



Yes, TPP is about who writes the rules by Matthew P. Goodman

Matthew P. Goodman (simon.chair@csis.org) is senior adviser for Asian economics and holds the William E. Simon Chair in Political Economy at CSIS

Kicking off his campaign to win ratification of the Trans-Pacific Partnership (TPP) in his State of the Union speech in January, President Obama said, “With TPP, China does not set the rules in [the Asia Pacific]; we do.” This choice of words raised some eyebrows. But undiplomatic as his words sounded, the president put his finger on the strongest rationale for TPP. It is a line of reasoning distinct from the pure economic and strategic arguments made by most supporters of the agreement. Let’s call it the “strategic economic” case and look at why it matters for U.S. interests.

The pure strategic case for TPP is clear and compelling. As we argued in a CSIS commentary earlier this year, TPP is a central pillar of the Obama administration’s “rebalance” policy in the Asia-Pacific region. The agreement will help to renew and reinforce the vital role the United States has played over the past 70 years in ensuring security and prosperity in the Asia Pacific. Prime Minister Lee Hsien Loong of Singapore starkly underscored this point during his state visit to Washington earlier this month when he said, “For America’s friends and partners, ratifying the TPP is a litmus test of your credibility and seriousness of purpose.”

The economics of TPP, meanwhile, are less clear-cut than both proponents and detractors have claimed. But on balance, the agreement should have significant net benefits for the U.S. economy. The most authoritative estimate was produced in May by the U.S. International Trade Commission (USITC). It projects that TPP will increase U.S. real income by \$57.3 billion, or about one-quarter of 1 percent of gross domestic product, in 2032. While perhaps not game changing, this is more than a trivial boost for an economy barely eking out 2 percent annual growth at present. And the much more positive effects on other TPP members, notably Vietnam and Japan, will have beneficial rebound effects here by creating new export opportunities for U.S. companies large and small.

What I call the “strategic economic” case for TPP is related to but distinct from the two arguments above. Since World War II, Washington has helped write and defend a set of rules and disciplines to ensure that economic exchange between nations is open, fair, and mutually beneficial. It helped create and lead a set of institutions to negotiate and enforce those rules, including the International Monetary Fund (IMF) and World Trade Organization (WTO). As noted here before, these efforts have been a “twofer”: they have promoted not only U.S. economic interests but also our foreign policy goals, by shaping broader behavior and encouraging others to join us in building a more stable, predictable world.

In the past few years, the U.S. position as champion of a rules-based economic order has come under challenge. This is what President Obama was getting at in his State of the Union remarks. Note that he did not say that China was already asserting itself as a rule maker, but he implied that there were risks in Washington’s ceding this role to Beijing. In fact, China to date has generally been a rule taker in the international economy, accepting—if not always implementing in practice—the disciplines of the IMF, WTO, and other Bretton Woods institutions. To the extent it has challenged Washington’s leadership at the global economic governance table, Beijing has expressed more interest in the seating arrangements than in the menu.

But in the past few years, China has shown a growing willingness and ability to assert its preferred economic norms in the Asia Pacific. It has established new institutions, notably the Asian Infrastructure Investment Bank (AIIB); launched a massive regional infrastructure investment plan known as “One Belt One Road”; and put its weight behind an alternative trade arrangement to TPP, the Regional Comprehensive Economic Partnership (RCEP).

In many ways these initiatives look similar to existing regional undertakings; to the extent they diverge, the differences are often benign. But there are important areas in which Beijing’s approach to rule making is likely to be at odds with U.S. interests. Consider three chapters of TPP in which U.S. negotiators successfully fought to establish new disciplines, and how differently China would have handled these issues.

Start with the labor chapter. This sets binding obligations on TPP members to allow the establishment of unions and collective bargaining, to ban child labor, and to prevent employment discrimination. The Obama administration has touted the high, enforceable labor standards in TPP as not only consistent with our values but also essential to ensuring a level playing field for American workers.

It is safe to say that China would not have written rules like these. The Chinese Communist Party is fundamentally opposed to the establishment of independently organized unions. Beijing has consistently blocked compromise on freedom of association at the International Labor Organization (ILO) and has failed to ratify a number of ILO conventions relating to the right to organize and forced labor. Existing Chinese trade agreements either do not feature labor standards at all or include watered-down provisions that fall far short of U.S. standards.

Digital trade is another area of vital U.S. interest in which TPP establishes new high standards. Among its other provisions, the agreement proscribes data localization requirements and digital customs duties and permits free cross-border data flows in most areas. As the Office of the

U.S. Trade Representative says in its online summary of the agreement, TPP “helps preserve the single, global, digital marketplace,” which is critical to the U.S. ability to innovate and compete.

In stark contrast, China is moving away from free and open markets for e-commerce. For example, a draft cybersecurity law imposes broad data residency requirements and trade-inhibiting security reviews for digital products. Chinese regulators have forced telecommunications companies to use national standards for wireless technology, even when these standards have been rejected by international standard-setting bodies. And at the 2015 World Internet Conference in Wuzhen, President Xi Jinping called for “cyber sovereignty” in Internet governance, under which states, not private actors, would set the rules.

A third area in which the United States and China do not see eye to eye is on the role of the state in the marketplace. TPP establishes the first-ever international disciplines on state-owned enterprises (SOEs), designed to ensure that these entities act in accordance with commercial considerations, do not receive unfair subsidies, and are not given favorable regulatory treatment vis-à-vis private companies. Again, a level playing field between SOEs and private companies is essential to the ability of U.S. firms to compete around the world.

SOEs, of course, continue to play an oversized role in the Chinese economy. While Beijing has recognized the need to improve the performance of these often-inefficient entities, reform has been slow; in fact, it is clear that the goal of reform, at least in strategic sectors, is not a smaller role for SOEs but consolidation into fewer but more powerful players. Beijing’s schizophrenia about these issues was evident in the Third Plenum reforms of 2013, which called for giving the market “a decisive role” in the economy but also stated, “We must unswervingly consolidate and develop the public economy, persist in the dominant position of public ownership, give full play to the leading role of the state-owned sector, and continuously increase its vitality, controlling force and influence.”

As members of Congress weigh their position on TPP ratification, they should ask themselves whether U.S. interests—not just specific economic interests but also broader foreign policy objectives—are well served by strong labor rights around the world, an open and unified digital marketplace, and constraints on government involvement in the market. They should ask the same question about disciplines on intellectual property protection, regulatory transparency, and trade in services. I assume the answer will be yes: these are all critical to our prosperity and broader interests.

If so, what is the best way to promote these rules? If not TPP, then what is the alternative? You can be sure that policymakers in Beijing are developing answers to these questions—answers that we will often not like.

PacNet commentaries and responses represent the views of the respective authors. Alternative viewpoints are always welcomed and encouraged.