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The Geopolitics of the Trans-Pacific Partnership Agreement (TPPA), A US Imperial Strategy

A World-System Analysis

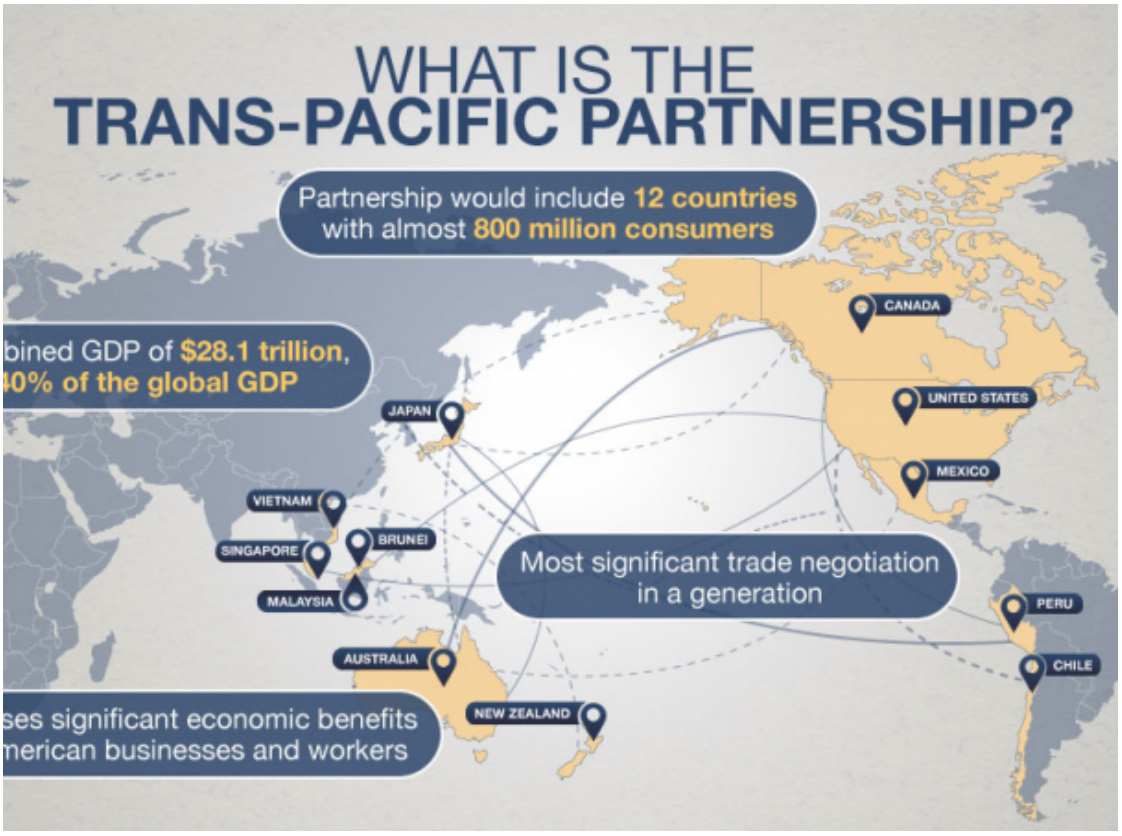
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The President of the United States of America, Barack Obama, in his brief sojourn to Malaysia last November made an interesting statement on the hotly debated Trans Pacific Partnership Agreement (TPPA).

He admitted that TPPA is more than just a trade deal as it encourages greater transparency and accountability due to its comprehensiveness that will benefit all members who are going to be part of the deal.

The real question is why President Obama hinted that it is more than just a trade agreement? Who will reap the ultimate benefits?



For that we must refer to his earlier speech in front of the American crowd on the 8th of May, 2015 at Nike Inc. headquarter, Oregon:

> "We have to make sure America writes the rules of the global economy. And we should do it today, while our economy is in the position of global strength. Because if we don't write the rules for trade around the world – guess what – China will. And they'll write those rules in a way that gives Chinese workers and Chinese businesses the upper hand, and locks American-made goods out."

In front of the American audience, the message on TPPA by President Obama was clearly a different ball game altogether. In short, it is a trade deal that seeks to buttress the dominant role of the United States in shaping the political and economic world order by fending off a formidable challenger like China. At its very core, TPPA is geopolitical.

TPPA is not an off the cuff initiative. It is embedded within a larger regional US strategy which Senator Hillary Clinton called "Pivot to Asia".

