

**IS THE LIBERAL INTERNATIONAL ORDER DEAD?
GLOBAL VALUE CHAINS AND THE CPTPP**

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Introduction

Is the liberal international order dead? In John Ikenberry's *Liberal Leviathan*, published in 2011 in the wake of the George W. Bush administration's Iraq War, the idea that there would be a breakdown of the liberal international order seemed far-fetched, especially since the United States had the most to gain as its leader.¹ However, since the election of President Donald Trump, the breakdown has become a much more likely scenario. Now on top of the Trump administration's America First policies, the coronavirus outbreak is bringing more damage to the global economy than did either the 2008 global financial crisis or the terrorist attacks of September 11, 2001. The upheaval from the virus makes the world less open, empowers nationalism and xenophobia, and further threatens the liberal international order. Will the pandemic be the final straw that breaks the camel's back? The global value chains (GVCs), which locate different stages of production in different parts of the world, have ceased to function because of closed borders amid the pandemic. After the virus is controlled, the global economy will have to start over and reinvest in building GVCs.

When multinational corporations locate different stages of production in different countries and hence GVCs-based trade proliferates, there is more international co-operation and regional security is enhanced. GVCs are crucial for maintaining the liberal international order because the international and domestic institutions associated with GVCs-based trade inspire peace. The Asia Pacific region is a good example of this: over the last three decades, GVCs have brought a new international division of labour between developed and developing countries, between democratic and authoritarian countries, and between more powerful and less powerful countries.² The security relationships in the Asia Pacific are indeed marked by increased international co-operation because each country is motivated to engage in institution building in both international and domestic politics. Therefore, the Asia Pacific nations, such as Australia, Canada, Japan, and Mexico, should work with each other to save the liberal international order from not only China but also from the United States—if Trump is re-elected in the 2020 presidential election.

Global Value Chains and Institution Building

In the international sphere, the countries in the Asia Pacific region have a strong incentive to establish internationally adopted rules by concluding free trade agreements (FTAs) to manage GVCs-based trade. The spread of GVCs has changed the politics of rule-making in international trade negotiations. Until the Uruguay Round—the last round under the General Agreement of Tariffs and Trade (GATT), which concluded in 1994 and upgraded the GATT into the World Trade Organization (WTO)—trade negotiations mainly discussed lowering tariffs and other trade barriers imposed at the national borders. Lowering tariffs would be sufficient to manage *inter*-industry trade, in which countries trade raw materials and final goods under the international division of labour among different industries. However, building complicated and comprehensive rules is necessary to manage *intra*-industry trade, in which states trade components, intermediate

goods, and parts within the *same* industry under the international division of labour among different production stages. As more international economic interactions have become GVCs-based trade, the focus on trade negotiations has shifted from national border measures into domestic regulations. Countries need to agree on the *international* rules stipulating *domestic* regulations such as rules of origin, customs administration, foreign direct investment, state-owned enterprises (SOEs) and government procurement, intellectual property rights, labour and environmental conditions, regulatory coherence, anti-corruption measures, and dispute settlement, to name a few. The complicated and comprehensive nature of these types of international rules promotes international co-operation by elevating the credibility of countries and by creating economic interdependence tied to the countries' commitments to the rules.

Meanwhile, the rule-making of GVCs-based trade has important implications on each country's domestic politics because it stipulates rules over domestic regulations. The FTAs to manage GVCs-based trade require the signatories to be committed to politically sensitive domestic economic reforms—such as SOE reform in China. If a country is involved in the global economy and benefits from GVCs-based trade, as many of the Asia Pacific countries do, then its government would have a strong incentive to use the FTAs as a *gaiatsu* (literally meaning “foreign pressure”) to advance the domestic economic reforms needed for the country to continue to benefit from GVCs-based trade. Moreover, to sustain economic growth, the country must maintain good relations with trading partners. Thus, the reformists who want to advance domestic economic reforms support co-operative foreign policy. In the meantime, domestic economic reforms undermine the collusive and corrupt rent-seeking scheme—such as the vested interests based on the SOE system in China. Therefore, the reformists face backlash from the anti-reformists who benefit from the rent-seeking scheme. GVCs-based trade empowers the reformists vis-à-vis the anti-reformists in the balance of power of each country's domestic politics, and hence makes the country's behaviour more co-operative because the reformists promote co-operative foreign policy.

Security Implications of the Trans-Pacific Partnership

This argument has particularly important implications for policy debates over the Trans-Pacific Partnership (TPP), which was originally a U.S.-backed trade agreement but is now led by Australia, Canada, Japan, and Mexico. Interestingly, then U.S. Defense Secretary Ashton Carter once stated that “passing TPP is as important to me as another aircraft carrier.”³ The fact that the defense secretary, in charge of U.S. security, declared the importance of an FTA suggests that the TPP had strategic security implications for the United States. Moreover, when the international negotiation of the TPP was concluded in October 2015, U.S. President Barack Obama said that “we can't let countries like China write the rules of the global economy.”⁴ Both Carter and Obama showed concern that if the TPP failed to take effect the United States would miss the opportunity to form the basis of the liberal international order to manage GVCs-based trade. And now that the Trump administration has withdrawn the United States from the TPP, the United

States has indeed missed the opportunity to lead the international rule-making of trade and to play a leadership role in forming the liberal international order.

