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**POWER SHIFTS AND  
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### The geopolitics of the TTIP and the TPP

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## CHAPTER FIVE

# The geopolitics of the TTIP and the TPP

Ashley J. Tellis

The principal strategic challenge facing the US today is preserving its global primacy in the face of rising challengers such as China. Managing the problems posed by major rivals is nothing new for the US; since the nation's founding, Washington has confronted a series of rivals, first along its land and ocean frontiers, then within its hemisphere and in Asia, and finally in the Old World. Ever since the US emerged as a global power in the aftermath of the Civil War, Washington has assiduously pursued a grand strategy centred not merely on hemispheric control, but also on preventing the Eurasian space from being dominated by any single power, which could both deny the US access to this critical region and enable a rival to eventually challenge the US itself. For this reason, the US confronted Wilhelmine Germany, Nazi Germany, Imperial Japan and finally the Soviet Union to neutralise the threats each posed to American security and American primacy in the international system.

The possibility that China could emerge as the newest rival to the US in Asia and beyond only reinforces the importance

of keeping the Eurasian landmass free from hegemonic domination. To be sure, China is still far from being able to realise such an ambition. Beijing confronts an array of serious domestic problems that could prove hard to overcome, and China is surrounded by regional powers who display no interest in subordination. And, of course, China continuously emphasises its desire for a peaceful strategic environment, which includes a disinterest in threatening either its neighbours or the US.

Yet the likelihood of strategic rivalry between Beijing and Washington is high. Sustained economic growth rates have made China the most likely competitor capable of dominating at least the Asian segment of the Eurasian space. As China's growing power spawns expanded interests, these are likely to scrape against the existing security order, whose guarantees are founded upon American primacy. Beijing's quest to recover its pre-colonial political centrality in Asia and its determination to undo the 'century of national humiliation' only intensify the chances of antagonism. Whether Beijing intends it or not, therefore, China's growing strength will position it as a strategic adversary of the US, a prospect made even more consequential given the importance of the Indo-Pacific region as a motor for future global growth.<sup>1</sup>

Since China's continued economic expansion and military modernisation are likely to remain the most important factors disturbing the regional and global security balance, coping with the rise of Chinese power is likely to become the single most significant geopolitical challenge facing the US since its confrontation with the Soviet Union. Washington cannot afford to take lightly the risks accompanying a Chinese eclipse of its status as the premier global power and the resulting constrictions on American strategic autonomy. Since 1945, the US has used its pre-eminent power to structure a rules-based global order based on American preferences, which has enabled a

tremendous increase in the wealth and standard of living of its citizens and of individuals around the world. Because Beijing cannot be counted on to maintain this system, much less enhance it, Washington must now adopt a corrective strategy designed to attenuate the risks of China's continued rise.<sup>2</sup>

China's ascendancy is unlike previous challenges that Washington has confronted since the early twentieth century. Its distending capabilities have resulted not simply from an internal economic transformation, but rather from the United States' conscious integration of China into the international economic order. This integration, which began under President Jimmy Carter, reached its apotheosis during the presidency of Bill Clinton, when the US – despite significant internal reservations – supported China's membership of the World Trade Organisation (WTO).

This entry into the WTO in 2001 largely formalised Beijing's integration into the global market that the US had steadily nurtured and expanded in the aftermath of the Second World War, principally for the purpose of strengthening the economies of the free world to cope with the threat of global communism. This liberal trading regime, which survived the early abortion of the International Trade Organisation (ITO),<sup>3</sup> gradually grew in strength through the unexpected success of the General Agreement on Tariffs and Trade (GATT). GATT was an American-led enterprise that sought an orderly, reciprocal and multilateral reduction in tariffs, and it provided the foundations upon which a liberal international economic order, despite numerous imperfections, could gradually grow.<sup>4</sup> This multilateral trading system, centred on an asymmetrically open American economy combined with US aid to its war-torn allies in Europe and Asia, stimulated the recovery of these American partners and made them formidable power centres within a few decades. The resultant relative decline of

the US was deemed tolerable mainly because it strengthened Washington's alliance relative to the Soviet Union's, a strategy that was handsomely rewarded when the Cold War ended in the peaceful collapse of Soviet power and the recovery of freedom for its satellite states in Eastern Europe.

Flush with this latest geopolitical victory and the resurgence of the liberal vision of peace through interdependence, Washington egged on the international community to create the new WTO in 1995 as the long-sought successor to the ITO. Five years later, the Clinton administration would extend to China permanent normal trade relations, paving the way for its full accession to the WTO. This willingness to integrate China – a nation with no diplomatic relations with the US little more than two decades prior – into the open trading order was viewed as the culmination of the rapprochement with Beijing that had begun in 1971 to tighten the containment of the Soviet Union.

With Moscow's demise as a rival and the US now standing triumphant and alone, aiding China's economic growth in the aftermath of the Cold War by offering it opportunities for expanded trade seemed like a low-risk proposition. Liberals in the US viewed China's integration into the WTO system as a boost for interdependence, which in turn promised greater welfare and peace, although realists were more ambivalent. All viewed China as largely an underdeveloped state, whose integration into the global trading system offered opportunities to improve US gains from trade while providing Beijing with the chance to grow more speedily. However, few policymakers, if any, expected China to grow rapidly enough to become a plausible rival to the US for global power in the new century.

