

The Political Economy of the Trans-Pacific Partnership:  
Implications beyond Economics

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## **EXECUTIVE SUMMARY**

This essay examines the implications of the Trans-Pacific Partnership (TPP)—which is currently being negotiated by 12 countries—from three perspectives (i.e., economy, strategy, and security), with consideration of the domestic political economy of the United States, Japan, and China.

### **MAIN ARGUMENT**

During his trip to Washington, D.C., in April 2015, Japanese Prime Minister Abe Shinzō argued that the TPP would have implications beyond economics. This essay discusses three aspects of the TPP: economy, strategy, and security. It is easier to see the implications of the TPP by thinking about what would happen if the TPP negotiation fails. Economically, the U.S. would lose the opportunity to export to the growing Asia-Pacific market. Strategically, the U.S. would have to face China’s challenge to the U.S.-led rule-based international order, having failed to establish “our rules.” On security, the failure of the TPP would empower conservative hardliners in China’s domestic politics, undermining the security of the Asia-Pacific. This essay argues that looking at the TPP beyond its economic implications will help President Obama and PM Abe to build domestic support for the TPP.

### **POLICY IMPLICATIONS**

- If the TPP negotiation fails, the U.S. economy will slow down and make it more difficult to establish a safety net for unskilled workers because of fiscal revenue shortage and hence economic inequality will be expanded.
- Given that China tries to reject U.S.-established rules, without the TPP the U.S. will have to face China’s challenge to the international rule of law without “our rules.”
- China’s leadership is divided between reformist internationalists and conservative hardliners, and the failure of the TPP will empower the conservative hardliners, make China’s behavior more aggressive, and make the Asia-Pacific region more dangerous.

In his speech to the United States Congress in April 2015, Japanese Prime Minister Abe Shinzō clearly said: “The TPP [Trans-Pacific Partnership] goes far beyond just economic benefits. It is also about our security. Long-term, its strategic value is awesome.”<sup>1</sup> Previously, during a speech in Arizona in early April, U.S. Defense Secretary Ashton Carter stated that “passing TPP is as important to me as another aircraft carrier.”<sup>2</sup> These two statements suggest that the TPP has implications beyond economic interests. In particular, the fact that the defense secretary, in charge of U.S. security, claims the importance of an international economic agreement suggests that the TPP has strategic and security implications for the United States. This essay argues that the changing political economy of the region and the world due to China’s rise, the *relative* decline of U.S. power, and deepened regional economic integration in the Asia-Pacific is the reality of current international relations behind these statements.<sup>3</sup> Secretary Carter’s claim about the TPP reflects his concern that if the United States fails to conclude the TPP, it would miss the opportunity for rule-making in the Asia-Pacific economy and to form the U.S.-led, rule-based international order.

Since World War II ended, the world has advanced trade liberalization through the framework of multinational institutions such as the World Trade Organization (WTO)—previously the General Agreement on Tariffs and Trade until 1995. However, in December 2011 WTO members decided to give up on reaching an agreement in the near future, and since then

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<sup>1</sup> “Japanese Prime Minister Address to Joint Meeting of Congress,” C-SPAN, <http://www.c-span.org/video/?325576-2/japanese-prime-minister-shinzo-abe-addresses-joint-meeting-congress>.

<sup>2</sup> Helene Cooper, “U.S. Defense Secretary Supports Trade Deal with Asia,” *New York Times*, April 6, 2015, [http://www.nytimes.com/2015/04/07/us/politics/defense-secretary-supports-trade-deal-with-asia.html?\\_r=0](http://www.nytimes.com/2015/04/07/us/politics/defense-secretary-supports-trade-deal-with-asia.html?_r=0).

<sup>3</sup> I do not at all mean that the *absolute* decline of U.S. power has taken place. What I mean by “the relative decline of U.S. power” is simply a logical inference from China’s rise. If one country’s power rises, the other country’s power at least relatively declines, but it does not mean that the country’s power absolutely declines.

the WTO has stagnated, if not died.<sup>4</sup> While negotiations in the WTO have stalled, many nations—both developed and developing—have concluded free trade agreements. In the Asia-Pacific region, nations have shifted the focus on their trade policies from negotiations in the WTO to those in the TPP. Indeed, as Japan announced its participation in the negotiation of the TPP in March 2013, the TPP now includes 12 negotiating countries (i.e., Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam).