As released by Wikileaks, the US diplomatic cable on Singapore circa late 2007 indicated that the genesis of TPPA was partly initiated by Singapore's minister mentor, the late Lee Kuan Yew, who "urged the United States to pursue more Free Trade Agreements to give the region options besides China" – another clear indicator it is geopolitically driven to isolate and contain China economically in the growing Asia Pacific economies.

As European Union (EU) project seems destined to fail, Washington has long anticipated this and prepared a strategic shift to reprise EU's role to the US in the form of ASEAN (Association of South East Asian Nations). The demographic dividends of ASEAN member states already offered huge economic prospects that could easily reflect its huge growth potential – something that is too big to be ignored by TPPA lobbyists, especially among the Multinational Corporations – as they have been eyeing greater market access in this region.

This pivot to Asia with TPPA as a key pillar is also part of a larger US international political economic strategy to maintain its grip on all parts of the world. The pivot is nothing but the revival of the US Cold War's containment strategy against the rising superpowers like Russia and China.

The only difference this time around is that the US not only facing its traditional rivals in the form of Russo-Sino axis but also against the multilateral bloc in which both Russia and China have commanding presence alongside India, Brazil and South Africa in what is better known as BRICS.[1]

Why does the US eagerly push for TPPA?

In April 2015, US Secretary of Defense, Ash Carter, made a compelling statement with regard to TPPA. He too regarded the trade pact as paramount to the US national interest in Washington's rebalancing strategy in the Asia Pacific. To drive the point further, he compared the TPP to the equivalent of deploying an aircraft carrier to the region.

It is not a misplaced metaphor. TPPA is a demonstration of economic power of the Washington Consensus where its key institutions such as International Monetary Fund (IMF) and World Bank do play important roles in asserting the US dominance in global arena. US Secretary of Treasury, Jacob Lew in his testimony to House Financial Services Committee last year attested:

> "Our investments in these institutions promote our strategic interests and

> international stability. Every dollar of our participation leverages four more from other member countries."

The remark was made in light of new developments pursued by rising superpowers as Russia and China that spearheaded many new international institutions like New Development Bank (formerly known as BRICS Development Back) and Asian Infrastructure Investment Bank (AIIB) for which many of US traditional allies like European countries have expressed their interest to join.

TPPA is also another attempt by the US to revive the failure of World Trade Organization (WTO) – another Washington-led multilateral trade liberalization platform – in a more regional scale. TPPA is meant for the emerging markets of Asia-Pacific while another similar regional and multilateral trade agreement like the Transatlantic Trade and Investment Partnership (TTIP) is designed specifically for the European Union. The US is also in the midst of concluding the Trade in Services Agreement (TISA) with the burgeoning services' market across the world.

At face value, TPPA, TTIP and TISA may be viewed as multilateral trade platforms where everybody seems to be on equal footings. But if we were to dig deeper, all of the trade agreements are actually in essence bilateral agreements, in the garb of a multilateralism, where the US has a huge strategic advantage and hegemonic interest to maintain its dominance in the international arena of the political economy.[2]

Currency as the hallmark of empire

Before we can understand the unequal relationship between the US and its trading partners, it is incumbent upon us to know what kind of role does the US actually plays in the contemporary international order.

The US is for sure not an ordinary nation-state.

Its Tocquevillian special character of "American exceptionalism" has not only shaped the American worldview but also greatly influenced its behavior as a world leader especially after demonstrating its prowess in helping the Allies win the war against Nazi Germany.

The US shaped and greatly influenced the post-World War II world order through its custodianship of many major international political, financial, monetary and economic institutions that were established after the retreat of European imperialism from the South.

Like an ordinary empire or hegemon in history, it sustains its power not only through military might but also through economic power. Just as Britain before it maintained its political dominance through trade, the US is doing so too. This is reflected in the three sets of agreements mentioned earlier (although different in name they all share the same nomenclature of "trade").

One of the most important indicators of the strength of an empire is its currency. Britain that once ruled the waves was also the one to create burgeoning "sterling areas" within its dominions, colonies and protectorates that spanned across the globe, especially during the long period of the 19th century.[3]

Dominance in currency can only be achieved via strong balance of trade. As Britain's

finance was sapped by two world wars, the US which was left untouched geographically by the world wars (except at the Pearl Harbour incident) was the only industrialized nation that possessed the necessary capability and readiness back then to reshape and rebuild the post-World War II international order.