Yet precisely this contingency has now come to pass. While China is, across all dimensions of national power, far from being a genuine peer competitor of the US, there is no other state in the international system that currently possesses as many attri-

butes of a natural rival as China does. Worse, Beijing's military rivalry with the US and its Asian allies has propelled a formidable military-modernisation programme aimed at denying the US its traditional freedom of action along the Asian littorals.<sup>5</sup> The crowning irony, however, is that China has not risen to such levels of pre-eminence simply because of its vast latent capacities. Rather, it was Washington's decisions and policy choices since 1979, and including the immediate post-Cold War period, that midwived China's growth as a major economic power and as a geopolitical rival of singular danger to the US.

China's integration into the multilateral trading order and its progressive entrenchment as a manufacturing and exporting hub has now tied it to the US and its regional allies in Asia, ensuring for the first time in American history that Washington is economically trapped in a mutual-hostage relationship with its most serious rival. The intense 'global codependency'<sup>6</sup> that defines US–China ties also characterises China's relations with all of its major Asian neighbours, many of whom are treaty allies of the US. This unprecedented condition thus creates the peculiar paradox where China and all of its trading partners are bound ever more deeply through their economic gains, even as they are driven further apart by their national rivalries and Beijing's expanding military power.<sup>7</sup>

Thanks to elevated relative gains, produced by both its comparative advantages as well as its statist policies and controversial trade practices, China has experienced meteoric growth rates that have made it the world's second-largest economy and positioned it to one day possibly overtake the gross national product of the US. Such performance has also enabled China to sustain a defence budget that will rival Washington's within another decade, while already permitting it to levy serious threats on forward-based and forward-operating American forces in and near Asia.<sup>8</sup> If these trends continue,

even despite the expected slowing of the Chinese economy, a peculiar power transition is possible in the future. Because this prospect poses a serious threat to the American-led international system, Washington has little choice but to take China's rise more seriously than it ever has.

### **Responding to a rising China**

While the US has successfully confronted rivals before, it has never faced a challenge of the likes posed by China: a political antagonist committed to ending American unipolarity while remaining deeply integrated in a tight trading partnership with Washington and its allies. This competing dualism in US–China relations implies that Washington will succeed only if it pursues subtle and sophisticated approaches, rather than the conceptually simple, though practically burdensome, strategies of the past. If preventative or pre-emptive war is ruled out – as it must be – for prudential and moral reasons today, there are four possible grand strategies available to the US as it prepares to cope with China's rise.

The first grand strategy might be labelled simply, 'Leave Well Alone'. This approach would be based on the premise that China's rise is a natural phenomenon in international history. After all, China has all the attributes that make it a potential great power, and given the historic decisions made by Deng Xiaoping in regard to liberalising the Chinese economy and Bill Clinton's own choice to finally complete Beijing's integration into the international market, China's rise should be treated as the welcome and positive evolution of a country that was long divided and weakened as a result of both foreign occupation and internal fissures. China's high economic growth has already produced remarkable benefits: it has raised millions of ordinary Chinese out of poverty within a generation and China's emergence as a hub for high-quality, low-cost manu-

facturing has resulted in welfare gains for still more millions of consumers worldwide.

Even China's military modernisation in this context is a natural consequence of China's economic emergence. The historical record suggests that all major states enjoy growth in military expenditure after their economic take-off because their increased wealth creates greater assets to be protected.<sup>9</sup> This expansion in defence spending may exacerbate the security dilemmas with China's neighbours, but these tensions should be mitigated through diplomacy because increased military expenditures do not per se connote threatening expansionist policies. More to the point, all affected states should recognise that military conflicts are not worth the candle in an era of interdependence; they could threaten the growth that benefits all.

The US in particular should be proud of the fact that it has created the conditions that have permitted China's rise. It is a tribute to the US as a hegemonic power, insofar as its creation of global public goods has led to the uplift of an entire nation – in fact the entire Asia-Pacific Rim. China's growing power, accordingly, should be welcomed, not greeted with suspicion. Even though Chinese growth may provoke anxieties in the US and beyond, any overreaction should be discouraged because a growing China is unlikely to disturb the international system.

Since China has expanded principally through international integration, it is likely to uphold the rules that make for good behaviour, because its continued prosperity depends on the continuation of a well-ordered trading system. Consequently, China will subsist as a well-mannered state even if it succeeds the US as a global hegemon; and that prospect should not appear particularly unnerving – and should certainly not provoke destabilising reactions such as containment – because China's interests will demand that it accept and play by the inherited rules.

Leaving a growing China alone, therefore, is good for everybody. If anything, the international community led by the US should aim to integrate China even more tightly into all international institutions and regimes. Even if that ends up stimulating greater Chinese growth, the increased stakes that China will have in a peaceful international community will prevent it from using its increased power irresponsibly, because of the dangers of destroying the very integration that has made its success possible.

Although this liberal vision of integrating China peacefully is undoubtedly attractive, it has limitations. The chief weakness in this regard is that it presumes a certain pre-existing harmony of interests, such that even China's pursuit of parochial interests will not disturb the international equilibrium. Moreover, it assumes that China's dependence on international integration will always prevent it from pursuing policies that may undermine the interests of other states, given that the mutual search for absolute gains would be at risk if it did.

