

# From the World Trade Organization to the Trans-Pacific Partnership: China's Rise, Globalization, and American Domestic Politics

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## ABSTRACT

China's rise and the relative decline of U.S. power have changed the order of the political economy of the region and the world. How does this new order change the roles and functions of the World Trade Organization (WTO)? How does this new order relate to the emergence of the Trans-Pacific Partnership (TPP) and G20? In this article, I argue that to explain the rise and decline of international institutions, we need to take into consideration American domestic politics. International institutions work when the American domestic forces (e.g., public opinion, interest groups, and domestic institutional arrangements) give leaders incentives to make them work. I explore the interactions between the WTO and the TPP on the one hand and American domestic politics on the other hand, and argue that the TPP is a better place for U.S. trade negotiations than the WTO, given the rising protectionist tendency in the U.S. Congress.

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While entrepreneurship has flourished and deepened regional integration in the Asia-Pacific, China's rise and the relative decline of U.S. power have changed the political economy of the region and the world.<sup>1</sup> Since World War II ended, the world has advanced trade liberalization through the framework of multinational institutions such as the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO). However, in December 2011 WTO members decided to give up on reaching an agreement in the near future. In short, the WTO has stagnated at best, if not died.<sup>2</sup>

While negotiations in the WTO have stalled, many nations—both developed and developing—have concluded free trade agreements (FTAs). In the Asia-Pacific, governments have shifted the focus on their trade policies from negotiations in the WTO to those in the Trans-Pacific Partnership (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 accounts for the malfunctioning of multilateral organizations such as the WTO and the increasing significance of FTAs such as the TPP? Does China's rise (and arguably American decline, as well) influence the shifting importance from the WTO to the TPP in free trade in the Asia-Pacific region? How does this new order in international political economy influence entrepreneurship and economic integration in the region? In particular, how does China's rise and globalization affect the role of entrepreneurs in the Pacific Rim's future?

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<sup>1</sup> On entrepreneurship and the economic integration of production networks in East Asia and the Asia-Pacific, see Kimura (2012, 2013), Kimura and Ando (2005), and Maeno (2012, 2013).

<sup>2</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 (Schwab 2011).

To answer these questions, in this chapter I argue that we need to take into consideration domestic politics of major nations, especially of the United States. U.S. trade policy has been influenced and constrained by the rise of protectionist pressure in its domestic politics. Moreover, I argue that China's rise has been a crucial factor changing the current world order, and that it has led to the stagnation of the WTO. Although China is not participating in the TPP negotiation, it has influenced incentives and preferences of the participants in that negotiation.

On the one hand, international institutions—such as the WTO and the TPP—might work better when they further the interests of the most powerful nation(s), who are needed to enforce rules, and they fail or fall apart when the powerful nation(s) that created them decline (e.g., Glennon 2003; Krasner 2001; Mearsheimer 2001). On the other hand, international institutions might work better when they articulate clear rules and norms and provide information about compliance, so that they create self-enforcing cooperation by increasing the costs of defection (e.g., Keohane 1984; Risse 2002; Voeten 2005). While the former view emphasizes the ineffectiveness of international institutions by pointing out the lack of enforcement mechanisms, the latter claims that international institutions could lessen conflict and promote cooperation between nations even if rules adopted through these international institutions are not coercively and formally enforced under the anarchic nature of world politics.

In this paper, I hypothesize that international institutions work best when domestic factors (e.g., public opinion, interest groups, and domestic institutional arrangements of decision-making processes) give the leader incentives to make them work in key nations. In other words, I treat the state's decision-makers as Janus-faced actors who try to respond to both externally imposed national interests and internally imposed political interests (Mastanduno, Lake, and Ikenberry 1989). State leaders respond more to those political interests formed on the basis of

domestic politics, especially regarding foreign economic policies such as international trade, foreign investment, and the global environment, compared with foreign security policies such as wars, alliance politics, and arms control. Therefore, I argue that as regional economic integration has deepened in the Asia-Pacific, it is increasingly important to consider the domestic politics of foreign policy-making to discuss international relations in this region.

Interestingly, public opinion polls in Japan have consistently supported the TPP (Kuno 2012). The Japanese economy is integrated into the production chains with other East Asian countries, and hence Japanese producers—both large corporations and medium-to-small corporations—believe in the positive effects of the advancement of such international production networks (Kimura 2013). As a result, 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 (Ando and Kimura 2013). In other words, entrepreneurs in the economy of East Asia play an important role in solidifying the basis of public support for the TPP in Japan.

In this paper, I explore the declining roles of the WTO and the emerging roles of the TPP, while focusing on the interactions between international institutions and the domestic politics of the United States. First I briefly discuss China’s rise and its implications on U.S. foreign policy toward China. Then, in the following sections I consider what might explain the declining roles of the WTO and the emerging roles of the TPP.

