The Death of the Trans-Pacific Partnership and the Contradictions of Neoliberalism

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In October 2015 the United States (U.S.) and eleven other states finalised the Trans-Pacific Partnership Agreement (TPP). This came in the wake of the triumph of the Obama Administration four months earlier in securing so-called fast-track legislation. Fast-tack was first established in 1974. It essentially delegates authority over trade negotiations from the Congress to the President, enabling negotiators to finalise agreements and guide them through ratification without be changed by anxious politicians eager to please their constituents. Fast-track is only granted for limited periods of time, and in order to sign-off on the TPP, the Obama Administration was seeking its renewal. This proved, as it traditionally has, controversial, with the legislation suffering several high-profile setbacks. Yet Obama pushed on. His lobbying blitz in support of the renewal, mostly directed at Democrats, was reportedly stronger than his lobbing for the Affordable Health Care Act (Donnan and Sevastopul 2015). The success of fast-track was not only a legislative victory for Obama, but an aberration on the dysfunctional obstructivism of Congress which had otherwise persisted for most of his presidency – a rare moment of bipartisanship in an increasingly polarised political climate. While fiercely opposed by unions, environmentalists and open internet activists the TPP enjoyed wide support from corporate America (and the political donor class). It looked set, along with the nuclear deal with Iran, to be one of President Obama’s defining foreign policy achievements.

However, by January 2017 Donald Trump abandoned the TPP as one of his first acts as President. The hostility of Trump to free trade, including the TPP specifically, was a defining characteristic of his presidential campaign. Hillary Clinton too, facing a populist challenge in the Democratic primary from Bernie Sanders, had come out in opposition to the TPP. These developments forced Obama to abandon any hope of ratifying the agreement in the lame duck session. International trade can often become embroiled in domestic political spats, however for most of the post-war era free trade has enjoyed widespread bipartisan support. However, in 2016 both of the major party’s presidential candidates, at least ostensibly, opposed a free trade agreement covering 40 percent of the world’s economy. Why did this happen, and what does it mean?

This turn against internationalism is by no means unique to America. Brexit and the rise of the European far-right has some commentators speculating that liberal democracy’s day in the sun may finally be over. This essay does not seek to make such a claim (though does not preclude it). It will, however, argue that the death of the TPP may be a symptom of the unwinding of the contemporary neoliberal era. This era was implemented by the U.S. after the collapse of the Bretton Woods system in order to sustain U.S. dominance in the international economy, namely through financial markets. This required a ‘template’ on how international trade was to be governed which was secured in the World Trade Organisation, and eventually built on through preferential trade agreements such as the TPP. It is the contradictions within this neoliberal system that has seen the political consensus supporting it erode. The TPP’s demise is a result of this.

The essay will first discuss why the U.S. initially pursued the TPP. It will then discuss how it fits in contemporary neoliberal trade by first analysing how and why the neoliberal era emerged from the end of the Bretton Woods system. This will also examine how neoliberal trade is structured to support U.S. interests. The essay will end with a discussion of how the actions of President Trump to abandon the TPP is a result of the contradictions created by the neoliberal era, and why this is significant.

What was the TPP all about?

There are two popular explanations of the TPP. First, it was a "savvy retooling" (Solís 2012, 328) of George Bush's 'competitive liberalisation' strategy. Facing gridlock in the World Trade Organisation (WTO), as well as an unfavourable agenda under the Doha Development Round, the U.S. and other states began to more aggressively pursue preferential trade agreements from the early 2000s. The competitive liberalisation agenda pursued by the Bush Administration sought to use these preferential agreements to build alliances that could later be leveraged in multinational trade negotiations. Between 2000 and 2007, the U.S. negotiated and signed eleven bilateral trade agreements and one regional trade agreement in Central America. These created 'templates' for the type of agreement that the U.S would like to emulate globally. However, in the years that followed the WTO became more and more dysfunctional and other states appeared in no rush to sign onto the U.S.'s trade template. The U.S. believed that by pushing this template in the TPP there was added incentive for states join (Solís 2012, 328). This in essence circumvented the WTO all together by building a large plurilateral free trade agreement on U.S. terms. Similar agreements were pursued bilaterally with the European Union, and cross-regionally under the Anti-Counterfeiting Trade Agreement and the Trade in Services Agreement.