Since then, the US had created numerous plans, initiatives, institutions and trade blocs to promote and maintain her currency – the US Dollar – as the leading international reserve currency not only for the central banks but also for the use in international trade among nations.[4]

Due to these efforts the US will hardly face a balance of payment crisis like other nations as the US purchased imports using its own currency – a strategic advantage that is unique to the US. For other nations, they need to obtain the US Dollar prior, to engage in international trade as it is largely being conducted by using US Dollar. It acts as not only the dominant and favored medium of exchange, but also as the unit of account as well as the store of value of internationally traded-goods and services.[5]

What made the US Dollar so popular and special for international trade?

Its stability is something inherent within the current international monetary system where the US has the upper hand in charting its course. As explained by Alan Greenspan, the former chairman of Federal Reserve, the US has zero probability to default as the country can always print the US Dollar. This makes the US Dollar a robust currency that is also liquid (easily traded) hence by convention it is a currency of choice for global economic transactions.[6]

It's a long history how the US Dollar arrived at this special position especially via the Bretton Woods Agreement in 1944. The agreement was enacted to stabilize the international economic system in the aftermath of World War II, where forty-four Allied nations agreed to adopt a fixed exchange rate regime by pegging their currencies to the gold-backed US Dollar.

Although the Bretton Woods system was abandoned by President Nixon in 1971 which in turn made the US Dollar no longer backed by gold and floated it like any other currencies, it still is able maintain its dominance in the international trade and as reserve currency for the whole world.

The clout of US Dollar is so great that the former French Finance Minister, Valéry Giscard d'Estaing, called it an "exorbitant privilege". But such privilege can only be maintained as long as the economic actors such as the states, corporations and consumers render their trust and constantly clamour for the US Dollar, which as we know at present is fast being challenged by the rise of China whose currency renminbi is now part of IMF's Special Drawing Rights (SDR).

One of the subtle goals of TPPA is to ensure the US Dollar remain the dominant international reserve currency in the face of currency war launched by China and other global powerhouses like Japan and the European Union.

The Global Minotaur, TPPA and the role of the US in the unipolar world order

There are two interrelated points of view based on different units of analyses on why the US pushes for TPPA: (1) the US as a nation-state and (2) the US as an informal empire.

Textbook knowledge on international economy will tells us that a nation must attain its balance of payment if it wishes to be politically and economically stable, if not prosperous. To achieve this goal, the US needs to reduce its trade deficits in an era where China has taken a huge market share – thanks originally to the US multinational corporations who shifted their productions to China as part of their profit maximization strategy.

Hence it is logically sound for the US to push for TPPA to maintain their national interest in the global economy especially in emerging markets of Asia-Pacific where China too is competing for the market share. This is pretty much the point of view of why the US as a nation state pursues TPPA – a standard narrative of many economic pundits.[7]

On the other hand, the US also plays a role as an informal empire that governs and asserts massive influences in international order – a fact that is rarely being discussed that is linked to the US economy and its trade interest. Such influence can only be wielded as long as the US maintains its economic prowess that is contingent on its global military dominance.

The mushrooming of military bases abroad and increasing number of joint military operations via various organizations such as the US regional military command centers and North Atlantic Treaty Organization (NATO) require strong financial support.[8]

All of these military installments cost a lot of money where the US Dollar has a very important role to finance these military expansions. Without safeguarding the supremacy of the US Dollar as international reserve currency, it is almost impossible to secure and safeguard the global dominance of the US military.

How does the US act as an informal empire in international political economy?

The former Greece finance minister, Yanis Varoufakis described the US as akin to a Global Minotaur – a metaphorical creature that is half-man half-bull from ancient Greek mythology that collected yearly human tributes served by the people of Crete.[9]

Varoufakis made such a reference because the US too received "tributes" but not in the form of human flesh but rather, the "surplus capital" from developed and industrialized nations like Germany and Japan, who bought US Treasury bills as and reinvested their surplus in the financial market of Wall Street.

These "tributes" are given by these nations in order to secure good and stable returns for their capital, which later will be ploughed into their production and trade with other nations in the form of Foreign Direct Investments (FDI) or Foreign Portfolio Investments (FPI).[10]

The same mechanism also works for the US Petrodollar system where oil-producing countries especially in the Arab world would recycle back their oil profits obtained in the form of the US Dollar to purchase US treasury bonds, equities, and weapons.[11]

The minotaur that Varoufakis referred to is not an abstract character that has no economic reality. It is rather central to the US national political and economic challenge as it actually refers to the US twin deficits in its budget and balance of trade.[12]

It is due to this privilege of not being adversely affected by its twin deficits that the US has been able to live in profligacy without having to face any austerity measures – unlike other nations (a recent case is Greece) that would need to toe their line as prescribed by IMF and World Bank.