### **China’s Rise and the U.S.-China Relationship**

Two closely related, though distinct, approaches of the American foreign policy response to China’s rise are containment and engagement (Christensen 2006; Economy 2010a). The

debate between containment and engagement is embedded in the questions of whether and how China is a threat for the United States. Moreover, the conflict in the debate is rooted in how the United States should weigh security and trade when evaluating its foreign policy toward China. In the following discussion, I evaluate each approach, and argue that American domestic politics gives an advantage to the engagement approach, considering the U.S. benefits from economic interdependence with nations in the Asia-Pacific as entrepreneurship has deepened regional integration in the region.

Having observed China's economic growth, military modernization, assertive foreign policy, and nuclear weapons, adherents of the containment approach argue that China's power is inherently threatening and needs to be checked, and that for China, trade enriches a repressive government, helps fund military spending, and gives access to advanced technology. Thus, the United States should contain China through regional alliances and slow China's economic growth by denying it favorable trading terms. It is not difficult to find the empirical observations to support the argument that China's rise is a threat to the United States (Friedberg 2012; Subramanian 2011). Rapid economic growth since 1979 has now made China the second largest economy and also has funded increased military expenditure causing rapid military modernization. Moreover, at least some foreign policies have been aggressive—such as the Taiwan issue, border disputes, and missile and weapons sales to countries hostile to the U.S.—and China possesses nuclear weapons.

Proponents of this approach see China as disruptive and a major threat to both regional and international security and stability, and thus assert that economic interdependence with China is “insufficient to condition China's behavior” (Shambaugh 1996, 185). They point to the decades of trade as a failed attempt to turn China more politically liberal, a turn that many had

hoped would happen. For example, Friedberg (2012, 49) asserts that China has recently become more aggressive in its pursuit of greater control over the seas and natural resources. Moreover, on the international front, China has been unwilling to assist in and has even hindered efforts by the international community to face global problems such as Iran, North Korea, and Syria (Christensen 2011). Therefore, Friedberg concludes that these elements together with China's rapidly modernizing military present a strong threat to U.S. interests. In short, the containment approach argues that the United States should pursue gains in military—not economic—power and the security—not trade—sphere in its relationship with China. As a result, it takes the bilateral relationship as zero-sum interactions and suggests that the U.S. should maximize its relative gains. In other words, the containment approach is more concerned with risks to U.S. security than the benefits of a cooperative relationship with China.

In contrast to the containment approach, the engagement approach argues that China's power is threatening if and only if it has hostile intentions, and that trade empowers market actors, facilitates liberalization of the Chinese economy, and strengthens the middle class, which will arguably demand political liberalization. Therefore, the United States should promote Chinese economic development and democratization by enmeshing China in U.S.-led economic institutions (such as the WTO and arguably the TPP) and giving China a stake in the status quo. For the last three decades, along with the advancement of market-oriented reforms, China's authoritarian regime has been committed to establishing domestic institutions that fit the definition of a liberal regime (Doyle 1986; Ikenberry 2011). As a result, compared with the Maoist period, the current regime provides credible limits on the state's power over individual citizens, especially the commitment to limiting state intrusion in the economic sphere by institutionalizing protections for private property.

Proponents of this approach call on the United States to reach out to China in the hopes of successfully encouraging the country to cooperate with others in the international community and to successfully integrate China (Shambaugh 1996, 181) to the global economy. They argue that while engagement might not be the perfect approach to China and we cannot expect Beijing to fully reciprocate the U.S. effort, it is the best option of the available alternatives on the table. For example, Kissinger (2012) asserts that unlike the Soviet Union, China is a dynamic factor in the world economy and hence any conflict between the U.S. and China would have severe economic consequences for the entire global economy. At the same time, Kissinger contends, the U.S. cannot afford to pull out of the international community, either. In short, the engagement approach argues that the U.S. should pursue gains in economic power through the interdependent relationship with China while ensuring U.S. security. Moreover, it takes the bilateral relationship as positive-sum interactions and suggests that the U.S. should maximize its absolute gains. It criticizes the containment approach in the sense that the attempt to contain China will create a self-fulfilling prophecy, especially given the current state of China's domestic politics.

The engagement approach contends that as the second largest economy in the world, China is simply too large and too dynamic of a player in international affairs for the U.S. to contain. It asserts that instead the U.S. should seek engagement and cooperation with China in order to improve the bilateral relationship and ensure stability in the international system. However, Economy and Segal (2009) argue that the U.S. should not raise the stakes too high with increased high-level negotiations and interactions in the bilateral relationship, while arguing against the so-called G-2 framework wherein China and the U.S. should be responsible for solving major problems in world politics. They assert that trying to move too fast into the G-2

framework will be counter-productive and only raise expectations to levels that cannot be met, whereas real differences and issues remain and continue to cause problems for the bilateral relationship, which include the Taiwan issue, human rights, trade frictions, and North Korea's nuclear development.