What are the TPP's implications beyond economic benefits? This essay discusses three aspects of the TPP: economy, strategy, and security. From the economic perspective, the TPP will promote international trade in the Asia-Pacific region, enhance each nation's economy, increase employment, and especially benefit consumers and exporting industries in each nation. From the strategic perspective, the TPP will establish the rules of international economy in the Asia-Pacific region, strengthen the "rule-based U.S.-led international order," and make it easier to manage China, a country which challenges the U.S.-led international order. From the security perspective, the TPP will give China—when China is interested in joining the TPP in the future—an incentive to be committed to economic reforms, empower reformists in Chinese domestic politics, and motivate its leaders to make cooperative foreign policy.

At this moment, since the U.S. Congress passed the Trade Promotion Authority in June 2015, the TPP negotiation is apparently at the final stage. However, the opposition to the TPP in each negotiating country is still significant and strong. Thus, it is important to highlight the "beyond economics" implications of the TPP to manage opposition and skepticism and to build

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<sup>4</sup> For example, Susan Schwab, the U.S. Trade Representative from 2006 to 2009, argues that we should not expect the Doha Round to reach any meaningful agreement in the near future. See Susan C. Schwab, "After Doha: Why the Negotiations Are Doomed and What We Should Do about It," *Foreign Affairs* 90, no. 3 (2011): 104–17.

support in the domestic politics of each negotiating nation, especially in the United States and Japan.

#### WHO DOES NOT DO THEIR HOMEWORK: ECONOMIC ASPECTS OF THE TPP

Consisting of 20 issue areas with 29 draft chapters, the TPP is considered to be the most comprehensive free trade agreement (FTA). Because of its comprehensiveness, the conclusion of the TPP is expected to bring catalytic effects to the expansion of free trade under larger FTA frameworks, such as the Free Trade Area of the Asia-Pacific (FTAAP), which would include all 21 members of the Asia-Pacific Economic Cooperation (APEC) as its participants. The 12 participants in the current TPP negotiation are a subset of the APEC members. Thus, the ultimate goal to promote prosperity based on free trade in the Asia-Pacific region is to conclude the FTAAP. However, the FTAAP is too big to establish rules through negotiations. Therefore, it is better to establish rules as the TPP first and then expand those rules to the APEC members to eventually make the FTAAP. Hence, the TPP is an important step to further promote free trade and economic growth in the Asia-Pacific region. Even though neither China nor South Korea is currently participating in the TPP negotiation, given that the United States and Japan are two of the biggest trading partners for both, they will have a strong incentive to join the TPP once it is concluded.

#### *Abenomics and Japan's Homework*

PM Abe has identified the TPP as a core of the growth strategies (called the “third arrow”) in his reform plan called Abenomics. The Abe administration named five products (rice, wheat, meat, dairy products, and sugar) as the “sanctuary” (*seiiki*), and positioned them as pillars of

Japanese protection against pressures to open the market. However, Japanese agriculture is already in crisis whether Japan participates in the TPP or not, because of the aging farm population. Japanese agricultural production decreased from 11.7 trillion yen in 1984 (the highest ever) to 8.2 trillion yen in 2011, 60 percent of farmers were older than 65 years of age in 2010 (increased from 10 percent in 1960), and 400,000 hectares of farmlands were abandoned by 2010.<sup>5</sup> Thus, to protect agriculture, the best strategy is not trade barriers but direct subsidies to farmers, so that agriculture is not an obstacle for Japan to take the initiative for trade liberalization in the negotiations. The biggest opponent to the TPP in Japan is the Japan Agricultural Cooperatives (JA: *Nōkyō*).<sup>6</sup> Interestingly, the high trade barriers for agricultural products have not protected agriculture per se but benefited the JA.<sup>7</sup> The JA collects service charges when farmers sell agricultural products through the JA, and hence benefits from their high prices. If trade barriers are replaced with direct income subsidies to farmers, then the prices of agricultural products will drop while the farmers will not suffer losses because of the income subsidies compensation, but the JA will lose service charge revenue. In sum, Japan's "homework" for the TPP negotiation is JA reform, which would enable the government to decrease trade barriers and protect farmers with direct subsidies. While Japanese agriculture is not competitive in the global market, its manufacturing industries are competitive. Thus, by removing protectionism for agriculture from the demands in the TPP negotiation, Japan could

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<sup>5</sup> Yamashita Kazuhito, "Nōgyō to nōchi mondai" [Agriculture and the Farmland Issue], *Tochi Sōgō Kenkyū* (Fall 2014): 3–16.

