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Trade deals

Making the world safe for Big Business

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The Trans-Pacific Partnership is about expanding US hegemony in East Asia. After five years of intense negotiations, the Trans-Pacific Partnership (TPP) may come to fruition by the end of this year. Much has been written (and rightly so) about the negative consequences of the TPP for American labor. But what are the international implications of the TPP, and in a world awash with bilateral and multilateral trade and investment treaties (there are over 3,200 international investment treaties alone), how is this one different?

And when the future of global capitalism seems to hinge on the relations between China and the United States, why is the US not allowing the world's largest exporter, China (which has expressed interest), to join the TPP negotiations?

With the phenomenal growth of many formerly Third World countries (or "emerging markets"), including China, leading to the expansion and heightened integration of global capitalism, the ideal world envisaged by American state planners in the 1940s and 1950s â€" one open and friendly to American business in particular but Western capitalism in general â€"is finally being established beyond their wildest dreams. Virtually every state (albeit unevenly) now equates national development with increasing international competitiveness, and making their nations safe for global capital (which more often than not means American capital).

Geopolitically, the destruction of Afghanistan, Iraq, Libya, the ongoing war in Syria, and the US's apparently warming relations with Cuba and Iran, have shortened the list of stridently "anti-American" (in other words geopolitically independent from the US) regional rivals, even if Russia has recently been put back on the list.

But there is a snag in this seven-decade-long expansion and consolidation of global capitalism under the hegemony of the United States: China is half-in, half-out.

On the one hand, the transformation of China from being one of the twentieth century's leading anticapitalist and anti-Western imperialist nations to, by the twenty-first century, being one of the nations most eager to integrate with global capitalism â€" has been surprising to say the least, and certainly a boon for American capital.

On the other hand, China, a paradoxical bastion of illiberal/liberal state capitalism, remains relatively geopolitically independent from the United States. Of all the large economies, China is at once one of the most open and closed to foreign capital on Earth. Many sectors related to the commanding heights â€" such as banking, energy, telecommunications, and utilities â€" are totally closed to foreign capital. Many other sectors, however, are relatively open, and foreign investment has penetrated China more deeply than most other large economies (like Japan), especially those at similar levels of development.

Nevertheless, despite the central role of foreign direct investment in fueling China's growth over the past three decades, the state maintains far more restrictions on foreign investment than most other countries. In the 2015 Catalogue of Industries for Guiding Foreign Investment, China stipulates thirty-six industries in which foreign investment is completely prohibited and thirty-eight industries in which it is restricted (foreign firms are often forced to form joint ventures with Chinese firms). While there were many more restricted sectors when the first Catalogue was released in 1995, American capital clearly wants the liberalization of China's industries to go further, faster.

American capital also has a beef with China's lax protection of foreign intellectual property (IP) rights. Sometimes the

Chinese state explicitly encourages the copying of Western IP through technology transfer requirements, and copycats and imitators abound. High-speed trains and consumer goods like pharmaceuticals, clothing, and electronics are all fair game. Chinese consumers were even wearing bootleg “Apple Watches” months before Apple released its own version.

China is no longer just the “workshop of the world” and a super-exploitable export platform for foreign capital â€” it is already one of the world’s most important consumer markets across a range of sectors including automobiles, smartphones, luxury goods, and fast food. The rising importance of the Chinese consumer market makes IP protection and investor arbitration a top priority for big global companies. But foreign investors have long since discovered that the illiberal and nationalist Chinese state, with its capricious legal system, is an unreliable protector of their interests in China.

So while China has certainly abandoned its anticapitalist worldview, and is even now being accused of European-style neo-colonialism by some African leaders because of its investment practices (a charge that is particularly ironic since China supported many anticolonial struggles in Africa in the 1950s and 1960s), China’s ruling class â€” as manifested in the Chinese Communist Party (CCP)â€” does not prioritize the interests of foreign capital nor American hegemony.