Overall, Chinese domestic politics will not allow the Chinese leadership to be committed to high-level dealings such as the G-2 framework in the coming years. Although China's initial handling of the 2008 financial crisis was impressive (Lardy 2012), China's economic growth does not come without side effects including rampant corruption—especially on the local levels—and environmental degradation throughout the country (Economy 2010a, 2010b; Goldstein 2013; Huang 2013; Ross 2012). These problems have led to increased unrest among the Chinese people, as there were 180,000 protests across China in 2010 alone, the worst outbreak since the People's Republic of China was established in 1949 (Ross 2012, 74–5). Further proof of the Chinese leadership's concern about unrest came in 2011 when for the first time China's budget for police and internal security surpassed its declared defense (Buckley 2011). In short, China is concerned more with internal threat—that is, social unrest—than with external threat by foreign countries.

Kissinger (2012) argues that under the condition that China is more concerned with internal threat than external threat, the United States should be careful about its actions, especially the rhetoric used in domestic politics. Nathan and Scobell (2012) find that from the Chinese viewpoint, the U.S. is omnipresent at the borders and in surrounding countries, as well as in other parts of the world. At the same time, although China may have the ability to pose an unacceptable risk to the U.S. through cyber warfare, anti-ship ballistic missiles, or other technology, its military power has not caught up to the overall U.S. military power (Kissinger

2012; Ross 2012; Segal 2012). Therefore, China's rise has posed a security threat to the U.S. and its allies in East Asia, but overestimating the threat would increase tensions and make it harder to solve the problems that the rise of China might bring to the world.

In sum, I argue that the situation where the Chinese government has to be concerned with domestic social unrest has made the engagement approach the only effective strategy for the United States to benefit from China's rise, and that engagement is the only feasible choice to prevent China's rise from leading to American decline. Unlike the former Soviet Union, the Chinese economy is integrated in the global supply chain of the products traded in all over the world, especially in the Asia-Pacific region. The U.S. decision to approve China's entry into the WTO in 2000 reflected the reality that the U.S. faced at that time—i.e., that engagement was the only politically feasible choice. However, the current WTO round, the Doha Round, has stagnated at best—if not died—and the U.S. has instead been trying to lead the TPP, and China is not a member of the TPP negotiations. In the following sections, I explore the shift from the WTO to the TPP, first discussing why the WTO has not functioned recently and then what implications China's absence from the TPP has on the political economy of international trade in the Asia-Pacific.

### **Why the WTO Does Not Function**

Ironically, the international economic scene has been dominated by explicit conflict in multilateral trade negotiations, while globalization has deepened and trade between developed and developing countries has increased. The Doha Round was suspended at the WTO meeting in Geneva in 2006, and an increasingly protectionist stance by the United States was illustrated by the lapse of fast track authority in 2007 (Altman 2009; Blustein 2009; Scheve and Slaughter

2007; Schwab 2011). On the one hand, the current tensions have occurred as a result of the decline of U.S. economic dominance, which has weakened U.S. commitment to free trade and lessened U.S. ability to influence bargaining outcomes. On the other hand, the current tensions might be a result of past successes of the WTO (and General Agreement on Tariffs and Trade) negotiations, which means that widening and deepening of the WTO membership and negotiations have raised more contentious issues and hence brought countries with more heterogeneous interests to the table. In this section, I argue that we should take into consideration domestic politics, especially American domestic politics, to understand the current tensions in the multilateral trade negotiations, and explore the implications of the shift from the WTO to the TPP.

#### *Decline of U.S. Economic Dominance*

The breakdown of the talks of the WTO Doha Round in Geneva and the more protectionist stance of the United States might be due to declining U.S. economic dominance. When the world has a powerful state, it will tend to emphasize free trade as its strong and competitive economy benefits from free trade. However, when a country starts to decline from its superpower position, it will attempt to protect its declining markets and producers by implementing trade barriers. Thus, the U.S. might be following this pattern of declining power and hence leaning more towards protectionism as it looks primarily to its own domestic interests.

Krasner argues that the historical pattern of free trade and protectionism can be explained by the power politics theory where “the structure of international trade is determined by the interests and power of states acting to maximize national goals” (1976, 317). Krasner’s argument has two steps, the first of which establishes how four state interests (aggregate income,

social stability, political power, and economic growth) relate to openness. He states that openness increases aggregate income, decreases social stability, enhances political power, and, generally, increases economic growth if a technological edge is maintained over other states in the international economic system. In the second step, particular distribution of power leads to a certain structure of the international trading system. As a result, a hegemonic distribution of potential economic power is likely to result in an open trading structure, because “such a structure increases its aggregate national income,...increases its rate of growth during its ascendancy,...increases its political power,...and the social instability resulting from exposure to the international system is mitigated by the hegemonic power’s relatively low level of involvement in the international economy and the mobility of its factors” (Krasner 1976, 322). This argument might explain the contrast between nineteenth century liberalization with British hegemonic power and early twentieth century protectionism with British declining power. However, it does not explain the acceleration of trade liberalization since the 1970s when U.S. economic dominance declined (Keohane 1984; Milner 1988a).