<sup>6</sup> Honma Masayoshi, "TPP sanko to Nihon no nōgyō saisei" [TPP Participation and the Resuscitation of Japanese Agriculture], in *TPP to Nihon no ketsudan: "Kimerarenai seiji" kara no dakkyaku* [The TPP and Japan's Decision: A Farewell to "Un-deciding Politics"], ed. Ishikawa Kōichi, Umada Keiichi, Kimura Fukunari, and Watanabe Yorizumi (Tokyo: Bunshindō), 194–210.

<sup>7</sup> Yamashita Kazuhito, "TPP to nōgyō, shoku no anzen" [The TPP, Agriculture, and Food Safety], in *Nihon no TPP senryaku: Kadai to tenbō* [Japan's TPP Strategy: Challenges and Perspectives], ed. Umada Keiichi, Urata Shūjirō, and Kimura Fukunari (Tokyo: Bunshindō, 2012), 184–202.

concentrate on rule making in the trade of manufactured products, in which Japanese producers are competitive.

Although the TPP may promote the international trade between industries (i.e., inter-industry trade) that is given theoretical support by David Ricardo's comparative advantage model, it will be even more important for promoting the trade within industries (i.e., intra-industry trade), because during the current era intra-industry trade has been advancing in East Asia.<sup>8</sup> While the international division of labor for inter-industry trade (where, for example, one country produces steel products while the other country produces automobiles) is called the "first unbundling," the division of labor for intra-industry trade (where, for example, one country takes part of some stage of the automobile production while another country takes part of some other stage of the same automobile production) is called the "second unbundling."<sup>9</sup> The second unbundling is also called international production networks, global supply chains, or global value chains, but basically they all mean the same thing.

The second unbundling in manufacturing industries is at its most advanced in the world in East Asia.<sup>10</sup> Moreover, the second unbundling in East Asia in the machinery industry has expanded into the North American Free Trade Agreement (NAFTA) states, particularly Mexico and the United States.<sup>11</sup> The TPP is expected to play an important role for rule making to further develop the production networks in the Asia-Pacific region. Its current negotiation includes the

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<sup>8</sup> Fukunari Kimura, "How Have Production Networks Changed Development Strategies in East Asia?" in *Global Value Chains in a Changing World*, ed. Deborah K. Elms and Patrick Low (Geneva: WTO Publications, 2013), 361–84.

<sup>9</sup> Richard Baldwin, "Trade and Industrialization after Globalization's 2nd Unbundling: How Building and Joining a Supply Chain Are Different and Why It Matters," National Bureau of Economic Research Working Paper 17716 (December 2011), <http://www.nber.org/papers/w17716.pdf>.

<sup>10</sup> Kimura Fukunari, "TPP to 21-seiki-gata chiikishugi" [The TPP and 21st Century Regionalism], in *Nihon no TPP senryaku: Kadai to tenbō* [Japan's TPP Strategy: Challenges and Perspectives], ed. Umada Keiichi, Urata Shūjirō, and Kimura Fukunari (Tokyo: Bunshindō, 2012), 3–17.

<sup>11</sup> Mitsuyo Ando and Fukunari Kimura, "Evolution of Machinery Production Networks: Linkage of North America with East Asia," *Asian Economic Papers* 13, no. 3 (2014): 121–60.

issue areas of intellectual property, investment (especially conflict resolution rules over foreign direct investment of manufacturing industries), market access for goods, and state-owned enterprise (SOE) reform, which all influence intra-industry trade. The current WTO rules do not sufficiently cover the issues related to intra-industry trade, and it is very difficult to make new rules in the WTO now.

Among the current negotiating countries, Japan will be one of the biggest beneficiaries of the TPP, because of its engagement in intra-industry trade with the Asia-Pacific nations. Interestingly, when a Japanese manufacturing company opens a new affiliate in East Asia, that company's employment in Japan tends to *increase*, because a certain stage of new production in a foreign affiliate also *creates* another stage of new production in Japan.<sup>12</sup> In other words, outsourcing of Japanese companies does not cause the closure of production facilities but their expansion. As a result, public opinion polls in Japan have consistently supported the TPP, as Japanese producers—both large corporations and medium-to-small corporations—believe in the positive effects of the advancement of international production networks.<sup>13</sup> Therefore, this essay argues that Japan should take the initiative in the TPP negotiation to make the TPP further develop international production networks, rather than complaining about negotiation over agricultural products. Japan's leadership is particularly important, given that the United States is facing domestic opposition, which I discuss in the next section.