Instead, the CCP prioritizes the maintenance of its own power. Sometimes this involves opening up to foreign capital in certain sectors to drive accumulation and technological upgrading, but overall, the Chinese economy is state-owned and state-directed, and Chinese state-owned enterprises (SOEs) still take pride of place in most of the commanding heights. Foreign capital complains bitterly about the preferential treatment given to SOEs, especially via financing and the legal system.

China’s economic success over the past three decades has also made its version of state capitalism a beacon for other countries. Brazil has increasingly warmed to it, Russia under Putin has reinvigorated it, and India, not to mention France, have arguably never abandoned it. Of course, the United States also nationalized swathes of its “private sector” (AIG, Chrysler, Citigroup, Fannie Mae and Freddie Mac, General Motors â€” to name some of the prominent examples) in the wake of the 2008 Wall Street crash, but these measures were largely seen as temporary and a deviation from the liberal norm of public-private separation â€” a norm that does not exist in China.

China is certainly not offering an alternative to global capitalism, nor even to American hegemony within it. China does not have the capacity (nor the will) to create an alternative order to American hegemony â€” it simply wants to increase its share of the pie, and to be treated as an equal partner instead of a Third World subordinate (or a First World vassal, like Japan).

The Asian Infrastructure Investment Bank, the BRICS Bank, the Silk Road Fund, and other Chinese initiatives are not meant to challenge American-dominated institutions such as the IMF and World Bank, both of which China continues to support, fund, and fully participate in.

Rather, they are meant to provide more leverage for China and increase its room for maneuver in the global political economy, in East Asia in particular. Similar renegotiations of global governance occurred in the 1970s when the revival of Western Europe and Japan stirred pressure for the creation of the G7 and Trilateral Commission, for example. But these all remained under the umbrella of American hegemony.

China’s desire for increased global leverage is shaped by the political particularities of its economic system â€” state capitalism under the control of an authoritarian party. While Chinese elites have been the main beneficiaries of China’s integration into global capitalism, unlike Japan or South Korea, they are not likely to embrace liberal democracy any time soon and need to avoid appearing too subordinate to the United States.

This is because the legitimacy of the CCP rests not only on continued economic growth but also on atoning for China's "Century of Humiliation," from 1839–1949, when China was continually invaded by Western and Japanese powers. With the phasing out of anticapitalist struggle as a legitimating ideology (though all university students still must take exams in "Marxism"), the CCP now seeks to position itself as the rightful force to return China to its historical place in the sun as the "Middle Kingdom."

Herein lies the uncertainty for the liberal economic order in East Asia, underpinned by American hegemony. Chinese elites have benefitted massively from their integration with this order, but their continued legitimacy within China depends on an ethnocentric nationalist project that has the danger of becoming "too illiberal" in the eyes of the West. Rapid Chinese military upgrading and rising territorial disputes in the East and South China Seas are aspects of this.

This is where the TPP comes in.

US Defense Secretary Ashton Carter understood this well when he stated that signing the TPP is more important than sending another aircraft carrier to East Asia. One core factor behind the longevity of American power in the post–World War II era is its ability to permeate other economies in a way that structurally aligns the interests of their ruling classes with the interests of American hegemony. Japanese elites unwaveringly support American hegemony not because they are forced to, but because it is in their interests to do so.

Chinese elites already depend on global capitalism, but to ensure they continue to do so into the foreseeable future, the US requires their further liberalization and integration with â€" and therefore dependence on â€" global capital (especially American corporations), global finance (centered on Wall Street and the US Federal Reserve), and exports to Western consumers (especially American).

Of course, it's not all about China. The US has been pressuring Japan to liberalize its economy since the 1970s, and the TPP continues this quest by targeting Japanese farmers and carmakers. Malaysia, Mexico, and Vietnam are important export platforms that compete with China for foreign capital. Australia, Canada, and New Zealand are important American allies. Broadly speaking, the more countries liberalize, the more open they become to American influence. But everyone, including the Chinese, knows the TPP is mostly about China, making it one of the most geopolitically-tinged trade deals ever.