Milner (1988b, 351) argues that protectionism did not arise in the 1970s and 1980s—as it did in the 1920s—despite serious economic distress and instability, as well as declining power of the hegemonic state in the world economy, because of increasing economic interdependence since World War II. She contends that “by altering domestic actors’ preferences, aspects of America’s greater integration into the international economy worked against recourse to protectionism...and [specifically] firms with greater international ties in the form of exports, multinationality, and global intrafirm trade [were] less interested in protection than firms that [were] more domestically oriented” (Milner 1988b, 360–1). Moreover, she asserts that “international ties conditioned firms’ preferences, and divergences in these ties within the

industry created important political divisions over trade...[helping] to dampen pressures for protectionism” (Milner 1988b, 375).

Thus, the main point of contention between Krasner (1976) and Milner (1988b) is the reason for inconsistencies in what happened in the 1920s and 1970s–80s when a hegemonic economic power declined. Krasner claims that catalytic external events, such as war or drought, are necessary to align policy initiatives with state interests. On the other hand, while Milner cannot provide a definitive account for why the 1920s was different from the latter era (although she suggests explanations such as a hegemonic lag and differences in monetary systems), she argues that increased economic interdependence accounts for why free trade did not shrink but expanded in the 1970s and 1980s. However, this difference in their arguments does not rule out the compatibility of the two theories, but both arguments can simply be seen as separate sides of the same coin (i.e., international and domestic aspects). The key to the reconciliation of these two arguments is the domestic politics of a declining hegemonic state. As Krasner argues, leadership by a powerful state is necessary to promote free trade in the world economy. Then what would give the leader of the powerful state the motive to lead international negotiations in the direction of free trade? Milner’s argument tells us that the industries that benefit from free trade gave the American government a strong incentive to lead the world to trade liberalization. Thus, the domestic politics of a powerful state is a key factor to explain the pattern of the rise and decline of free trade in the world economy.

### *Widening and Deepening of the WTO*

On the issue of why the WTO has not functioned in the last decade, it might be because widening and deepening of the WTO has raised more contentious issues and brought member

countries with more heterogeneous interests to the table. First, as demonstrated by the collective action problem, as an organization becomes larger, it will be more difficult to come to united decisions by that organization. Because the WTO has now expanded to approximately 160 members, reaching consensus among these members is very hard to achieve. Moreover, this problem is compounded by the diverse interests of the members, especially by the increase in the membership of developing countries. Consequently, the large size and varying interests of the WTO make it arduous to reach consensus and make a deal, and hence negotiations stall.

Since the failure of the protectionist import substitution industrialization (ISI) policy—focusing on producing goods for domestic markets and protecting domestic industries from trade—to deliver sustained development became evident, the developing world started turning to global markets in the 1980s. The economies that had adopted the ISI policy failed to achieve sustained development, because domestic markets were too small, protectionism led to inefficiency and corruption, and their need to import technology led to trade deficits and debt problems (Haggard 1990). By contrast, the East Asian economies (such as South Korea, Taiwan, Hong Kong, and Singapore in the 1960s and 1970s; later Thailand, Malaysia, and Indonesia; and most recently China and Vietnam), which had not taken the ISI policy but had adopted the export-led industrialization (ELI) policy—focusing on promoting exports while protecting domestic markets—have achieved an impressive record of sustained high-speed economic growth (Amsden 1989; Bresnan 1994; Chang 2007; Gold 1986; Naughton 2007; Vogel 1991; Wade 1990). Moreover, facing the debt crises from developing countries—especially from the ones that adopted the ISI policy—creditors such as the United States and international organizations (i.e., the International Monetary Fund [IMF] and the World Bank) have demanded developing countries impose the so-called “Washington Consensus,” which consists of

liberalizing trade, opening up to foreign direct investment, and stabilizing exchange rates by fiscal discipline measures (reducing spending and subsidies) (Kapur 1998). Because of the demonstration effect of successful examples of the ELI policy and the pressure to liberalize trade by the Washington Consensus, developing countries have increasingly entered global trade and started participating in multilateral trade negotiations in the WTO.

One can easily make an argument that trade can promote development. For example, Friedman states that “more open and competitive markets are the only sustainable vehicle for growing a nation out of poverty” (2005, 314). Increased investment and lower trade barriers would lead to jobs—often at higher pay than otherwise available—access to technology, and increased manufacturing exports. Moreover, large flows of capital would make up for capital scarcities in poor countries and fund infrastructure and other development programs. However, Friedman suggests that there are crucial steps that the developing countries “need to undertake in order to create the right environment for their companies and entrepreneurs to thrive in a flat world” (2005, 312). After opening the country to foreign trade and investment as the first step, in the second step, which Friedman (2005, 317–25) calls the step of “glocalization,” developing nations must continue to adapt infrastructure, regulatory institutions, education, and culture to the new economic environment, so that newly formed public and political support for reform can overcome vested economic and political interests.