The TPP was expected to play an important rule-making role to further develop GVCs-based trade in the Asia Pacific region. Although the U.S. withdrawal prevented the TPP from taking effect immediately, its agreed rules have become an important model for any incoming FTAs. That is why Japan took the initiative to conclude a new agreement with the other 10 states, now named the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which is almost the same set of rules agreed upon by the original 12 signatories, but not requiring U.S. participation. Moreover, Japan and the European Union referred to the TPP's agreed rules to craft the Japan-EU Economic Partnership Agreement—which was concluded in July 2017—and the TPP's agreed rules were used as a benchmark in the renegotiation of the North American Free Trade Agreement (NAFTA) among Canada, Mexico, and the United States. As a result, most of the agreed rules for the new NAFTA—called the United States-Mexico-Canada Agreement—are similar to those of the TPP, despite Trump's vehement opposition to the TPP.

The CPTPP's issue areas include national treatment and market access for goods (chapter 2), rules of origin (chapter 3), customs administration (chapter 5), foreign investment (chapter 9), electronic commerce (chapter 14), government procurement (chapter 15), competitive policy (chapter 16), SOEs and designated monopolies (chapter 17), intellectual property (chapter 18), labour conditions (chapter 19), environmental conditions (chapter 20), regulatory coherence (chapter 25), transparency and anti-corruption (chapter 26), and dispute settlement (chapter 28), which are all crucial for GVCs-based trade. The CPTPP's potential impact on domestic politics is even more important. Unlike many of the existing FTAs or WTO rules, the CPTPP requires the participating countries to be committed to domestic economic reforms. Government leadership is often divided between reformist internationalists and anti-reformist nationalists. The FTA that requires commitment to domestic economic reforms would empower reformists who favour international co-operation in domestic politics and make that country's behaviour more co-operative in international relations. Skeptics of the CPTPP have often overlooked the new trend of international trade in the Asia Pacific region. They assume that the mainstream of international trade is still inter-industry, and argue that the tariffs are already low, making the CPTPP unnecessary. However, in reality, the CPTPP is necessary economically to promote GVCs-based intra-industry trade, and it is necessary politically to strengthen regional security by empowering reformist internationalists vis-à-vis anti-reformist nationalists.

Conclusion: CPTPP and the Liberal International Order

The damage of the coronavirus pandemic on the global economy will be huge. The global economy creates wealth by the mobility of three factors: goods, money, and people. During the 2008 global financial crisis, the mobility of money stopped but goods and people still moved globally. However, the pandemic has stopped the mobility of people, which in turn has also

stopped the mobility of goods and money. Unlike in the past, we have lost the mobility of all three factors, which means that we have lost the main mechanisms that create wealth.

The virus halting wealth creation will threaten all the economies connected with GVCs-based trade, including the Chinese economy. The argument in this paper implies that to save the liberal international order the CPTPP should be open to China's participation in the future. The Chinese economy had already slowed down *before* the coronavirus outbreak, as the SOE reform has stalled under the Xi Jinping administration. Overall, the productivity of SOEs is lower than that of private firms, but Xi seems to give a priority to political control over economic efficiency. The SOE reform would undermine the vested interests such as the revolving door built between the Chinese Communist Party and SOEs. The option to opt into the CPTPP would give the reformist internationalists sway over the anti-reformist nationalists, pushing the Chinese government to commit to the SOE reform. And perhaps most important to note is that the effect of empowering the reformist internationalists would occur even if China is not an immediate signatory of the CPTPP. If China implements the SOE reform, the CPTPP including China would further deepen economic interdependence, which would contribute to regional security. If China does not implement the SOE reform, the CPTPP would give its signatories an advantage to benefit from GVCs-based trade and help them confront China's challenge to the current rules-based liberal international order. While the CPTPP would serve this purpose, the Chinese-led Regional Comprehensive Economic Partnership trade agreement would not.

Over the last two decades, China has become an economic powerhouse in the international arena through its involvement with GVCs-based trade. Recently, China has shown its intention to take over the leading role in the international economic arena, replacing the United States, which has played the role since the end of World War II. For example, Xi gave a clear statement opposing protectionism in the 2017 World Economic Forum in Davos. However, for China to lead the global economy, its government must commit to the SOE reform and Xi must face the backlash from anti-reformist nationalists, which would mean a reversal of his priorities as stated above. With the United States and China both turning to nationalism, Japan—the third-largest economy following the United States and China—must lead the charge to maintain the liberal international order, with co-operation from other CPTPP members of middle power, such as Australia, Canada, and Mexico.

Notes

¹ G. John Ikenberry, *Liberal Leviathan: The Origins, Crisis, and Transformation of the American World Order* (Princeton, NJ: Princeton University Press, 2011): 310–31.

² Richard Baldwin, *The Great Convergence: Information Technology and the New Globalization* (Cambridge, MA: Belknap Press of Harvard University Press, 2016).

³ Helene Cooper, “U.S. Defense Secretary Supports Trade Deal with Asia,” *New York Times* (April 6, 2015), <https://www.nytimes.com/2015/04/07/us/politics/defense-secretary-supports-trade-deal-with-asia.html>.

⁴ The White House Office of the Press Secretary, “Statement by the President on the Trans-Pacific Partnership” (October 5, 2015), <https://obamawhitehouse.archives.gov/the-press-office/2015/10/05/statement-president-trans-pacific-partnership>.