The history of international relations, however, does not support such optimism and the transition period from British to American hegemony confirms this point abundantly. Even though Great Britain and the US shared common values and even common adversaries, Washington pursued its interests in the early post-war period in a way that fundamentally undermined British objectives.<sup>10</sup> Similarly, China could well uphold the scaffolding of the institutional arrangements it inherits from the US but fundamentally transform their manner of functioning, and their specific aims, to Washington's continuing detriment. Consequently, the policy of leaving well alone – or persistent integration *simpliciter* – is unlikely to serve US interests in the manner imagined by its advocates.

Given that the policy of letting China be fails to immunise the US against the risks that Beijing could use the growing,

and disproportionate, benefits of interdependence to advance its own interests at American expense, even if only peacefully, Washington could pursue a second strategy that might be labelled, 'Let's Make a Deal'. The key characteristic of this second grand strategy would be that, instead of relying on China to uphold the inherited order mainly out of self-interest, the US would tacitly or explicitly negotiate a Chinese agreement to preserve that order in continuing collaboration with Washington.

Negotiating such a pact while China is still some distance away from genuine parity with the US – a concept sometimes colloquially referred to as G2<sup>11</sup> – has the advantage of 'socialising' Beijing into accepting the legitimacy of the US-created international system before it fulfils its great-power potential. Since it is not yet invested in protecting this order, giving it the rights and privileges of management a little before it inherits these powers naturally through continuing economic growth could secure its allegiance to upholding that order long before it might be tempted to revise it.

Making a bilateral deal with China, thus, has a certain attractiveness. For China, entering into duopolistic management of the international system with the US when it is on the cusp of becoming a genuine peer would provide it with important legitimisation benefits vis-à-vis the international community and ease the path to leadership status. For the US, it would offer the advantage of avoiding a costly and possibly unnecessary rivalry with China, at the same time as securing Chinese political and economic resources to uphold a system that, while beneficial to all, is increasingly costly for Washington to maintain unilaterally. More importantly, giving Beijing a joint management role through an increased presence in international institutions, a privileged position in global rule-making and possibly a division of labour in providing global public

goods, ensures that if a succession occurs in the global system, the American legacy of a liberal institutional order will be protected by a rising China. It will have had a significant stake in maintaining that order up to that point.<sup>12</sup>

For all its benefits, however, the strategy of duopolistic management of the international order has dangerous downsides for the US. For starters, the idea of cooperation between China and the US may simply not survive if American power continues to weaken in relative terms. In other words, the gains of the G2 system could vanish to American disadvantage if the duopoly becomes increasingly lopsided as a result of accumulating Chinese power. Even the possibility of such an outcome should deter the US from embarking on any duopolistic arrangements prematurely; in fact, it may be in Washington's interests to hold out until China becomes a genuine peer and then, depending on its behaviour at that point, make the decision about engaging China in managing the international system while recognising that such a deal might not survive a longer-term shift in the two states' relative power.

Most problematic of all, however, is the fact that a duopolistic approach to managing international politics would run afoul of the interests of many other Asian and European partners of the US: many of the former – especially Japan and India – have little interest in being subordinated to a hegemonic China in Asia or in becoming secondary players in a Sino-American managed global order. Consequently, any efforts by Washington to construct such a duopoly would rend asunder the Asian geopolitical system, with unpredictable consequences for American and Chinese interests. Thus, whatever its appeal to Chinese policymakers today, a duopolistic approach is far less attractive to the US as a long-term solution.

If neither leaving well alone nor making a deal advances America's interests in preserving its apex power position or

protecting the international regime that it sired in the post-war period, China's continued accumulation of power – even if at a slower rate – might require the US to consider carefully the third grand strategic option: 'Constrain Chinese Success'. Whether implemented in its more minimalistic form of simply limiting China's growing capacity to undermine American interests or in its more maximalist version, which requires the US to actively undermine China's rise, exercising this grand strategic option would in effect be a Machiavellian solution to 'seeing inconveniences from afar'. Throughout the Cold War, depending on circumstances, Washington toggled between both types of containment strategy against the Soviet Union, although it was clear since its articulation in NSC-68<sup>13</sup> that the US sought to ultimately undermine its communist adversary through all means short of war.

In any event, a strategy of constraining Chinese success through containment would require Washington to limit China's connectivity with the major economic centres of power globally, ensuring that these entities were tied only to the US, its allies and one another – as was the case during the Cold War. The US would also have to integrate all Asian states feeling threatened by China into either a unified geopolitical alliance system or into even tighter bilateral security arrangements primarily focused on arresting Beijing's expanding power. In addition, Washington would need to develop collective defence strategies through common military institutions or coordinated defence arrangements that prescribed how the combat capabilities available to the US and its partners would be used to defeat Chinese aggression or ability to exercise coercive power. Finally, the US would have to pursue a larger ideological campaign worldwide aimed at delegitimising the Chinese state and government, as well as inflaming internal Chinese tensions over Tibet, Xinjiang and Taiwan.<sup>14</sup>

A purposeful strategy of containment along these lines would limit China's capacity to threaten American power; in fact, it would prevent China from even catching up to the US. If Machiavelli were around, a strategy of containment in this form would incur his enthusiastic approbation because it would undermine China's ability to evolve to the point where it could ever become a peer competitor of the US, thereby protecting America's position as the hegemonic power in international politics for a long time to come. However, the US is currently unlikely to embark on such a policy because it still holds on to the belief – nurtured by its liberal inheritance – that China is not inevitably destined to become an adversary, and that so long as the possibility of an amiable relationship persists Washington should do all in its power to prevent an open-ended rivalry from developing.

