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## **THE GEOSTRATEGICAL CHALLENGES OF THE TRANS-PACIFIC PARTNERSHIP**

### **Abstract:**

The Trans Pacific Partnership (TPP) is an economic treaty of twelve countries from Asia-Pacific region including the United States, which sees the agreement as a major implementation of its drift towards Asia. Besides the economic aspect of the agreement, the creation of a liberal association states that provides new rules for XXI century trade is also of great geostrategic importance. The TPP provides the U.S. the leverages for a regional dominance and creates the rules for development of this strategic region. The agreement could influence the geostrategic architecture of the Asia-Pacific by deepening a political and economic division between the U.S. and China, Japan and China. The TPP can lead to development of the parallel regional integration unions and further divide this area between competing economic and political projects of the U.S. and China.

### **Keywords:**

Trans-Pacific Partnership, Asia-Pacific, USA, China, Japan, geostrategy

**JEL Classification:** F53, F13, F51

## Introduction

Today world lives in the era of global economy, but at the same time, we can see a return of geopolitics. Events in Ukraine and Syria, fall of oil prices, crisis in Greece reverberate in the whole world. Moreover, we can observe that relative standing in the global economy is now one of the most important factors in the relations between major geopolitical actors. If during Cold War we could see military alliances, now we witness a formation of regional economic alliances with global reach. One such example is The Trans-Pacific Partnership (TPP) that has the potential to create a new level of coordination among 12 countries along Pacific Ocean. The accord would not only affect trade, but also aim at regional regulatory harmonization. The Partnership bloc would add political and security elements to economic interdependencies among member states.

On October 5, 2015, 12 countries washed by the Pacific Ocean, have signed the largest regional trade agreement in history. This association, known as the Trans-Pacific Partnership, will tie together states producing about 40% of world GDP.

The agreement was the product of more than 8 years of negotiations and was a reaction to the failure of the World Trade Organization agreements in Doha and Geneva. The numerous contradictions between the developed and developing economies in the WTO, had led to the crisis of the organization, it deprived the United States effective use of it to promote the interests of its producers. In this regard, Washington has reoriented with uncontested recognition of the role of the WTO in regulating the international trade, the main lawyer whom he has long been on the initiation of the two multilateral mega deals - Transatlantic Trade and Investment Partnership and the Trans-Pacific Partnership. These two initiatives, covering about half of world trade is not formally contrary to the Charter of the WTO, but in reality negate its dominant role.

History of the Trans-Pacific Partnership begins in 2005 when Brunei, Singapore, Chile and New Zealand have decided to conclude the agreement, which came into force in 2006. US joined the talks on the TTP in 2008, disillusioned with the progress of the WTO negotiations in Doha, at the time and later other countries joined the negotiations.

TTP is the biggest trade pact, which covers not only the usual issues of liberalization of trade in goods and services, but also includes such spheres as public procurement, environmental protection and intellectual property rights, combating corruption, reducing the role of government in the economy and protection of human workers.

This agreement will also be the largest trade agreement for the United States since 1994. According to Bloomberg, this agreement should eliminate about 18 thousand duties that US products were subject to different countries, and other tariffs would be significantly minimized. An item that has to be refined - is the protection of members of the TTP countries on reciprocal currency wars. While under this refers to coordination meetings on monetary policy once a year. That's hard not to notice - in the creation of a new trade pact traditionally intertwined two red thread: the economic, which is made public focus, and political,

According to the Peterson Institute for International Economics (2012), a partnership is to increase real revenues of 12 member countries by 285 billion dollars. By 2025, 64% of the total GDP growth will fall to Japan and the United States. It is also expected that the maximum growth of the economy will have in Vietnam, China, just as it is not part

of the association, will lose some opportunities in trade. Export states - members of the TTP is expected to grow by 440 billion dollars (7%).

The main economic benefits will go to Malaysia, Vietnam and Japan, which will be able to increase its exports as much as possible within the TTP. For example, about 60% of the Vietnamese textile exports now go to the participating countries of TTP, but these countries have relatively high tariff barriers. For example, in the US Vietnamese textiles are subject to 18% customs duty. Zero duty, of course, will urge the Vietnamese textile exports, but at the same time, exposing the Vietnamese market for even greater penetration, such as dairy products from New Zealand. The gains and losses will incur for every country (the American automakers are unlikely to be happy with strengthening of the competition from the Japanese), and certain industries, each country has as strong segments of the economy, and frankly weak, uncompetitive. Some weak industries that supported afloat by protectionist policies, over time, after joining TTP will be reformatted according to the structure of the economies of the participating countries. For example, it can be assumed that Japanese producers of rice will not withstand competition from Vietnam, the Vietnamese also cringe and milk production under the onslaught of New Zealand producers. In short, it is possible to predict the folding of the new division of labor within the framework of the gradual withering away of the TTP in the participating countries unviable industries. This will contribute to the growth of the interdependence of the economies of the participating partnership.