Although Friedman does not specifically state what conditions would enable glocalization to happen, without the adaptation step people might fear vulnerabilities to global markets as they feel powerless before multinational corporations, international institutions, and the possibility of economic crises. Indeed, Stiglitz and Charlton contend that “we now have an international trade regime which, in many ways, is disadvantageous to the developing countries”

(2005, 13). Dependence on multinational corporations that could easily move (or threaten to move) might create fears of a “race to the bottom” in wages, labor standards, and tax rates. Moreover, large flows of capital might flee quickly and cause currency crises, and the Washington Consensus would impose reforms that might cause domestic hardship although it would provide development assistance (by the World Bank) and help resolve currency crises and resulting debt crises (by the IMF). Stiglitz and Charlton argue that although trade liberalization should be pursued by all nations as it fosters growth, efficiency, and economic welfare, “the underlying assumptions which yield that conclusion [of the Washington Consensus] are highly restrictive, and often fail to capture relevant features of developing countries’ economies” (2005, 25).

Stiglitz and Charlton criticize that developed nations are currently doing little to help out the economic growth of the developing nations, stating that “they have negotiated the reduction of tariffs and the elimination of subsidies for the goods in which they have a comparative advantage, but are more reluctant to open up their own markets and to eliminate their own subsidies in other areas where the developing countries have an advantage” (2005, 12–3). This in turn has led to a stall in negotiations in the Doha Round of the WTO, as the developing nations are banding together to demand change in this pattern (*The Economist* 2006). If wealthy nations alter their behavior more favorably toward the poor nations, then the developing countries may in turn be able to start implementing the steps suggested by Friedman, which would make them more competitive on the international market and hence allow them to grow out of their poverty by making the developing countries’ governments committed to market-oriented reforms. Then why has the United States been unable to lead the free trade policy that would also benefit developing countries? In the next part, I show that American domestic

politics has made it more difficult for the American government to be committed to promoting free trade.

### *American Domestic Politics*

Globalization has caused numerous developing countries around the world to experience increasing amounts of economic growth, which has allowed these countries to have greater impact on the world economy and politics of international trade negotiations (Spence 2011, 28–9). The rise of anti-globalization interest groups has put governments of developed countries at odds with governments of developing countries, especially over protected import-competing industries and agriculture, labor standards, and environmental standards. At the same time, governments of developing countries demand access to markets of developed countries and denounce environmental and labor standards proposed and set by developed countries as back-door protectionism. On the other hand, in developed countries, various interest groups pressure their governments to protect the domestic markets and subsidize domestic industries, and environmental groups and labor unions demand their governments introduce environmental and labor standards, respectively, in international trade negotiations at the WTO. As a result, the governments of developed countries tend to take hard-line, uncompromising stances in trade negotiations in an effort to respond to their domestic demands.

Although many developing countries have experienced economic success under globalization, the United States has experienced adverse effects. The job market in the U.S. has declined dramatically throughout the years due to new labor-saving technologies, which have negatively affected the U.S. middle class. The U.S. economy has slowly shifted away from the tradable sector, and the labor-intensive jobs have moved from the U.S. toward developing

countries (Spence 2011, 30–3). In short, globalization benefits the upper class but causes a decline in the middle to lower classes, especially unskilled workers, in the U.S. and other developed countries.

Scheve and Slaughter argue that the rise of protectionism in the United States has not been due to “narrow industry concerns or a failure to explain globalization’s benefits or the war on terrorism,” but is caused by the fact that the American public is becoming more protectionist itself because “incomes for most workers have stagnated or, in many cases, fallen” over the past few years (2007, 34–5). They state that the economic gains from globalization are so large that “the time has come for a New Deal for globalization—one that links trade and investment liberalization to a significant income redistribution that serves to share globalization’s gains more widely” (Scheve and Slaughter 2007, 44). They argue that such a reform is essential because the benefits of integration into the world market have been unevenly distributed, and consequently because a majority of the citizens of the U.S. do not benefit directly from globalization, they are not inclined to support it. Thus, they insist that policies like a more progressive federal tax system are needed, so that more American workers could enjoy and realize the gains from globalization, and thus would be more willing to support free trade.

The argument that income redistribution would solve the problem of lack of support for free trade is economically convincing but politically challenging. Economically, trade protectionism is a less efficient way to protect jobs, as economic theorems prove that the cost of protecting one job by trade protectionism is much higher than the case of guaranteeing the same wage to the workers that have lost jobs due to trade liberalization (Hufbauer and Elliot 1994). However, politically, it would be very difficult to pass any income-redistribution based reform bill in the United States Congress (Krugman 2004). Thus, as in the case of universal health care,

it is not a long stretch to state that the policy bill that might enhance support for free trade by income redistribution might be met with just as much or more resistance from the conservative base and be so distorted in Congress that it could not serve its original purpose. Therefore, we need a more feasible and plausible solution for this problem, and in the next section I relate it to the implications of the debates regarding the TPP.