Second, the TPP was part of Obama's 'pivot to Asia' to address the growing influence of China in the region. It thus not only advanced the U.S.'s global trade agenda but also undermined the influence of a key economic rival. This suggests that the TPP was to ensure that economic integration in the Asia Pacific would take place on terms favourable to the U.S., not China. Indeed, this was made explicit by Obama on several occasions, including his 2015 Sate of the Union address, when he argued that "China wants to write the rules for the world's fastest-growing region. That would put our workers and our businesses at a disadvantage. Why would we let that happen? We should write those rules" (Obama 2015). The following year's Sate of the Union, as well as public statements issued by the Obama Administration after the finalisation of negotiations in 2015, echo this sentiment. Trump loves to talk tough on China. If this was in fact the main impetus behind the TPP, it would seem counterproductive for Trump to scrap it in the name of an 'America First' trade policy. The problem with the TPP, however, was not that it marginalised China, but how it did it. That is, the problem was the type of template it was pursuing. The so-called 'gold standard' it achieved. This stretches back further than Bush's 'competitive liberalisation' to the collapse of the Bretton Woods era and the rise of the neoliberal one.

The End of Bretton Woods and U.S. Trade Dominance

Neoliberalism did not just happen, it was enforced. In fact, as paradoxical as it may appear, it was enforced by states – namely the U.S. This was done to maintain U.S. influence and leadership internationally, and to serve its security interests. This began with the collapse of the Bretton Wood's era. Under Bretton Woods, the U.S. was obligated to buy gold from official foreign creditors at U.S. $35 per ounce. All other currencies were 'pegged' to the U.S. dollar and could only be adjusted marginally to correct a fundamental disequilibrium in a county's balance of payments. Because central bank gold reserves were scarce outside of the U.S., and because the International Monetary Fund was unable to meet this shortfall, the U.S. provided international liquidity by running a balance of payments deficit. These deficits allowed other states to acquire additional reserves of U.S. dollars as a substitute for gold (Cohen 2013). However, despite the fact that international liquidity depended on these deficits, they still could not be too large. Holders of dollars needed to be confident that the U.S. would honour its obligations to exchange dollar reserves for gold (Cohen 2013). Fortunately, at the time the U.S. ran trade surpluses which partially counterbalanced the outflow of dollars.

Meanwhile, the U.S. was in a Cold War with the Soviet Union. Under President Truman, the U.S. sought to 'contain' the Soviet Union on both its Western and Eastern borders. The international trade regime became an important element of achieving this. In conjunction with the Marshall Plan, the U.S. sought to rebuild its vanquished foes in Germany and Japan through favourable access to the U.S. market. This repaired their industrial base, helped stabilise international finance and made them more dependent on the U.S. (Gilpin 1987, 90, Varoufakis 2011, 67-74). However, this also created a contradiction that would eventually destroy the Bretton Woods order. As the German and Japanese economies recovered they eliminated the U.S. trade surplus. The resulting glut in dollars undercut confidence that the U.S. could fulfil its obligations and convert foreign-held U.S. reserves to gold. This was especially the case as it depleted its own gold reserves by running government budget deficits to pay for domestic programs and the war in Vietnam. On August 15th 1971, President Nixon announced that the U.S. dollar would no longer be tied to gold. Floating exchange rates were widely adopted among the major trade partners from March 1973 marking the end of the Bretton Woods monetary era.

The economic changes announced by Nixon in 1971 also included a temporary 10 percent import tax to counteract the effects of undervalued foreign currencies on U.S. trade. This signalled a change in U.S. trade policy from the Bretton Woods system. The Europeans met the U.S.'s more aggressive trade posturing in-kind, or as Nixon summarised, "European leaders want to 'screw' us and we want to 'screw' them in the economic area" (Nixon in U.S. Department of State 2001, 425). However, despite this more aggressive trade stance, the U.S. was still willing to give economic concession to Europe and Japan in order to maintain its political and military influence, particularly *vis-à-vis* the Soviet Union. Nixon believed that US interests would be served "by being as tough as we can without going over the line where anti-US sentiment will cause them to turn against us and break with us…we will probably have to give more than our interest, strictly construed, would require" (Nixon in U.S. Department of State 2001, 424). While the U.S. may have been willing to continue to shoulder undue costs in trade arrangements, this was at odds with its desire to solve its balance of payments problems and head-off protectionism and isolationism domestically. A new economic order needed to be established that could address these concerns, and this meant a new trajectory for international trade.