But how this organization will affect production in its participating economies? Proponents claim that the TTP will increase the industrial production in the region by nearly \$ 300 billion in the next ten years. Critics expect minimal or even no effect. The disagreement reflects the difficulty in assessing the impact of any agreement on free trade zone.

Almost all economists recognize the benefits of free trade, which have been identified at the beginning of the XIX century by classical political economist David Ricardo. Countries are much better when they focus attention on the goods that they produce well.

However, Ricardo (1821), in his analysis examined only two countries that produced two products at a time when there were almost no non-tariff barriers such as safety standards. This makes skillfully built model inapplicable for today's free-trade agreements (just like using a horse and cart is not possible to plan the flight path of the aircraft).

Instead, the majority of economists are now using a computable general equilibrium model (CGE). CGE models are based on a database reflecting the economy as a whole. In addition, they take into account such factors as income, profit, and more.

Researchers are building a chain of things in such a way that the model produces the same result as the actual data for the base year. Once reached, they are subjected to a model "shocked" by introducing trade barriers, to see the reaction to the changed situation, both now and in the long term.

The TPP agreement has a broader agenda than just trade in goods. It includes other structural elements, services and investment. Terms of the pact will create barriers to all countries who want to continue business with members of the club. Therefore, they have to adjust to these rules and to unify their trade policies.

Until 2020 an agreement may broaden to include Taiwan, Thailand, South Korea, the Philippines, in the medium term - some Latin American countries and India, which the US is increasingly seen as a promising partner in the containment of China and a giant assembly plant for US companies.

Although the text of the Agreement is still a mystery, but, according to some leaks and the Executive Summary, which was laid out in the open access, it is clear that it is not just about economics. For example, member states are obliged to adhere to the TTP certain standards in labor policy and this will oblige, say, a socialist country like Vietnam, to allow the establishment of independent trade unions. The agreement provides also a transparent procedure of public procurement, thereby reducing the role of government in the economic sphere.

In fact, it has become a regional agreement replacing the failed negotiations on a global free trade system. The global financial crisis of 2008 was the crisis of legitimacy, which has called into question the financial interdependence. Globalization of financial markets led to the fact that this segment proved to be insufficient to regulate and put at risk the national economy. At the same time, the crisis has had an impact on the geopolitical dynamics and led to political turmoil in many countries in Asia, Europe and the Middle East.

This interdependence has led to the fact that many states began to consider economic policy as a tool of foreign policy and security policy. Possibility of withdrawal of capital from emerging markets has hit hardly China and Brazil. Russian military adventures in Ukraine led to the imposition of sanctions by the leading economies of the West, which have undermined the stability of the Russian economy. The economic war of all against all, resulted in a self-organizing regional clubs, which have become a key parameter of geopolitical ties.

Trans-Pacific Partnership is such a club. The association purpose - to create rules, which will form the basis of long-term relations between the member countries. Along with economic overtones pronounced is the political and security aspect.

The agreement has long-term implications for Asia, which after the Cold War, constantly enhances the pace of interdependence with the leading countries of the world economy. China's growth has resulted in profound changes in the structure of world production and has created the concept of "Factory Asia" as it was named by The Economist magazine (2015). However, economic integration has not led to the political integration of the countries of the region, except for ASEAN. However, ASEAN also builds its policy based on economic relations and do not seek to create a supranational political decisions body. While Asia is a source of hope for the world economy in twenty-first century, a number of territorial disputes and security issues limits its development since the days of the XIX century. While some of these disputes by their nature are internal, Asia is interested to outline the general course in some seemingly intractable problems in the region, and not let them get out of control. Asia countries demonstrate democratic progress, as well as a strong interest in expanding the openness of the economy (domestic and foreign). Finally, the region widely spread desire to avoid polarization of the Chinese and American units. Instead, the Asia-Pacific region is trying to create the institutions and habits of cooperation that will allow all countries to participate in solving specific security issues as they arise.

Nevertheless, can the dissonant aspirations and interests of the United States, China and the rest of Asia agreed in the near future? Alternatively, are we dealing with the future of strategic drift, ideological conflict and irreconcilable interests?

Trans-Pacific Partnership aims to enhance trade the Pacific Rim, but in many ways it is a response to the growing economic ties between China and the countries of the region. At the same time, the main goal is to create rules that are universal, and will not allow China to dictate its terms.