Other, more material, considerations are germane: even if the containment of China were desirable on the grounds that all classical realists would prefer, there is presently no way to constrain Chinese economic growth by eliminating the one critical factor that has made all the difference to its success: its access to international markets. Because the US made the fateful decision to integrate China into the liberal international order as far back as 1979 – a policy direction faithfully followed by every US administration since Jimmy Carter's and only brought to its apotheosis by Bill Clinton's decision to support Beijing's entry into the multilateral trading system in 2001 – both Washington and its allies are now trapped in a situation where all parties, including China, are dependent on mutual trading relations for their growth and welfare. In such circumstances, no matter how threatening China may one day become to their geopolitical interests, China's trading partners have no incentive to cut commercial ties with Beijing because of the absolute gains they would sacrifice as a result. This problem

of mutual interdependence did not exist during the Cold War, making the strategy of containment vis-à-vis the Soviet Union possible.<sup>15</sup>

Given the web of economic ties that bind China and the larger international community today, the strategy of containment is simply unavailable to Washington today. Even more problematically, it is likely to remain beyond American reach precisely because of the success of the post-war US-led international order: unless China transmutes itself into an avaricious threat to global or regional security writ large, it is doubtful that Beijing's trading partners will forego the absolute gains deriving from trade with China just to curb the political ascendancy that is fundamentally fuelled by its integration into the global economy.

As a consequence, China's partners may find themselves in a situation where it is too late to correct the evolving imbalances of power, either regionally or globally, because they cannot resolve the conflicts between absolute and relative gains in any decisive way. Admittedly, this makes them vulnerable to Chinese strategies of 'salami-slicing', where China exploits its superior gains from trade to amass enough political power to permit it to extract successive small concessions, which steadily strengthens its own pre-eminence while avoiding any startling aggression that causes its partners to curtail the trade links that fuel Beijing's continued rise. However, China's partners will likely seek to manage these challenges through internal and external balancing that does *not* put at risk their commercial ties with China.

The only alternative that stands a chance of success in these circumstances is the fourth grand strategy which might be labeled, 'Let's Run Faster'. Such a grand strategy, unlike the central idea enshrined in containment, does not focus on constricting China's ascendancy either by cutting it off from

the global economy or limiting its power by diverting its state capacity to deal with internal crises stimulated from abroad. Instead, the strategy of running faster than China hinges on the idea that the existing international regime should be preserved because, although it fuels Beijing's expanding power, it also provides gains for China's partners.

Since these gains currently accrue disproportionately to China, however, this fourth approach seeks to neutralise these asymmetric advantages through a multi-pronged strategy that includes: improving the efficiency and the innovative capacity of the American economy to enable the US to dominate the new leading sectors of the global economy; renewing the ability of the US to project its military power globally despite all anticipated opposition; buttressing the national power of the countries geopolitically pivotal for balancing China – Japan, India, Indonesia, Australia, Vietnam and Singapore, among others – so as to amplify the constraints on Beijing's capacity to misuse its power and provide Washington with a local first line of defence; and, finally, to erect a new institutional overlay on the multilateral trading system that would enable the US and its friends to correct the losses suffered from China's imperfect entry into the liberal trading order while at the same time enhancing their own gains from trade. This last strategy would permit the US to both stay competitive in any upcoming rivalry for hegemony with China and enable it to continue bearing the supernormal costs required to provide those global public goods essential for the success of the liberal international order.<sup>16</sup>

The advantage of such a grand strategy is that it requires neither the dismantling of the open global order simply because it has fuelled the rise of new competitors, nor the undertaking of focused measures to limit the growth of those competitors, such as China. Given that international politics will remain

largely a competitive system, the strategy of running faster than China instead has the advantage of increasing the specific gains accruing to the US and its friends, while still preserving the larger liberal order that has served the interests of all.

It is in this context that the strategy of pursuing less-than-universal trading agreements such as the Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP) must be considered.<sup>17</sup> Neither agreement is intended to substitute for the current multilateral regime. The efforts to expand the latter will continue apace, but these will be supplemented by a superstructure of bilateral and regional trade agreements (RTAs) that are intended not to contain China – in the specific sense defined earlier – but rather to enable the US and its partners to stay ahead of China in coming years. Achieving this is critical for the survival of the liberal international order inaugurated by America in the post-war period. If American power weakens irretrievably, it is likely that the current international regime, which has served many common interests beyond unique American objectives, could either decay to the disadvantage of all or be replaced by some other Sino-centric alternative that is less beneficial to the US specifically and to many others generally.

### **The logic of RTAs in enhancing US power**

Any grand strategy that seeks to protect American hegemony in an economically interdependent environment must focus on how expanding global trade strengthens the material foundations of US power. Enlarging the international trading regime and increasing civilian trade must simultaneously yield enhanced absolute gains and improved relative gains for the US, irrespective of the tensions between these objectives.