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<sup>12</sup> Mitsuyo Ando and Fukunari Kimura, "Globalizing Corporate Activities in East Asia and Impact on Domestic Operations: Further Evidence from Japanese Manufacturing Firms," RIETI Discussion Paper Series 11-E-034 (March 2011), <http://www.rieti.go.jp/jp/publications/dp/11e034.pdf>.

<sup>13</sup> Kuno Arata, "TPP o meguru yūkensha no senkō keisei mekanizumu" [The Process of the Formation of Voters' Preferences Regarding the TPP], in *Nihon no TPP senryaku: Kadai to tenbō* [Japan's TPP Strategy: Challenges and Perspectives], ed. Umada Keiichi, Urata Shūjirō, and Kimura Fukunari (Tokyo: Bunshindō, 2012), 168–83.

## *The Homework That the United States Does Not Do*

The opposition to the TPP has been empowered by the frustration with the expanded inequality of the American economy. For example, Joseph E. Stiglitz argues that the TPP will not promote employment but further threaten the safety net of the people whose lives have already been threatened by globalization, and hence it will further expand economic inequality in the United States.<sup>14</sup> Is it true that the TPP will expand economic inequality? In other words, will economic inequality not be expanded if the TPP is not concluded? It is true that unskilled workers have been harmed by increasing trade with developing countries.<sup>15</sup> However, this essay argues that economic inequality has expanded not because of FTAs or globalization per se, but because divided American domestic politics has failed to implement the social welfare and education policies needed to adapt the safety net to globalization.

To manage the opposition to a FTA like the TPP in the United States, it is important to compensate the domestic losers of globalization by establishing a social welfare system for significant income redistribution.<sup>16</sup> In other words, the United States is given the “homework” of building the institutions necessary to compensate unskilled workers for globalization’s losses. Stiglitz criticizes economic theory, saying that “the old free trade theory said only that the winners could compensate the losers, not that they would.”<sup>17</sup> So what would make the winners compensate the losers? Here the economist’s mission is to propose the institutions that would make the winners of free trade compensate the losers. Neglecting the mission of institution building and merely criticizing economic theory or free trade is like saying that the problem of

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<sup>14</sup> Joseph E. Stiglitz, “On the Wrong Side of Globalization,” *New York Times*, March 15, 2014, [http://opinionator.blogs.nytimes.com/2014/03/15/on-the-wrong-side-of-globalization/?module=Search&mabReward=relbias%3As%2C\[%22RI%3A9%22%2C%22RI%3A15%22\]&r=0](http://opinionator.blogs.nytimes.com/2014/03/15/on-the-wrong-side-of-globalization/?module=Search&mabReward=relbias%3As%2C[%22RI%3A9%22%2C%22RI%3A15%22]&r=0).

<sup>15</sup> Michael Spence, “The Impact of Globalization on Income and Employment: The Downside of Integrating Markets,” *Foreign Affairs* 90, no. 4 (2011): 28–41.

<sup>16</sup> Kenneth Scheve and Matthew Slaughter, “A New Deal for Globalization,” *Foreign Affairs* 86, no. 4 (2007): 34–47.

<sup>17</sup> Stiglitz, “On the Wrong Side of Globalization.”

difficult homework could be solved if you stop going to school, which does not help to solve the big problem of expanded economic inequality facing the United States.

Stiglitz insists that “agreements like the TPP have contributed in important ways to this inequality,” suggesting that FTAs and free trade per se are the main cause of economic inequality.<sup>18</sup> On the contrary, this essay argues that the current unprecedented inequality has been brought out by ineffective economic and social welfare policies, including tax reduction for the affluent, the absence of a national health care system, and poor public education policy. During the second debate between the presidential candidates in the 2012 election, when arguing for the importance of education reforms, President Obama stated that the United States would need skilled labor to compete with developing countries in the global economy.<sup>19</sup> If the productivity of better-paid U.S. workers is the same as that of less-paid developing countries’ workers, the U.S. workers will face downward pressure on their wages. Obama argued that the only sweeping solution to this problem is education reform to make U.S. workers more competitive.

On this issue, Stiglitz shows that the current average wage of U.S. workers is lower than 40 years ago, and argues that the stagnation of U.S. workers’ wages is caused by competition with workers in developing countries.<sup>20</sup> However, it would be inevitable to lose the competition with foreign labor if the wage increase does not accompany a productivity increase. Needless to say, the failure of the TPP or the lack of free trade will make U.S. workers more skilled and competitive. Turning back on globalization will lower the quality of American products, make American producers less competitive, and raise prices of the products distributed in the United

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<sup>18</sup> Ibid.

