China Relations

Leading presidential candidates agree that the U.S.-Chinese relationship is the most important bilateral link in the 21st century. If that's the case, why is this relationship threatened in the campaigns?

Nov 24, 2011

Once-In-A-Century Election: The US 2012 Election and China

US presidential elections of 2012 will take place in the most challenging environment, which will not be immune to catastrophic crises. In the coming months, the US economy will be close to or in recession territory. Due to the Eurozone crisis, risks are heavily tilted to the downside. Meanwhile, large [...]

Aug 10, 2011

US Deficit Debacle has Begun

Since mid-May, the United States has lived on borrowed time as Washington has debated multiple deficit-plans before the Aug 2 deadline. After last-minute twists and turns, a deal seemed to come together on Sunday evening, when lawmakers closed a \$3-trillion deal, in order to raise the US borrowing limit by [...]

Jun 17, 2011

Shared Fate Beckons China, US

Old disagreements do remain between China and the United States after the third Sino-US Strategic and Economic Dialogue (S&ED), but the consensus is that the overall atmosphere during the meeting was constructive, realistic and even cautiously optimistic. The third S&ED was held under the relative calm of some signs of [...]

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Apr 05, 2011

The New Future of Japan?

As the dust settles from Japan's devastating triple tragedy — the earthquake and tsunami of March 11, plus the ongoing nuclear power crisis — the country will have to face new future scenarios. Japan's Nikkei average has already suffered its worst two-day fall in quarter of a century, while fires [...]