Deepening interdependence allows all trade partners to further specialise in accordance with their comparative advan-

tages, thereby increasing their growth rates. The history of the post-war period suggests that expanding trade remains perhaps the most effective external instrument for building comprehensive national power. Tighter international trade links might also serve American strategic interests, as integrating China into the trading order would force Beijing to realise that its growing power is better served by internal development and robust external markets than by military alternatives. Moreover, enlarging the current trading system to include major developing countries – many of which were once peripheral to international trade – will increase the United States' absolute gains insofar as it reduces tariffs and non-tariff barriers and accesses relatively high-growth markets.

The most effective means for achieving this end is through a further expansion of the multilateral trading system under the auspices of the WTO, but it is unlikely that this by itself will yield the absolute gains necessary for the United States' emerging competition with China. Pessimism on this count is justified, not merely because of the cumbersome processes of securing consensus within the WTO, but, more fundamentally, because the huge divide in development levels between the rich and poor states makes it virtually impossible for them to arrive at a mutually advantageous bargain on trade liberalisation that is both wide and deep. Nothing short of that outcome is required if the US is to bet on the global multilateral trading regime to successfully manage the rise of China.

Even if Washington manages to secure some progress in these circumstances, any victory for the US in the WTO will likely imply only a low-common-denominator advance in expanding global trade. Such gains could actually yield bigger advantages for Beijing because, among other reasons, China's trade-to-GDP ratio is almost double that of the US, and China's trade still consists primarily of merchandise exports rather

than the high-end services associated with the US, which are more likely to escape WTO expansion.

Consequently, American policymakers today should focus as much on securing increased relative gains for the US as on expanding absolute benefits. The best way to secure these dividends is to invest heavily in concluding bilateral or regional trade agreements (RTAs) with America's friends and allies, especially those states lying along China's immediate and extended periphery; these are ties that Washington seeks to strengthen anyway for its larger geopolitical purposes. Such accords would be mutually beneficial in multiple ways: the regional partners would have enhanced access to the huge American market for their products while at the same time availing themselves of US capital, high-value-added services and high-technology goods. This would raise growth rates in both directions through arrangements that incidentally, and at least for now, have the advantage of excluding China. RTAs, such as the TTIP and the TPP, that incorporate this specific benefit might be even more valuable to Washington because, to the degree that they genuinely reduce non-tariff and behind-the-border trade barriers, they offer heightened relative gains to the US and its allies.

Washington, accordingly, ought to concentrate on concluding these two agreements, along with other efforts to strengthen North American (or American hemispheric) trading. The TTIP is clearly the most important geopolitically, because the US and the Atlantic community represent the two biggest concentrations of economic power internationally. As Daniel Hamilton and Joseph Quinlan have summarised it: 'There is no commercial artery in the world as large as the one binding the US and Europe together. The transatlantic economy still accounts for over 50% of world GDP in terms of value and 41% in terms of purchasing power, is the largest and wealthiest market in

the world, is at the forefront of global R&D, and drives global foreign direct investment and global mergers and acquisitions activity.<sup>18</sup>

Several studies have indicated that the conclusion of a comprehensive transatlantic trade pact would boost overall trade between the US and EU by as much as 50%, at a value of over US\$200 billion annually, and increase annual growth rates in the EU and US by roughly 0.9 and 0.8 percentage points, respectively. Such performance, moreover, would stimulate global incomes, leading to an increase of some US\$140bn annually.<sup>19</sup> Eliminating current impediments to trade and quickly completing the negotiations ‘on one tank of gas’, as US Trade Representative Michael Froman put it, should accordingly be an American priority.<sup>20</sup>

Beyond all the economic advantages of the TTIP lie the hard realities of power politics. Most of the European states involved are among America’s strongest allies, thus making the task of ‘turning the world’s premier security alliance into the world’s premier economic pact’ particularly important.<sup>21</sup> More robust economic integration between these states would increase absolute gains for all parties without creating any of the corrosive problems stemming from disparities in relative gains in trade between competitors, all the while elevating relative gains for Washington vis-à-vis China. These benefits might also consolidate the economic and technological power of the West and the US for at least another generation, if not longer.

A speedy conclusion of the TTIP would also serve as a cudgel for Washington to use in the other difficult negotiations associated with the TPP. A successful TTIP would reduce mostly non-tariff barriers, so Asian states, unlikely to accept weaker Pacific economic integration than their Atlantic peers, could be spurred into addressing both tariff and non-tariff obstacles.

Successfully negotiating the TPP is important because the Asia-Pacific region is already vital to the US economy, absorbing 60% of its exported goods, 72% of its agricultural products and 39% of its private services in 2011.<sup>22</sup> In 2013, Pacific Rim countries supplied almost 34% of American imports and absorbed nearly 25% of its exports.<sup>23</sup> The complexity of negotiating a high-quality trade agreement with 11 countries with diverse levels of development and widely variable tariff and non-tariff barriers cannot be overestimated. However, the economic growth and strategic importance of the countries involved in the TPP make bringing a trans-Pacific trade pact to completion a necessary proposition.