<sup>19</sup> “Obama vs. Romney: Second Presidential Debate,” <https://www.youtube.com/watch?v=WD0RH9PLxQY>.

<sup>20</sup> Stiglitz, “On the Wrong Side of Globalization.”

States, which will result in harming the unskilled workers that have already suffered from low wages.

Stiglitz criticizes the economic theory assuming that labor can move between different jobs with no cost as unrealistic.<sup>21</sup> However, what this theory implies is that the policy lowering the cost for labor to move from a declining industry to a growing industry would promote free trade. Thus, for example, social welfare policies such as improving the unemployment insurance and maintaining a job training system would promote free trade. The cost to move from one sector to another would be high if a worker loses basic health insurance coverage when unemployed. Therefore, a national health care system like Obamacare would also help to promote free trade.

In sum, the United States needs to do its homework of building the social welfare institutions necessary for smooth income redistribution from the winners to the losers of globalization, so that it can minimize economic inequality while benefiting from globalization. The failure of the TPP would not build a safety net for globalization's losers, would not make U.S. workers more competitive, and would not solve the problem of inequality. Rather, if the TPP is not concluded, the United States would lose the growing market of the Asia-Pacific region that would have opened with the TPP, and its manufacturing industries would become even less competitive in the global market. Then, the U.S. economic growth would be constrained, and most importantly it would be more difficult to establish a safety net for unskilled workers because of governmental revenue shortage. Hence, economic inequality might be even further expanded. It is wrong to conflate opposition to the TPP and the problem of inequality.

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<sup>21</sup> Ibid.

## RULE MAKING IN INTERNATIONAL POLITICS: STRATEGIC ASPECTS OF THE TPP

To understand the strategic importance of the TPP, imagine what would happen if the TPP fails to be concluded. The TPP negotiation is economic rule making in international politics. When China challenges the U.S.-led rule-based international order, what would happen if the United States and its allies have failed to create “our rules”? We could not propose our international rules when facing China’s challenge to a U.S.-led international rule of law.

Citing the example of what had been happening in the South China Sea, one U.S. Navy admiral stated: “China does not have the intention to follow the existing international-law-based agreements that have been functioning. Instead China tries to reject the U.S.-established rules and international order.”<sup>22</sup> In the South China Sea, exclusive economic zones (EEZs) originally existed based on the lines agreed upon by the surrounding nations. However, China has recently challenged them and declared the whole South China Sea as China’s territorial waters. At a conference when the admiral raised the legitimacy of this declaration with the Chinese participant, the latter brushed it aside saying: “Because we claim it.” From China’s standpoint, the existing EEZs in the South China Sea were determined without China’s participation when China was not powerful enough to participate in such a decision, and hence China should redraw the lines now that it has sufficient power to push its own demands. Thus, the admiral argued: “To manage China’s challenge, we should take into consideration that China does not have the intention to follow the existing rules. It would be an illusion to assume that China will accept the U.S.-led international order.” According to the admiral, how to manage the China that does not follow the rules is the most important strategic challenge for the U.S. and its allies. This essay argues that to manage China’s challenge to the U.S.-led international order, an early conclusion

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<sup>22</sup> Author’s interview with a U.S. Navy admiral, Dallas, TX, May 5, 2014.

of the TPP would be indispensable, so that “we” (i.e., the United States and its allies) could propose “our rules” to China.

In the meantime, perhaps China is currently trying to build a Chinese-led international order by establishing several international institutions, such as the New Development Bank (NDB: formerly referred to as the BRICS Development Bank), the Asian Infrastructure Investment Bank (AIIB), and the “One Belt, One Road” initiative (also called the New Silk Road initiative). Whether the Chinese-led international order is welcomed by other nations is not certain, because it depends on China’s intention on how to use its acquired power. Elizabeth C. Economy argues that President Xi Jinping gives the highest priority to tightening his grip over anything.<sup>23</sup> In the domestic sphere, he tightens his grip on the control of political power and social stability by cracking down on dissidents and curbing corruption. Meanwhile, in the international sphere, he tightens his grip on the control of international order by projecting China’s power in whatever way it can. According to Economy, China projects its power by establishing the AIIB, expands its sphere of influence in Central Asia and more broadly in Eurasia by leading the Shanghai Cooperation Organization (SCO), and tries to build a Chinese-led security system by undermining the U.S. influence in the Asia-Pacific region. In short, Xi seems to be trying to apply the method of maintaining one-party rule in the domestic sphere to manage China’s influence in the international sphere. Xi’s pompous slogans, such as the “China dream” (*Zhongguo meng*) and the “great restoration of the Chinese nation” (*Zhonghua minzu weida fuxing*) might help Xi to tighten his grip in domestic politics, but they make other nations doubt China’s intention to use its power as a responsible stakeholder in international politics.