The TPP is about establishing the norms and rules of the future by locking the most dynamic region on Earth â€" East Asia, and especially China â€" into American-centered global capitalism. If the US can forge common standards on IP protection and investor arbitration with Japan and Western Europe (through the Transatlantic Trade and Investment Partnership), the West can continue to shape the rules of engagement for the rest of the world.

So if China wants to continue its integration with global capitalism (which it must, because a sharp decline in economic growth would undermine the authority of the CCP), then China will be pressured to continue to liberalize and harmonize its rules and regulations with "international standards," established by the West. Conforming to increasing liberalization will also reduce the salience of any coherent alternative model of "state capitalism" for others to follow.

This is what some call "structural power" â€" the ability to shape the rules and norms of the system so that others have little choice but to comply. Structural power is often more effective than "relational power," or simply trying to force others to do something. And it explains why China, despite expressing an interest in joining, is being excluded from the TPP negotiations â€" so they will not be able to alter the rules.

The architects of the TPP are structuring the agreement to serve their own interests: protection of intellectual property rights and investor arbitration facilitate the continued dominance of the world's top corporations, which remain European, Japanese, and most of all American.

Protection of IP rights ensures that advanced knowledge sectors, like the pharmaceuticals industry, maintain their healthy profit margins (and the poor continue to be denied life-saving drugs). US agribusiness will profit from the opening of Japan's agricultural sector, and Nike will benefit from the further liberalization of Vietnam (where most of its shoes are manufactured).

To understand whose interests are being served, one simply has to note that US trade representatives are accompanied by over six hundred "corporate advisers" to the negotiations, which are shrouded in secrecy. Labor advisers? Zero.

The TPP will also make it easier for transnational corporations to sue governments for labor, environmental, health, safety, and other regulations, in order to gain taxpayer compensation for "loss of future returns" due to "expropriation." Investor-state dispute settlement mechanisms â€" already in place in many existing international investment treaties â€" will be consolidated and strengthened in the TPP to ensure a single, more predictable, standard for the record-breaking number of new cases.

One such case, in 2011, involved Philip Morris invoking the 1993 Hong Kong-Australia investment treaty to sue the Australian government for "expropriation" of its intellectual property. Australia passed some of the strictest cigarette packaging laws in the world, covering the cartons in grisly pictures of tumors and removed Philip Morris's brand logo from the front. The TPP will make it easier for corporations to challenge public health and other policies in supra-national courts, circumventing domestic legal institutions.

The TPP is under pressure in the US, especially from big trade unions who argue that decades of trade and investment agreements have increased the power of capital over labor, leading to the offshoring of manufacturing jobs and skyrocketing levels of inequality. (Many in the EU are opposed to the even bigger Transatlantic Trade and Investment Partnership, or TTIP, for similar reasons, but with more emphasis on investor-state arbitration).

If approved, the TPP would be the most expansive trade and investment treaty in history, encompassing 40 percent of the world's GDP, a third of its exports, and almost half of the world's foreign direct investment stock.

It would likely breathe renewed vigor into the TTIP negotiations, which have stalled due to mass protests, including a petition with over one million signatories. It would pressure China to further liberalize and align with the interests of American capital, as the TPP becomes the model for future mega-regional trade and investment agreements. Most of all, it would further bolster the power of capital over labor in both the US and abroad, ensuring that corporate, labor, and environmental regulations remain lax.

For these reasons, it is obvious we should be against the TPP â€" not to mention any international agreement that enhances the power of capital. Instead of "free trade" agreements that protect investors and corporations, the Left should fight for international agreements that enhance labor and environmental standards (enshrining enforceable measures beyond mere rhetoric), protect and nurture the independent power of unions, and impose greater regulations and controls on capital, including capital mobility.

But this must happen in the context of shifting the balance of social forces against capital in each nation. With the former Second and Third Worlds (especially China) now more deeply integrated into global capitalism than ever before, this struggle is particularly urgent in the center of global capitalism â€" the United States.