Many TPP partners still possess relatively protected economies, so the biggest gains to the US would derive from prying open their hitherto closed markets. International economists, such as Peter Petri and Michael Plummer, have estimated that a successfully concluded TPP agreement would raise the United States' GDP by 0.4% by 2025.<sup>24</sup> This improvement, while smaller than the estimated gains from a TTIP agreement, is nothing to be scoffed at in a mature economy, especially when relatively underdeveloped competitors like China chalk up much higher rates of economic growth.

Consequently, concluding the TPP speedily is important, all difficulties notwithstanding. In fact, given US strategic objectives in Asia and the necessity of strengthening the power of states located along China's periphery, Washington should aim to eventually include India in the TPP as well. Admitting New Delhi into the negotiations would benefit the states involved because of the size of India's domestic market and its growth strategy, which favours domestic consumption. It would also be a profitable move for New Delhi, since such a trading arrangement would compel it to accelerate its domestic economic reforms while also increasing its national power.

Unsurprisingly, Indian policymakers, amid fears of a weakening multilateral trade system, have recently expressed interest in exploring membership of the TPP.

These two mega-RTAs thus hold out the promise of increasing US gains from trade and elevating the overall growth rate of the US and its friends. To the degree that these agreements fulfil this potential, they will help buttress American hegemony, in effect amplifying the pay-offs from (hopefully) prudent domestic economic decisions. Most importantly, however, because the distribution of benefits presently excludes China, they will provide Washington with improved relative gains vis-à-vis Beijing, the *sine qua non* for maintaining American primacy in a competitive international system.

Admittedly, as neoclassical economists would correctly argue, such RTAs are less efficient than their universal counterparts for increasing overall growth, because their trade-diversion effects distort the patterns of comparative advantage and they make only some states better off in comparison to not trading.<sup>25</sup> Yet these agreements represent the only alternative at a time when the multilateral trading system is failing to produce the maximum gains from trade possible – due, ironically, to an excess of democracy in the negotiating regime.<sup>26</sup> In a purely economic sense, therefore, it is useful to conceptualise these FTAs as transitional endeavours that would promote liberalisation in order to eventually enlarge the global system of exchange.<sup>27</sup> Whether this vision is ultimately realised or not, RTAs, by debarring competitors or by compelling them to liberalise and end their asymmetric advantages, offer the US a strategic opportunity to elevate its relative gains vis-à-vis China.

The success of this approach, however, will hinge on keeping China out of these regional agreements for as long as possible, or at least until the US can ‘buy back’ the relative

gains it has lost as a result of China's entry into the multilateral trading system. If US policymakers pursue the selective deepening of globalisation as a means of elevating future American growth in this way, they will have to reject any present Chinese overtures about joining agreements such as the TPP. To date, US officials have equivocated. Recently, National Security Advisor Susan Rice blandly stated, 'We welcome any nation that is willing to live up to the high standards of this agreement to join and share in the benefits of the TPP, and that includes China.'<sup>28</sup> While the diplomatic necessity for appearing inclusive is understandable, the strategic necessity for excluding China is overwhelming.

China's own position on this issue is also not yet settled. Beijing initially viewed the TPP with unambiguous anxiety, perceiving it, in Duke University professor Bai Gao's description, as a 'securitisation of trade policy' driven by the intention to contain China.<sup>29</sup> Since then, Chinese attitudes have devolved into schizophrenia, alternately judging the TPP as a thinly veiled instrument of containment or as a beckoning cornucopia. Despite this ambivalence, Beijing now appears to be steadily but quietly gravitating towards the TPP. This is hardly surprising. As one analysis demonstrated, trade diversion would cost China more than US\$100bn in lost annual income and exports if it were excluded from the TPP. Moreover, China could be shut out of a group that could ultimately form the basis of an American containment of China.<sup>30</sup>

The gains China would accumulate by joining the TPP are thus obvious, but the risks to Washington of including Beijing as a negotiating partner are also great. To begin with, the diversity of tariff and non-tariff barriers among the negotiating Asia-Pacific nations makes it extremely hard to conclude a truly high-quality agreement. Including China as a negotiating partner, considering its substantial structural protectionism,

would likely lead to a ‘Swiss cheese’ agreement so full of holes as to deny the US the gains that could only arise from a genuinely ambitious trade accord.

Given this danger, Washington should keep China out of all TPP negotiations until an exemplary pact is negotiated. Irrespective of what China does at that point, the US will come out ahead. If China declines to participate on the grounds that it cannot acquiesce to an agreement that it was not involved in negotiating, Washington would still enjoy enhanced relative gains vis-à-vis Beijing because it would continue to profit from increased commerce with its closed set of friends. If China chooses to join a high-quality TPP that was concluded in its absence, Washington would likely obtain even greater relative gains, given that the trade liberalisation necessary for China to join the agreement would eliminate all of Beijing’s current asymmetrical advantages while giving the US enhanced access to a large market. In any event, the US can continue to pursue exclusive trade policies without apology, since China has sought similar arrangements such as the China–Japan–South Korea agreement and the Regional Comprehensive Economic Partnership (RCEP).<sup>31</sup>

While there is no need for US policymakers to advertise any reluctance to admit China into TPP negotiations, they should certainly desist from welcoming its participation until a final agreement is reached. Most importantly, they ought to at least be clear in their own minds about why strategic logic demands Beijing’s current exclusion from these negotiations.