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<sup>23</sup> Elizabeth C. Economy, “China’s Imperial President: Xi Jinping Tightens His Grip,” *Foreign Affairs* 93, no. 6 (2014): 80–91.

The early conclusion of the TPP with “our rules” will enable “us” to impose pressure on China by creating a yes-or-no choice to the new set of internationally agreed rules, which is expected to help “us” ascertain whether China has the intention to use its capability as a responsible stakeholder. If China shows its intention to follow these rules as a responsible player in international economy, the TPP with China as a member will further deepen economic interdependence in the Asia-Pacific region, from which China will also benefit economically. Meanwhile, if China does not show its intention to follow these rules, then it will be the best strategy for the United States and its allies to push the TPP as “our rules” and to confront China’s challenge to the U.S.-led international order. In either case, the early conclusion of the TPP will become the foundation of political and economic stability in the Asia-Pacific. This function of the TPP will be even more evident if one takes into consideration Chinese domestic politics, which will be discussed in the next section.

#### CHINA AS A PLURAL FORM: SECURITY ASPECTS OF THE TPP

Although China is not a member of the current TPP negotiation, whether China should be included is a question discussed frequently. One official of the Office of the United States Trade Representative (USTR) said: “China is actually very interested in joining the TPP. Thus, while in the short term we will focus on concluding a comprehensive bilateral investment treaty with China, as well as the TPP with the 11 other currently negotiating countries, we should keep the possibility for China to join the TPP membership.”<sup>24</sup> This essay argues that whether and how China will join the TPP has important implications on the security of the Asia-Pacific region, taking into consideration Chinese domestic politics.

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<sup>24</sup> Author’s interview with a senior official of the Office of the USTR, Dallas, TX, February 11, 2014.

What is China's intention on the TPP? What strategy would China take? Is China a threat? To answer these questions, one should take China as a "plural form." There is no aggregate actor called China as a "singular form." Chinese foreign policy is greatly influenced by domestic politics, and China's role in international relations depends on how the Chinese leadership manages domestic politics. The Chinese leadership is divided over domestic policy issues, and hence one should take into consideration this division when examining the implications of whether China joins the TPP.

### *Three Scenarios of the TPP from the Chinese Perspective*

Observing the ongoing negotiation of the TPP, China has identified three potential outcomes. The first scenario is that in whatever way the TPP negotiation is concluded, China will not be able to join the TPP in the future. The United States might consider the TPP as a tool to contain China by creating an alliance to balance against rising China. This scenario is supported by the following realist theory argued by John J. Mearsheimer and others: states are never secure until they completely dominate the system, so they have to maximize power relative to others; and because it is impossible for any state to completely dominate the whole world system, a state will never be able to acquire sufficient power so that it is secure enough to have goals other than seeking relative power.<sup>25</sup> From this perspective, the TPP would be the tool to secure U.S. alliances and ensure a preponderance of U.S. power over China. Therefore, the United States should lead the TPP to maximize U.S. power relative to China, and would find the TPP—excluding China—to be a better place to exercise its strong leadership in trade negotiations than the WTO—including China. In short, this perspective implies that the United States should use the TPP to reduce China's influence in the Asia-Pacific region and the world.

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<sup>25</sup> John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W.W. Norton, 2001).

If, after deliberation on policy toward China the United States concludes that China will not have the intention to follow the rules in the U.S.-led international order, those who argue for the containment policy will be empowered in the debates over China policy, and then the United States will find the TPP and the other U.S.-led international institutions to be a tool to contain China's rise.