This privilege is made possible, as Varoufakis explains, through the surplus recycling mechanism as the US Dollar-denominated financial instruments act as "tributes" which continuously feed the US Global Minotaur. The US recycles its surplus values in Germany and Japan, while in turn Germany sucks out the finances of Greece without having any kind of recycling mechanism, as austerity lowers consumption. Furthermore, the US, according to Varoufakis, intentionally creates chaos around the world to position itself as a safe haven for investment. This recycling mechanism made the US pretty much insulated against political and economic repressions – domestically and internationally – as the US Dollar-denominated financial assets that are being recycled across the globe from the Wall Street and back to the international market have helped to keep the twin deficits afloat and its adverse effects at bay.[13]

This is why the US is the only country in the world that could simultaneously be the largest debtor and also the largest creditor at the same time!

This twin role could only be maintained without the US facing any political and economic backlashes from the international community as long as other nations have trust and willing to incur extra cost in facilitating their trade using the US Dollar.

All nations in the world must always trade first with the US by selling their products in order to obtain the US Dollar. In this lopsided system, other nations in actual truth are subsidizing the lifestyle of conspicuous consumption of US citizens at the expense of their own environment, health and human rights. An exorbitant privilege indeed![14]

But such privilege is not merely being attained and maintained through "carrots" (good and stable financial returns) but also with "sticks" (coercion).

The US Dollar in truth is the monetary component of the US hard power. Those who tried to challenge the status quo will have to bear the brunt of the US military. The attempts by Saddam Hussein to use Euro for oil trading and Muammar Gaddafi for using the gold dinar had cost themselves and their countries dearly. The failures of Iraq and Libya have not deterred Russia, China and Iran to do the same in decoupling their trade from the US Dollar. To avoid the same fate of Saddam and Gaddaffi, these nations are well prepared to cushion the threats as together they have worked very closely in various platforms and initiatives with regard to politics, economic and defensive cooperation.[15]

Trade pact is a lawfare

TPPA must not be viewed in isolation from all the above contexts. Besides the 6,000 over pages of the agreement, there is another comprehensive and brief declaration issued by the US Treasury that will substantiate the writer's observations earlier.

Entitled as "Joint Declaration of the Macroeconomic Policy Authorities of Trans-Pacific Partnership Countries" (after this refers as "Joint Declaration"), it acts as a crucial mini-treaty that will binds and guides all TPPA members to remain in the ambit of the Washington Consensus by honouring and maintaining the role of US Dollar as international reserve currency.

The Joint Declaration demands the TPPA member states to adhere to strict and disciplined fiscal and monetary policies as stipulated by the IMF Articles of Agreements. Such a move as explained by the US Treasury is "to promote, through transparency and dialogue, market-

determined and transparent exchange rate regimes that allow real exchange rates to adjust to reflect underlying economic fundamentals."[16]

In short, TPPA member states must adhere to the laissez-faire economic doctrine that has shaped the international political economy, financial and monetary architecture erected by the US through IMF, World Bank and many other international institutions where the US wields a strong influence since the end of World War II. They must trade in the Dollar.

Economic activities like international trade are subjected to the rules, standards and agreements of these institutions. TPPA is nothing but another legal conduit to retain the participating nations so that they will continue to remain in the orbit of US-led international rule of law, currency and trade.[17]

It is an indirect warning to countries like Russia, China, Iran and others who aspire to be part of new financial and monetary architecture as proposed by BRICS which already post some serious challenges against the reigning ones as championed by the Anglo-American world order.

The intricacies and subtleties of TPPA as a form of lawfare[18] must never be underestimated by those who aspire to be thinking of reaping the benefits from the best of both worlds: the US-led trade pacts and the Eurasian-led Russo-Sino trade pacts like the New Silk Road, Eurasian Economic Union and Regional Comprehensive Economic Partnership (RCEP). By nature those two opposite trade camps are dialectical to one another especially with regard to their subtle geopolitical objectives that are embedded within the deals.[19]

As long as emerging markets are under the clout of IMF that could enforce its rules and standards within a treaty like TPPA, a true and genuine mutual trade where both parties have the real freedom of choice to trade in whatever currencies and medium of exchanges can never be materialized.

It would be very interesting to see how the global powers like Russia and China will react to TPPA (and other similar agreements) as their cardinal goal to revise Post-World War II international order from a unipolar system to be a multipolar one will surely ruffles Washington's feathers in years to come. TPPA will be another geopolitical flashpoint in the economic, financial and monetary domains in the great game of the world's powers.

