Will TPP Help to Curb China's Rise?

By Joseph Stiglitz | 03.28.16

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With few people buying the argument that the Trans-Pacific Partnership (TPP), a sweeping trade and investment agreement between the United States and 11 Pacific Rim countries, will bring more jobs and higher wages, proponents of TPP now argue that it is a critical front in the geopolitical conflict between the United States and China. President Obama made this case in his State of the Union address: "With TPP, China does not set the rules in that region; we do."

Such rhetoric, reminiscent of Cold War containment strategies, is not constructive for the world's most important bilateral relationship. The truth is that this strategic rationale for TPP makes little sense.

With China now the world's largest economy in terms of output (measured in purchasing power parity), trade, and source of foreign direct investment, the ship has sailed on containing China's influence. This should have been obvious from last year's failed attempt by U.S. policymakers to block the Asian Infrastructure Investment Bank, created under China's leadership.

If trade deals were all that mattered for securing influence, the United States could at best hope for a stalemate with China, which already has agreements with more than half of TPP partners, among other nations. What matters for influence is not just signing agreements but the depth and nature of relationships. Given the hundreds of billions of dollars China has committed to finance infrastructure development across the region and the magnitude of China's trade and investment integration with the world, there is little reason to think that implementation of TPP would tip the balance of economic power in the U.S.'s favor.

The rules to which parties agree do, however, matter a great deal when it comes to determining who wins and who loses. Here, President Obama's rhetoric obscures the reality that "we" did not write these rules. More than 500 official advisors—overwhelmingly representing corporate interests—had special access to U.S. negotiators and TPP texts to advance their own special interests, not the national interest, but Congress, the public, and the press were shut out of seven years of closed-door negotiations.

There may in fact be more congruence of interests between corporate interests, wherever they are located, than there is between the interests of American corporations and American workers or even the overall American economy. These corporations have lobbied for decades to make offshoring production and jobs easier while opening U.S. markets to their imports from China and other low-standard countries for goods previously made here. They are concerned with their own bottom line, not with America's bottom line. And low wages and meager environmental, health, and safety strictures are perceived as good for their bottom lines no matter how bad they are for workers here and abroad, for our economy, or for the planet.

Rather than checking China's economic power, TPP would actually afford China substantial benefits via generous "rules of origin." These terms specify how much content must be produced within TPP countries to qualify for tariff-free market access. High standards would ensure that the benefits of trade flow to partners offering reciprocal market opening. For instance, the North American Free Trade Agreement (NAFTA) required more than 60 percent regional content for qualifying automobiles. The TPP, in contrast, sets the origin threshold so low that even if the vast majority of value-added content come from outside countries, a product may be able to get preferential treatment. For automobiles, the threshold would be 45 percent (with loopholes), though most industrial and consumer goods would need just 30 percent of their content produced by TPP countries, and food and chemical products would need 35–40 percent.

Moreover, once combined with a sufficient number of other qualifying inputs—other parts or even minor manufacturing processes—outside content would be counted as 100 percent of TPP origin. For example, raw steel tubing from China—where state-owned producers are currently glutting global markets, fueling China's epic smog crisis and accelerating global climate change—could be imported to a TPP country, threaded or heat-treated, and magically transformed into "made in TPP" steel. Imagine that such a part is combined with another 70 percent of non-TPP content to make a new good. In this way, more than 90 percent of the value of a product can come from outside TPP and still qualify for benefits under the agreement.

This is the worst of both worlds: goods sourced from countries that do not commit to TPP's labor, environmental, and other standards or reciprocate market opening to our goods can still get free access to TPP markets. This asymmetry is no technical flaw—though given the design of TPP, even technical flaws will be hard to correct, since changes will require unanimous consent from all member countries. Such low standards for regional content reflect an underlying philosophical position and a conscious decision to write an unbalanced trade agreement in which multinational corporations gain rights not afforded to domestic businesses—and out of reach for many small businesses—without having to take on commensurate responsibilities.

TPP partners may someday invite China to join the agreement. Will TPP's rules then compel China to implement "higher standards," say for the environment or labor? Sadly, not to the extent that one would expect from a "21st century" agreement. In addition to rolling back environmental standards found in past trade agreements and largely replicating weak labor standards, U.S. negotiators also made sure to preserve the same toothless enforcement mechanisms we have seen fail in past U.S. agreements.

Worse, rather than elevating standards, TPP grants new rights for foreign investors to dispute government actions, which will effectively lock in the abysmal state of environmental, health, consumer safety, and worker protections that define today's global economy. China is already proving adept at challenging the United States at the World Trade Organization; current bilateral negotiations for an investment treaty show that China's companies are similarly eager to bring investor disputes against U.S. laws and regulations.

TPP includes provisions to restrict state-owned enterprises (SOEs), of which China has many. These measures show little concern for the development role SOEs can play in the poorest countries and are (not surprisingly) driven more by corporate interests. Even for the United States, public enterprises have played economically important roles that have raised general welfare. Following the 2008 crash, General Motors and Chrysler were, for a while, effectively SOEs, and almost all home mortgages are underwritten by public enterprise following the breakdown of private mortgage lending.

There is worry, of course, that state aid gives government enterprise an advantageous position that unfairly slants the global competitive landscape. But even TPP's conditions on commercially oriented SOEs fail to ensure a level competitive playing field.
Already Vietnam and Malaysia, countries with a fraction of China's bargaining clout, have negotiated extensive exemptions to the measures; presumably China would achieve even greater accommodation. Even without exemptions, TPP rules would not bind on the vast majority of China's SOEs: those controlled at the local government level, which are not only more numerous but in many cases more productive and successful at exporting than their central SOE cousins.

America's real strength has always been the soft power we create with the example and values of our democracy. Had TPP been negotiated in an open, transparent, and democratic way, that process itself would have served as a leading light in Asia. It would have put the world on notice that 21st century trade agreements would be much different than those of the past, in which “free trade” was extracted through gunboats and other forms of coercion.

Rather than strategically countering China’s influence, TPP will hand a win to China’s companies and the multinational corporations that have put China at the heart of their global business strategies. This should be no surprise given who wrote the rules and the secrecy with which they were written—not “we” the people, but the battalion of lobbyists working tirelessly with the U.S. Trade Representative, who now hope to ram it undemocratically through a lame duck Congress later this year.