### **From the WTO to the TPP**

How does China's rise and the WTO's malfunctioning relate to the roles and significance of the TPP? What implications does the TPP have on current international political economy in the globalized world where developing countries have become major players in global trade? Does the TPP have any advantage to solve the problem of domestic political players—such as Congress—hindering the United States from promoting free trade in international negotiations? On the one hand, the TPP might be considered a tool for the U.S. to contain China by creating an alliance to balance against rising China, and that is why China is not a negotiating member of the TPP. On the other hand, the TPP is based on the goal of spreading economic interdependence in the Asia-Pacific region, and China might be a negotiating member when the TPP increases its membership. In this section, I argue that the major implication of the TPP is that it might become a feasible and plausible solution for the protectionist tendency of American domestic politics, as well as benefit the U.S. economy through more sustainable growth based on free trade. The TPP is especially important under the current condition that the U.S. economy is integrated into other economies in the Asia-Pacific region, and that the regional integration connects entrepreneurship both in the U.S. and the East Asian countries including China.

### *The Containment Approach and the TPP*

In a sense, the United States' efforts for the TPP are based on the fear that China's rise might lead to strains on U.S. alliances. States are never secure until they completely dominate the system, so they have to maximize power relative to others, and that 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 (Mearsheimer 2001). From this viewpoint, China's rise would be a typical result of the situation where other states make efforts to balance the U.S. through increases in their own power and in anti-American coalitions (Jervis 2003). Thus, this fear would give the U.S. a strong incentive to prevent other states' balancing efforts by ensuring a preponderance of U.S. power over potential rivals—such as China—both singly and in combination (Krauthammer 2003). From this perspective, the TPP would be the tool to secure the United States' alliances and ensure a preponderance of U.S. power over China, and the U.S. should lead the TPP to maximize U.S. power relative to China, and find the TPP (excluding China) to be a better place to exercise its strong leadership in trade negotiations than the WTO (including China).

This perspective is easily tied to neo-conservative belief in the universality of American values and interests (Krauthammer 2003). Thus it argues that while free trade under WTO membership might promote democratization in China, the United States should spread democracy by ensuring a preponderance of U.S. power without using international institutions. This argument is based on the neo-conservative belief that spreading American values of and interests from democracy and free trade should benefit any nation in the world. Therefore, it argues that American decline has occurred when the world power structure is more multipolar and the U.S. cannot exercise its leadership to impose its values and interests on other nations in

the world. In terms of policy implications, the biggest problem of this perspective is its self-fulfilling nature. Just as the containment approach toward China has a self-fulfilling element, so this view would lead to the necessity for the U.S. to ensure a preponderance of U.S. power over China and other potential rivals both singly and by alliances. Once the U.S. shows no interest in accommodating the interests of other states or in cooperating with the nations that do not share what neo-conservatives believe are universal values, the only way for the U.S. to be influential and powerful in the world would be by projecting its military power. And once the U.S. relies on military power to pursue its interests in world politics, it would have to focus on relative power, and China's rise would by definition be the biggest obstacle to maximize its relative power.

In short, this perspective, along with the containment approach to China, implies that the United States should use the TPP to reduce China's influence in the Asia-Pacific and the world. If the TPP promotes China's economic development, the U.S. should not invite China to the negotiation. Instead, to their view, the U.S. should use the TPP as a vehicle to form an anti-China coalition. By not including China in the negotiation, the TPP would be less problematic for many members of the U.S. Congress, who are concerned with unskilled workers competing with China's cheap labor.

### *The Engagement Approach and the TPP*

By contrast, international institutions might mitigate the effects of anarchy and promoting economic interdependence and trust, which could decrease conflict among states and hence weaken the role of military power and the insecurity it breeds (Axelrod and Keohane 1985; Keohane 1984; McDonald 2009; Risse 2002). As a result, the scope for positive-sum, mutually

beneficial cooperation would be much more expansive than unilateralists would admit (Gelb 2010; Voeten 2005). From this viewpoint, China's rise would increase common interests between China and the United States by increasing the importance of trade and by increasing the integration of national economies into the global market for both countries (Ikenberry 2003, 2011). Thus, the U.S. should include China in the U.S.-led global market system and in U.S.-led international economic institutions, such as the TPP.