Notes

[1] Besides the US, ASEAN is also being courted by other two other global powers pertaining to cooperation of economic matters: China through its "Regional Comprehensive Economic Partnership" (RCEP) and Shanghai Cooperation Organization (SCO); and Russia via Eurasian Economic Union. See Korybko, Andrew, *ASEAN And The New Cold War Battle For Eurasia's Economic Future (I)*, The Oriental Review, 14December 2015, Web. 12 Jan. 2016, <http://orientalreview.org/2015/12/14/asean-and-the-new-cold-war-battle-for-eurasias-economic-future-i/>

[2] Joseph Stiglitz viewed the present free trade agreements propelled by the US as a new strategy of "discordant managed trade regime" to offset the failure of WTO. See his "*The New Geo-Economics*", Social Europe, 11 January 2016, Web. 12 Jan. 2016, <http://www.socialeurope.eu/2016/01/the-new-geo-economics/?utm_source=facebook&utm_medium=social&utm_campaign=SocialWarfare>

[3] See Schenk, Catherine R., *Britain and the Sterling Area: From Devaluation to Convertibility in the 1950s*, (London: Routledge, 1994); also Tomlinson, Jon, 'The Empire/Commonwealth in British Economic Thinking and Policy' in Thompson, Andrew S. (ed.), *Britain's Experience of Empire in the Twentieth Century,* (Oxford: Oxford University Press, 2012)

[4] The genesis of global dollarization began in earnest after the success of Marshall Plan in rebuilding post-War Europe. It was also intended as containment strategy against the Soviet's move to widen their sphere of influence. See Hogan, Michael J. The *Marshall Plan: America, Britain, and the Reconstruction of Western Europe, 1947-1952*, (Cambridge: Cambridge University Press, 1987)

[5] For the history of the US Dollar's supremacy in 20th century, see Eichengreen, Barry J., *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*, (Oxford: Oxford University Press, 2011)

[6] See Prasad, Eswar, *The Dollar Trap: How the US Dollar Tightened Its Grip on Global Finance*, (Princeton: Princeton University Press, 2014)

[7] Of course TPPA is not limited to state-centric interest as the real drivers behind the agreement are none other than the Multinational Corporations that constantly lobby the US Congress to expedite the approval of the bill. See Gibson, C Robert, and Taylor Channing. « *Here's How Much Corporations Paid US Senators to Fast-track the TPP Bill*« , The Guardian, 27 May 2015, Web. 5 Jan. 2016, <http://www.theguardian.com/business/2015/may/27/corporations-paid-us-senators-fast-track-tpp>

[8] See Vine, David, *Base Nation: How U.S. Military Bases Abroad Harm America and the World*, (New York: Metropolitan Books, Henry Holt and Company, 2015); Weitsman, Patricia A, *Waging War: Alliances, Coalitions, and Institutions of Interstate Violence*, (Stanford: Stanford University Press, 2014)

[9] Varoufakis, Yanis, *The Global Minotaur: America, Europe and the Future of the Global Economy*, (London: Zed Books, 2015)

[10] For Marxist analysis on the contradictions of capital accumulation, see Harvey, David, *The Enigma of Capital: And the Crises of Capitalism*, (Oxford: Oxford University Press, 2010)

[11] See Clark, William R., *Petrodollar Warfare: Oil, Iraq and the Future of the Dollar,* (Gabriola Island: New Society, 2006)

[12] Varoufakis, *The Global Minotaur,* p22-3.

[13] Ibid., p115-20.

[14] See Wallerstein, Immanuel, *World-systems Analysis: An Introduction*, (Durham: Duke University Press, 2004); for in-depth studies on the historical dependency of the North to the South in world-system framework, see Frank, Andre G, and Barry K. Gills, (eds.), *The World System: Five Hundred Years or Five Thousand?* (London: Routledge, 1993)

[15] See Viotti, Paul R., *The Dollar and National Security: The Monetary Component of Hard Power*, (Stanford: Stanford University Press, 2014)

[16] See *"Joint Declaration",* p 1.

[17] To understand how the US made use of the international law of post-War era as a conduit for a new form of economic colonialism especially in expropriating raw materials of the newly independent nations of the South, see Pahuja, Sundhya, *Decolonising International Law: Development, Economic Growth, and the Politics of Universality*, (Cambridge: Cambridge University Press, 2011)

[18] See Kittrie, Orde F., *Lawfare: Law As a Weapon of War*, (New York: Oxford University Press, 2016)

[19] For big picture of geopolitical competition in economic integration see Escobar, Pepe, *Empire of Chaos preparing for more fireworks in 2016,* RT.com, 24 December 2015, Web. 12 January 2016, <https://www.rt.com/op-edge/326965-2016-us-syria-turkey/>

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