## Conclusion

Although the US has championed free-trade universalism since its founding, its commitment to free trade was always subordinated to politics. For most of American history, Washington’s approach to international trade was formed by internal politics

influenced by business cycles, interest groups, regional divides and shifting party positions.<sup>32</sup> In the aftermath of the Second World War, the US once again launched an effort to construct a global economic order based on free-trade universalism, but settled for a more circumscribed system of managed free trade, centred on reciprocity.

This limited framework served the US well during the Cold War. It enabled the alliance partners to rapidly resuscitate themselves, while simultaneously permitting the Western coalition to enjoy substantial gains from trade relative to its adversaries. These benefits supplemented the enormous internal productivity of the American economy, which in turn produced the superior economic growth that enabled the US to outrun the Soviet Union and provoke its collapse. The American triumph in the Cold War led to a further expansion of the global trading order to finally formally include China, despite Beijing's continued pursuit of statist policies. As a result of the disproportionate gains from imbalanced trade that ensued, China's growth has been even more meteoric than it might otherwise have been. What is most unsettling, however, is that Beijing has used its gains from trade to rapidly modernise its military forces, and to begin to threaten most of its major regional trading partners as well as the guardian of the larger international order, the US itself.

While China's economic strategy of international integration is thus increasingly at odds with its geopolitical strategy of increasing its coercive capabilities directed against its major trading partners, Washington's own post-Cold War strategy is also afflicted by the awkward contradiction of sustaining an international economic regime that produces great benefits for the US and others while simultaneously fuelling the growth of what could be its most significant rival. Three of the four possible grand strategies aimed at mitigating this dilemma –

leaving China alone, making a duopolistic deal with Beijing and constraining Chinese success – all fail to limit the dangers posed by a rising China to the US and its friends.

Only the fourth strategy, centred not on inhibiting China's growth but on improving America's strategic performance, cuts the Gordian knot to enable the US to protect its global hegemony while continuing China's integration into the liberal international order. The policy of incorporating RTAs into the existing multilateral trading system accordingly provides Washington with the opportunity to secure both increased absolute gains and increased relative gains vis-à-vis China, thereby protecting its international position. The US should not shrink from pursuing such self-interested modifications to the global trading order because, as its own history reveals, American trade policy has always been shaped by political imperatives rather than the dogmas of neoclassical economics. In an era of rising Chinese ascendancy, protecting American strategic interests through new mega-RTAs does not constitute a geo-economic containment of China – a losing proposition at its best. Rather, it represents an effort to leapfrog Beijing in the race to success during yet another long cycle in world politics.

## Notes

- <sup>1</sup> See Aaron L. Friedberg, *A Contest for Supremacy: China, America, and the Struggle for Mastery in Asia* (New York: W.W. Norton and Company, 2011); and Dan Blumenthal and Phillip Swagel, *An Awkward Embrace: The United States and China in the 21st Century* (Washington DC: American Enterprise Institute, 2012), pp. 8–11.
- <sup>2</sup> Ashley J. Tellis, *Balancing without Containment: An American Strategy for Managing China* (Washington DC: Carnegie Endowment for International Peace, 2014), pp. 11–15.
- <sup>3</sup> The ITO was created by the Havana Charter signed in March 1948, but faded away after this charter was never ratified by the United States Congress.
- <sup>4</sup> For an excellent overview of the origins of GATT, see Thomas W. Zeiler, *Free Trade, Free World: The*

- Advent of GATT* (Chapel Hill, NC and London: University of North Carolina Press, 1999).
- <sup>5</sup> See Ashley J. Tellis and Travis Tanner (eds), *Strategic Asia 2012–13: China's Military Challenge* (Washington DC and Seattle: National Bureau of Asian Research, 2012).
  - <sup>6</sup> Catherine L. Mann, 'Breaking Up is Hard to Do: Global Co-Dependency, Collective Action, and the Challenges of Global Adjustment', *CESifo Forum*, vol. 6, no. 1, Spring 2005, pp. 16–23.
  - <sup>7</sup> Ashley J. Tellis, *Power Shift: How the West Can Adapt and Thrive in an Asian Century* (Washington DC: German Marshall Fund of the United States, 2010), pp. 3–4.
  - <sup>8</sup> Aaron L. Friedberg, *Beyond Air–Sea Battle: The Debate Over US Military Strategy in Asia*, Adelphi Book 444 (Abingdon: Routledge for the IISS, 2014).
  - <sup>9</sup> See Jasen J. Castillo et al., *Military Expenditures and Economic Growth* (Santa Monica, CA: RAND Corporation, 2000).
  - <sup>10</sup> Corelli Barnett, *The Collapse of British Power* (New York: Morrow, 1972), 589ff.
  - <sup>11</sup> Zbigniew Brzezinski, 'Moving Towards a Reconciliation of Civilizations', *China Daily*, 15 January 2009.
  - <sup>12</sup> Hugh White, *The China Choice: Why America Should Share Power* (Collingwood, Australia: Black Inc., 2012).
  - <sup>13</sup> Only declassified in 1975, the 58-page NSC Report No. 68 was one of the most influential US government documents during the Cold War. Its authors argued that the best response to a fundamentally hostile Soviet Union that would soon acquire more nuclear and other weapons was 'a more rapid build-up of political, economic, and military strength and thereby of confidence in the free world ... consistent with progress toward achieving our fundamental purpose. The frustration of the Kremlin design requires the free world to develop a successfully functioning political and economic system and a vigorous political offensive against the Soviet Union.' See National Security Council Report No. 68, 'United States Objectives and Programs for National Security', 14 April 1950, <http://www.fas.org/irp/offdocs/nsc-hst/nsc-68.htm>.
  - <sup>14</sup> Tellis, *Balancing without Containment*, p. 29.
  - <sup>15</sup> Melvyn P. Leffler, 'The Emergence of an American Grand Strategy', in Melvyn P. Leffler and Odd Arne Westad (eds), *The Cambridge History of the Cold War: 1* (Cambridge: Cambridge University Press, 2010), pp. 67–73.
  - <sup>16</sup> For a detailed elaboration of this four-pronged strategy, see Tellis, *Balancing without Containment*, pp. 35–84.
  - <sup>17</sup> See Glossary.
  - <sup>18</sup> Daniel S. Hamilton and Joseph P. Quinlan, *The Transatlantic Economy 2013: Annual Survey of Jobs, Trade and Investment Between the United States and Europe* (Washington DC: Center for Transatlantic Relations, 2013), p. 18.
  - <sup>19</sup> See 'Transatlantic trade talks: Opening shots', *The Economist*, 6 July 2013; and Joseph Francois, Miriam Manchin, Hanna Norberg, Olga Pindyuk and Patrick Tomberger,