The second scenario is that China will become a negotiating member when the TPP increases its membership in the near future. The TPP is based on the goal of advancing economic interdependence in the Asia-Pacific. The reality is that the United States and the 11 other negotiating nations all more or less share common economic interests with China, and would benefit from China's participation in any international economic institution. This scenario is supported by the following liberal theory argued by Robert O. Keohane and others: international institutions might mitigate the effects of anarchy by promoting economic interdependence and trust, which could decrease conflict among states and hence weaken the role of military power and the insecurity it breeds.<sup>26</sup> From this viewpoint, given the reality that China's rise increases common interests between China and the United States (and its allies), the United States should include China in the U.S.-led global market system and in U.S.-led international economic institutions such as the TPP. However, it is unrealistic for China to participate in the ongoing negotiation, and hence, China will start negotiations for joining the TPP after the TPP is concluded.

The third scenario is that the ongoing negotiation will collapse and fail to conclude the TPP. This scenario is still possible, considering the current state of American domestic politics as discussed previously. Under the current political climate, it would be very difficult to pass

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<sup>26</sup> Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, NJ: Princeton University Press, 1984).

any income-redistribution-based reform bill in the U.S. Congress. Thus, there is still a possibility that the current negotiation will fail to conclude the TPP. Then, would China celebrate the failure of the TPP negotiation that has excluded them? Taking into consideration the current state of Chinese domestic politics, China's reaction would not be so simple.

### *The Political Economy of One-Party Rule in China*

According to Miyamoto Yūji, former Japanese ambassador to China, the 2008 world economic crisis empowered the hardliners in the power struggle in Chinese domestic politics, and since then hardliners and internationalists have been in conflict over China's international relations.<sup>27</sup> Miyamoto also points out that the reformists in domestic politics and the internationalists in international relations are aligned, while the conservatives resisting economic reforms in domestic politics side with the hardliners in international relations. Moreover, he suggests that since the Chinese Communist Party (CCP) Congress in November 2013, the internationalist-reformist coalition has become empowered vis-à-vis the hardliner-conservative coalition.

Currently, one of the major concerns of the United States and its allies over the Chinese economy is the rise of state capitalism rooted in the SOE system, referred to as “the state advance and the private retreat” (*guo jin min tui*).<sup>28</sup> As part of the cooptation strategy of China's authoritarian regime, since the 1990s the Chinese government has encouraged former officials and former SOE managers to become nominally private entrepreneurs.<sup>29</sup> In the 1990s, just after

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<sup>27</sup> Miyamoto Yūji, “Chūgoku ‘shin no kaikaku-ha’ to renkei o” [Japan Should Cooperate with “Real Reformists”], *Nihon Keizai Shimbun*, December 26, 2013.

<sup>28</sup> Yasheng Huang, *Capitalism with Chinese Characteristics: Entrepreneurship and the State* (New York: Cambridge University Press, 2008).

<sup>29</sup> Jie Chen and Bruce J. Dickson, *Allies of the State: China's Private Entrepreneurs and Democratic Change* (Cambridge, MA: Harvard University Press, 2010).

having experienced the Tiananmen Incident and observed the Eastern European revolutions, the Jiang Zemin administration found this cooptation strategy to be helpful to prevent “capitalists” from demanding democratization and to maintain one-party rule while advancing market-oriented reforms.<sup>30</sup> The state capitalists are successful not because of their management ability but because of their political connections. Because they share common interests with the state, they will not demand democratization, and this cooptation strategy makes perfect sense for the regime’s survival strategy.<sup>31</sup> The Hu Jintao administration, succeeding the Jiang administration, raised the slogan of “harmonious society” (*hexie shehui*) to curb the corruption rooted in state capitalism and to solve the economic inequality that had rapidly expanded in the Chinese economy during the 1990s. However, Hu was never able to consolidate his power base and as a result, economic inequality expanded during his ten-year tenure between 2002 and 2012.<sup>32</sup> To shrink the economic inequality, Hu, inevitable, found it necessary to undermine the vested interests rooted in the SOE system, but one can easily imagine that the conservatives desperately resisted Hu’s reform attempt.

The division between the conservatives and the reformists originated in their different positions on how to deal with the state-capitalism-based vested interests. The conservatives are primarily interested in protecting the vested interests while the reformists find it necessary to be committed to economic reform that would undermine the vested interests. Both the conservatives and the reformists agree that regime resilience is the utmost goal for the governance of the CCP and maintaining social stability is most important to achieve this goal.

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<sup>30</sup> Kellee S. Tsai, *Capitalism without Democracy: The Private Sector in Contemporary China* (Ithaca, NY: Cornell University Press, 2007).

<sup>31</sup> Teresa Wright, *Accepting Authoritarianism: State-Society Relations in China’s Reform Era* (Stanford, CA: Stanford University Press, 2010).