From this perspective, the TPP would be the tool to get China involved in the global market system and, most importantly, to give China an incentive to follow internationally accepted norms and rules. Christensen (2011) suggests that China has been "abrasive" and has caused friction in international relations since 2008, while it had been "assertive" with confidence in its presence in international society before 2008. He argues that although the world would like to have the assertive China that cooperates with other countries to solve global problems as a responsible state, in reality the abrasive China that has caused various conflicts with the U.S. and other foreign countries has been rising, and this is because the Chinese leadership has found it increasingly difficult to deal with its domestic problems. As a result, China has become a "revisionist power" that challenges the status quo power balance in world politics. The nationalist tone seen in the recent emphasis by President Xi Jinping on the "great restoration of the Chinese nation" has exacerbated unease about the negative impacts of China's rise. Moreover, the challenges that the Chinese leadership has faced, such as rural uprisings, workers' strikes, and ethnic conflicts, seem to have enhanced the concern with the fragility of one-party rule (Pei 2006; Shirk 2007).

How should the United States accommodate China's interests and fears by advancing the TPP and by including China in the TPP in the future? How would China have an incentive to be

an internationally responsible stakeholder and to play active roles to lead free trade in the Asia-Pacific and eventually in the world? The multilateral approach through an international institution like the TPP might superficially restrain the U.S. leadership in negotiations on various issues of international political economy; however, it would eventually make it easier for the U.S. to achieve a more peaceful world environment, trade, and democracy, because the U.S. would find it easier to acquire valuable international support, which would give the U.S. legitimacy and burden-sharing (Ikenberry 2003, 2011). Moreover, economic interdependence would create a demand for a more liberal regime in the Chinese domestic sphere, which would provide credible limits on the state's power over individual citizens (Doyle 1986; Schumpeter [1919] 1955). Theoretically, under a liberal regime, citizens are equal before the law and possess fundamental rights as individuals (e.g., freedom of speech, religion, association, and press) and there is minimal state intrusion in the economic sphere (e.g., protections for private property) (Doyle 1986; Kant [1795] 1983, 111–8).

In sum, China's rise and further involvement in the global market might create the following virtuous cycle: economic interdependence would give China a stake in being a member of the international institutions that govern international trade and build a prosperous middle class that might promote democratization; international institutions would facilitate cooperation and further interdependence; and following the rules and norms through the membership of international institutions might give China an incentive to advance rule of law in the domestic sphere. Thus, this theoretical perspective implies that the United States should advance the negotiations for the TPP and whether the U.S. should include China in the TPP negotiations in the near future.

*Persuading American Domestic Politics and the TPP*

As I discussed in the previous section, during globalization the United States has been more protectionist, because unskilled workers are harmed by increasing trade with developing countries, and politicians—especially in Congress—have responded to their demands. Unskilled workers fear the loss of jobs overseas by outsourcing of manufacturing processes and competition through trade with developing countries. Even unskilled workers in the industries that benefit from trade with developing countries (such as workers in the shipping industry and the automobile industry, and those working in ports) have opposed free trade and globalization, because they fear downward wage pressure by the competition with unskilled workers who lost jobs in import-competing industries. In sum, unskilled workers in the U.S. fear the “race to the bottom” in labor standards (Muller 2013; Scheve and Slaughter 2007; Spence 2011).

Although unskilled American workers fear competition with those in developing countries, unskilled workers in developing countries do not fully benefit from globalization and trade with developed countries. Ross and Chan argue that more jobs due to trade with developed countries do not lead to higher wages or better labor standards for unskilled workers in developing countries because “the absence of a mechanism establishing international labor standards is propelling the economies of the South in a race to the bottom in wages and labor conditions” (2002, 8). Although the “social clause” suggested in the Doha Round of the WTO would correct this problem, it is facing staunch opposition from governments of the developing countries, in particular because they want to “lower their own labor standards to remain competitive and provide a ‘good’ investment climate” (Ross and Chan 2002, 9). Ross and Chan suggest that in developing countries where labor unions do not necessarily consider workers’ interests but primarily focus on the government’s preferences, employers (capitalists) do not

have an incentive to distribute their profits—benefits from trade with developed countries—to their unskilled workers. Therefore, they conclude that without externally imposed regulations, such as those suggested by the social clause in the WTO negotiations, workers in developing countries do not share in the benefits of globalization and increasing trade with developed countries (Ross and Chan 2002, 10–12).

Chan (1993) shows that although the role of Chinese state-sponsored labor unions—called “trade unions” (*gonghui*)—expanded during the first decade of the post-Mao reform, their influence fell far short of labor unions in other countries, especially in democratic countries. Chang (2008) vividly reports various cases where unskilled migrant workers in Chinese factories are forced to work incredibly long hours for almost nothing under factory managers who are only interested in making a profit. Because of the poor implementation of labor standards and regulations by the Chinese government, managers of the factories are allowed to reap most of the benefits for themselves. Therefore, arguably, the only way to improve labor conditions in developing countries is through a mechanism like the externally imposed improvement of labor standards such as the social clause in the WTO that would force labor standards to be established and regulated in countries like China, because capitalists will continue to provide workers with as little as possible as long as they are legally able to do so.