- Reducing Transatlantic Barriers to Trade and Investment: An Economic Assessment*, Final Project Report for the European Commission (London: Centre for Economic Policy Research, 2013).
- <sup>20</sup> Michael Froman, remarks at the Transatlantic Trade and Investment Partnership First Round Opening Plenary, Washington DC, 8 July 2013, [www.ustr.gov/about-us/press-office/speeches/transcripts/2013/july/amb-froman-ttip-opening-plenary](http://www.ustr.gov/about-us/press-office/speeches/transcripts/2013/july/amb-froman-ttip-opening-plenary).
- <sup>21</sup> Marta Dassù and Charles A. Kupchan, 'Pivot to a Trans-Atlantic Market', *New York Times*, 13 June 2013.
- <sup>22</sup> 'The United States in the Trans-Pacific Partnership: Increasing American Exports, Supporting American Jobs', Office of the US Trade Representative Press Office Fact Sheets, June 2012, <https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2012/june/us-tpp-increasing-american-exports-supporting-american-jobs/>.
- <sup>23</sup> See 'Annual Trade Highlights: 2013 Press Highlights', US Census Bureau, <https://www.census.gov/foreign-trade/statistics/highlights/annual.html>; and 'Trade in Goods with Pacific Rim', US Census Bureau, <https://www.census.gov/foreign-trade/balance/0014.html>.
- <sup>24</sup> Peter Petri and Michael Plummer, 'The Trans-Pacific Partnership and Asia-Pacific Integration: Policy Implications', Peterson Institute for International Economics, June 2012.
- <sup>25</sup> Jagdish Bhagwati, *Free Trade Today* (Princeton, NJ: Princeton University Press, 2003), pp. 91–109.
- <sup>26</sup> Arvind Subramanian, 'Too Much Legitimacy Can Hurt Global Trade', *Financial Times*, 13 January 2013.
- <sup>27</sup> C. Fred Bergsten, *Competitive Liberalization and Global Free Trade*, Working Paper 96–15 (Washington DC: Peterson Institute for International Economics, 1996).
- <sup>28</sup> Susan E. Rice, 'America's Future in Asia', remarks at Georgetown University, Washington DC, 21 November 2013, <http://www.whitehouse.gov/the-press-office/2013/11/21/remarks-prepared-delivery-national-security-advisor-susan-e-rice>.
- <sup>29</sup> Bai Gao, 'From Maritime Asia to Continental Asia: China's Responses to the Challenge of the Trans-Pacific Partnership', Conference Paper presented at 'The Trans-Pacific Partnership and Taiwan's Future Development Strategy', Stanford, CA, 11 October 2013, [http://iis-db.stanford.edu/evnts/7924/Gao.TPP\\_paper.pdf](http://iis-db.stanford.edu/evnts/7924/Gao.TPP_paper.pdf).
- <sup>30</sup> I am grateful to Fred Bergsten for sharing this data with me. It derives from Peter A. Petri, Michael Plummer and Fan Zhai, 'The Effects of a China–US Free Trade Agreement', subsequently published in Fred Bergsten and Gary Hufbauer (eds), *Bridging the Pacific: Toward Free Trade and Investment Between China and the United States* (Washington DC: Peterson Institute for International Economics, 2014). The data is based on simulations for the year 2025 on the assumption that the TPP would have 16 members (with Korea, Indonesia, the Philippines and Thailand as the additional four).
- <sup>31</sup> See Glossary.
- <sup>32</sup> Douglas A. Irwin, 'Historical Aspects of US Trade Policy',

National Bureau of Economic Research, Summer 2006, <http://www.nber.org/reporter/summer06/irwin.html>; and Pietro S. Nivola,

'The New Protectionism: US Trade Policy in Historical Perspective', *Political Science Quarterly*, vol. 101, no. 4, 1986, pp. 577–600.