<sup>32</sup> Ryosei Kokubun, “Chinese Politics and Changing Japan-China Relations,” unpublished manuscript, National Defense Academy of Japan (2013).

However, they have opposite views on how to achieve this goal. On the one hand, the conservatives argue that the CCP should keep protecting vested interests because one-party rule has been maintained by the CCP's cooptation strategy of distributing these vested interests to various societal groups. On the other hand, the reformists argue that the CCP should implement economic reform that would undermine the vested interests to achieve sustainable economic growth because economic growth has been the source of legitimacy and support for one-party rule. On the TPP, the conservatives think that the TPP would directly undermine the vested interests, especially because the commitment to SOE reform is one of the conditions to join the TPP. By contrast, the reformists think that China could achieve sustainable economic growth only by remaining involved in the global economy, and that joining the TPP would give China better access to the global market. Moreover, while the reformists appreciate international cooperation and a peaceful international environment as requirements for China to benefit from the interdependence with the global economy, the conservatives appreciate nationalism and do not mind causing friction in international politics by projecting China's acquired power. In this way, the debates over domestic economic reforms influence the debates over international relations, and the division between the reformist internationalists and the conservative hardliners emerged in Chinese domestic politics.

### *The TPP as "Gaiatsu" on China*

Considering the division between the reformist internationalists and the conservative hardliners, this essay argues that the U.S. government and its allies should adopt policies to empower the reformists in Chinese domestic politics, so that Chinese foreign policy will turn toward international cooperation. The conclusion of the TPP would empower the reformists by

undermining the vested interests based on the SOE system that the conservatives try to protect. Thus, this essay argues that the 12 negotiating countries should conclude the TPP as soon as possible and impose pressure on China by giving China a yes-or-no choice to the new set of internationally adopted rules.

If China joins the TPP, it will have to be committed to the economic reforms that the reformist internationalists want to advance. The negotiated issues of the TPP include not only the SOE reform, which will directly undermine the vested interests that the conservative hardliners desperately want to protect, but intellectual property rights and labor conditions, which will also undermine the vested interests because the state capitalists tend to lack innovation and have to rely on copied products or low-wage labor. Thus, the early conclusion of the TPP will empower the reformist internationalists against the conservative hardliners in the power struggle of Chinese elite politics. The TPP will impose on China the “*gaiatsu*” (literally “foreign pressure”), which was frequently used during U.S.-Japan trade negotiations in the 1980s and 1990s.<sup>33</sup> This *gaiatsu* will promote market reform, which will shift the Chinese economy away from state capitalism; then, the empowered reformist internationalists will make China’s foreign policy more cooperative. Therefore, the TPP will strengthen the regional security of the Asia-Pacific region by turning China’s behavior toward international cooperation. By contrast, the failure of the TPP will empower the conservative hardliners vis-à-vis the reformist internationalists in Chinese domestic politics, make China’s behavior more aggressive in international relations, and make it more difficult for the United States and its allies to manage China’s rise and the regional security of the Asia-Pacific.

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<sup>33</sup> On the *gaiatsu* in U.S.-Japan relations, see Leonard J. Schoppa, *Bargaining with Japan: What American Pressure Can and Cannot Do* (New York: Columbia University Press, 1997).

## HOW TO MANAGE THE OPPOSITION TO THE TPP

This essay has identified the implications of the TPP beyond economics. Needless to say, each negotiating nation faces both support and opposition in their domestic politics where interest groups and vested interests are tangled in complicated ways. Thus, this essay has argued that the TPP's implications beyond economics would help each nation's government to manage opposition and build support for the TPP in their domestic politics. In the United States, the expansion of economic inequality has empowered the opposition to the TPP, while in Japan the decline of agriculture has empowered the opposition.

However, one should note that both economic inequality in the United States and agricultural stagnation in Japan are issues that require urgent attention, whether the TPP is concluded or not. As discussed in this essay, in the United States it is a matter of great urgency to implement social welfare and education policies to build a safety net that would compensate the losers of globalization. Meanwhile, in Japan the urgent business is agricultural reform that would rebuild the aging agricultural sector. Moreover, relating these issues to the TPP would give those who want to protect the vested interests an excuse to delay necessary economic reforms. Thus, this essay argues that instead of complaining about domestic opposition, emphasizing the TPP's implications beyond economics would help the leader of each nation, especially President Obama and PM Abe, to build support for the TPP, to move the TPP negotiation forward, and eventually for the nation to benefit from the concluded TPP.