Whereas the Doha Round of the WTO negotiations has stagnated, the TPP might help the United States to bring back the issue of labor standards in developing countries to the negotiation table. Labor unions in the U.S. have pushed for these standards while governments in developing countries fear that they would be a tool of back-door protectionism. The WTO members—including developing countries—agreed that they would not discuss labor standards in the Doha Round, and it was the condition to start the new round for developing countries.

Unlike the WTO negotiations, the TPP negotiations widely discuss trade-related domestic regulations of the market economy of the negotiating members. Now that the Doha Round has stalled because of the weak leadership of the U.S. due to the domestic opposition brought by the labor unions of unskilled workers, the U.S. needs to find some way to pressure China and other developing countries to improve their labor conditions, and the TPP will be a good place to discuss this issue with China if China participates in the TPP negotiations.

Moreover, currently one of the major concerns of the United States over the Chinese economy is the rise of state capitalism, referred to as “the state advance and the private retreat” (*guo jin min tui*) (Huang 2008). As part of the cooptation strategy of China’s authoritarian regime, since the 1990s the Chinese government encouraged former officials and former state-owned enterprise managers to become nominally private entrepreneurs (Chen and Dickson 2010; Dickson 2003; Wright 2010). These state capitalists are often 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 (Chen and Dickson 2010; Dickson 2008; Wright 2010). However, the rise of state capitalists in the Chinese market economy has discouraged the Chinese leadership from being committed to the rule of law in its market economy. In this sense, including China in TPP negotiations in the near future will also benefit the U.S., as it will help China shift from state capitalism to the rule-based market economy, or at least it will help the world to figure out how seriously the Chinese leadership is committed to the real market-oriented reform vis-à-vis protecting the vested interests based on the state-owned enterprise system.

## **Conclusion**

In this paper, I have explored what implications China's rise and globalization—which is defined as increasing trade between developed countries and developing countries—have on American roles in the world political economy, the functions and malfunctions of the WTO, and the possible functions of the TPP. I argue that we should take into consideration how American domestic politics is influenced by China's rise and globalization and how it forms the new international political economy that defines the American roles in the world, the decline of the WTO, and the emergence of the TPP. Although China's active involvement in the global economy and increasing trade with developing countries have a positive impact on the American economy as a whole, unskilled workers in the United States are harmed. Now that the WTO negotiations have stagnated and the TPP negotiations have commenced, the U.S. needs to use the TPP negotiations not only to achieve growth in the U.S. economy but also to persuade the players in American domestic politics that demand protectionism (i.e., Congress, labor unions, and public opinion) to support the U.S. commitment to trade liberalization in the Asia-Pacific.

China became a member of the WTO in 2001, but it did not become a responsible stakeholder to the satisfaction of the developed countries. Would inviting China into the TPP succeed in making China a responsible stakeholder this time? Discussing labor standards with China in the TPP, when such discussions in the WTO failed, might be unrealistic, given that even the United States has now hesitated to bring such an issue to the TPP agenda because it could expect China to stall anyway. The key is that the TPP negotiation aims to establish rules that go beyond the WTO rules. Thus, the issues that the TPP negotiation discusses include foreign investment, government procurement, intellectual property rights, domestic industrial policy, environmental protection, and labor standards, while the TPP would take over all WTO

rules (Ishikawa 2012; Umada 2013). By linking labor standards to other issues, the political leadership of the United States and other developed countries might be able to realign domestic pro-free trade interest groups to overcome protectionist forces.

Finally, the TPP has competed with multiple other FTA frameworks, such as China-Japan-Korea FTA, Regional Comprehensive Economic Partnership in East Asia (RCEP), and Free Trade Area of the Asia-Pacific (FTAAP). These initiatives are not mutually exclusive with each other and with the TPP, but the advancement of TPP negotiations brings catalytic effects to the expansion of free trade under these other FTA frameworks (Ishikawa 2013; Nakajima 2012). The FTAAP is the largest framework as it would include all 21 members of the Asia-Pacific Economic Cooperation (APEC) as its participants, and the 12 participants in the current TPP negotiation are a subset of the APEC members. Economic integration of the production chains among the APEC members have deepened in the last two decades thanks to growing entrepreneurship in each member economy. Thus, the ultimate goal to promote prosperity based on free trade in the Asia-Pacific is to conclude the FTAAP. However, the FTAAP is too big to establish rules through negotiations. Therefore, the TPP is an important step to further promote free trade and economic growth in the Asia-Pacific region while entrepreneurship has increasingly deepened economic integration in the region.

In the Pacific Rim, a new international division of labor has been created thanks to active entrepreneurs in the region. Thus, it has provided the basis of public support for establishing a novel international economic order like the TPP. The progress of TPP negotiation will accelerate and upgrade negotiations of other FTAs, such as China-Japan-Korea FTA, RCEP, and FTAAP. Just as entrepreneurship in East Asia has formed the basis of public support for the TPP

and other FTAs, the solid commitment of the United States to the TPP has been the key for the positive chain reaction for free trade in the Asia-Pacific.

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