In this context, a key role was played by the accession to the initiative of Japan in 2013. Tokyo, which has a territorial dispute with Beijing over islands in the East China Sea, sees China as a competitor for the leadership in East and Southeast Asia. Changes to the Constitution of Japan in 2015 expanded the powers of the forces of Japanese Self-Defense forces and are adding to the growing economic integration with the United States.

Incorporating Japan, but ignoring China, means that Washington aims to create an alliance of allies that will be associated by financial, political and security obligations.

In fact, the countries of the region face a choice in determining their priorities - a bet on growing economic ties with China, or else to rely on the United States, who in exchange for economic intensification of relations ready to provide guarantees of security.

An important factor is joining to the agreement, the two Islamic states - Malaysia and Brunei, which gives impetus to the spread of long-term agreements on the rules of "Islamic arc" from Indonesia to North Africa.

The United States are interested in less play the role of "world policeman", transferring the responsibility for the use of force to deter rivals to America's allies. This US allies, of course, will be required to provide military support, This hypothesis is demonstrated by remilitarization of Japan- one of the most important US allies in the Asia-Pacific region, but also strengthening of US-Indian, American-Vietnamese and Vietnamese-Indian friendship against China.

Therefore, instead of the "world's policeman", the United States will try to play more the role of the control center as a "trendsetter" for the rest of the world. TTP in this meaning is a trial balloon, as provides favorable conditions to the spread of the US standards and regulations on a fairly wide range of countries.

The US strategy of balancing with Beijing aims primarily not on the disparagement of China, but to improve the position of other strategic players. If the United States can help China's neighbors - Japan, India, Vietnam, Singapore, Indonesia and Australia - to realize their strategic potential and increase mutual cooperation, this will result in objective limitations for abuse of power by China in Asia.

The United States has made trade liberalization a key priority in foreign policy. Since comprehensive global liberalization still remains a distant goal, Washington is seeking to conclude a key regional trade agreements, including the Trans-Pacific Partnership and the Transatlantic Partnership on Trade and Investment, which should ensure an increase in the relative in comparison with China, growth for the United States and its allies.

China fears a negative impact on the TTP and TTIP on their promoted integration projects, including the project "One belt, one road".

Chinese exports by two-thirds provided by components from Japan and the ASEAN countries. The creation of TTP makes more profitable trading within the U.S., which will lead to a drop in trade with China, so as a result can "sag" Chinese exports. And this despite the fact that the Chinese economy is experiencing is clearly not the best of times.

Relations between the TTP and China can go two ways: China can be isolated from the TTP or included in TTP one form or another.

That is, to the TTP there are two strategies for China:

1. TTP without China. In this case, there is the risk of breaking a number of supply chains in the region, a further exodus of production from China to the countries of the TTP, strengthening the role of developing countries such as Vietnam and India, the use of TTP as a tool to contain China in the region.

2. TTP plus China. In this case, China will work with the TTP, without joining as a set of standards TTP China is unlikely to be able to take. However, this partnership will go to the benefit of participating countries, in one way or another actively trading with China now. Also cooperation formula TTP+1 will be a catalyst for socio-economic and, political reforms in China. Moreover, changes in the way in which it is beneficial to the United States.

The U.S. with intent to carry out an efficient and pragmatic policy, in their best interest not to leave China "overboard" and offer to China a formula of cooperation with the TTP.

In early October 2015, Hillary Clinton, leader of Democrats, made an unexpected criticism of TTP. In her view, the agreement does not meet the high requirements of international trade cooperation. Interestingly, in 2012, Mrs. Clinton as a secretary of state said something quite different, on the contrary, promoting this idea both in the domestic and international level. Then it sounded like "setting the gold standard for trade agreements open, free, transparent, fair trade, subject to the laws." It should also be noted that, in addition to general phrases about the discrepancy, one of the main contenders for the post of the future US president (elections will be held in November 2016), no specific claims are not put forward. The statement of Hillary Clinton had a sharp reaction in Japan. A few hours later Tokyo recalled that in fact this document was developed for more than a year, and in the process attended by all members of the Trans-Pacific Partnership countries.

Fooling China (not included in TTP) and creating a Trans-Pacific partnership, which would balance the dominant role of China - an obvious target of Japan and the US, "economic backbone" of the Washington's Asian pivot. In addition, the TTP is able to rewrite a great many rules of the global economy of the XXI century - from the data exchange between the two countries up to the competition of state enterprises in the international market.

The struggle to complete trade agreements have become yet another area of strategic competition between America and China as they struggle for regional influence. But both countries would gain from the boost to the global economy that the TPP will provide. In addition, China is free to join the TPP if it accepts its standards, which it has not ruled out. In the end, the overlapping trade pacts will merge in a broad free-trade area including both America and China—under unified rules. Failure to complete the TPP would be a serious defeat for American diplomacy and a huge challenge for Asia-Pacific security architecture.

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