Trade in the Neoliberal Era

Yanis Varoufakis has explored this transition in his book on the 2008 Global Financial Crisis, *The Global Minotaur* (2011). He argues that the U.S. embraced its new status as a twin deficit (government budget and trade) country rather than fight to retain the doomed Bretton Woods system. However, these deficits needed to be funded somehow. The U.S. did not want to cut its spending (much of which was used to project U.S. military dominance across the word) or raise its taxes. This would require a complete reversal of the Bretton Woods era, whereby the U.S. would *receive* global capital flows from surplus nations. In order for countries to invest their surpluses through Wall Street to finance these deficits the U.S. needed to be attractive for investors. This required improved competitiveness (i.e. profitability) of U.S. industry and attractive interest rates. The sky-high rates under the Volcker recession of the early 1980s saw to the latter requirement.

Varoufakis argues that the U.S. addressed its corporate competitiveness in two ways. First, it actively encouraged world oil prices to rise, which disproportionately impacted its rivals who imported more of their oil. This also created a cache of petrodollars (as commodities are traded in U.S. dollars) which were largely invested through Wall Street. Second, the U.S. squeezed labour through union busting and the Volcker recession to reduce costs (Varoufakis 2011, 102-106). This was highly successful, with real wages stagnating from 1973 while labour productivity doubled from 1973 to 2010 (Varoufakis 2011, 104). As a result, corporate profit rose. This also led to the rise of the Walmart business model, which imports cheap consumer goods (contributing to the trade deficit) that keep prices for poorly-paid workers low (Varoufakis 2011, 123-127). From the 2000s these goods have come from China, which has taken over from Japan as the main surplus economy. However, despite the low prices from an overvalued dollar, the U.S. would still struggle to absorb the world's surplus products while the wages of its workers stagnated. The solution was personal credit – what Colin Crouch (2009) calls 'privatised Keynesianism'. This saw an explosion of mortgage and credit card debt among poor and middle class workers in the U.S., much of which depended on the growth in house prices.

This new financial order underwrote U.S. power and influence in the world economy. The U.S. was now the main destination of international capital to finance its government spending (in lieu of an adequate tax base), its trade deficit and its consumer credit (in lieu of adequate wages or government stimulus). Investors were confident, meanwhile, of the general strength of the U.S. economy and the ability of the U.S. government to manage volatility and crisis. While no longer tied to gold, the dollar was once again the centre of the world financial system and the preeminent reserve currency (Panitch and Gindin 2009, 30-37). Wall Street, meanwhile, profited handsomely and became the main exporting industry from the mid-1980s.

The U.S .knew that it could no longer compete on manufactured goods, especially against low-cost counties in East Asia. As the U.S.'s political allies-cum-economic rivals began to compete in heavy manufacturing, consumer goods, textiles and steel, these industries began to decline. Meanwhile, from 1965 to 1975 U.S. exports in services grew by an average annual rate of 1.93 percentage points faster than imports. As a result the U.S.'s modest deficit in the trade of services became a surplus in 1971 – as it has remained ever since (United States Census Bureau 2015). As U.S. industries began to compete with imports, services became more important, taking up a greater share of total employment, total domestic consumption and GDP. In 1960, the share of personal consumption of services of total personal consumption was 47 percent. By 1986, when the Uruguay Round started, it was 59 percent (Bureau of Economic Analysis 2015).

From 1980 the General Agreement on Tariffs and Trade (GATT) began to examine trade in services and how they could form part of future negotiations. The U.S. was a major supporter of the GATT's work on services at this time. It openly acknowledged that its growing interests in services was due to the significant growth of the sector throughout the 1970s, with 19 million of the 20 million new jobs created in the decade being in service industries. However, while the "modernisation" of the U.S. economy had seen employment and economic activity switch from "uncompetitive" industries to the services sector, "during the 1970's the growth of U.S. service companies abroad had stagnated due, inter alia, to barriers being imposed by foreign governments" (General Agreement on Tariffs and Trade 1985, 4). The 'modernisation' of the U.S. economy in this instance can be seen as a euphemism for the collapse of industrial sectors under intense foreign competition.

The U.S. was particularly competitive in one area of services – intellectual property. Despite the competition from resurgent world powers the U.S. retained supremacy in technological innovation – aided through its military budget. Technological superiority was seen a key to national security, however the U.S. government also encourage the commercialisation of its government-funded innovations (Weiss 2014, Hurt 2011). This contributed to the U.S.'s extensive portfolio of biotechnology and pharmaceuticals patents. The U.S. also dominated copyright industries, such as music, films and by the 1980s – computer software. However, this meant little if foreign competitors did not observe U.S.-held intellectual property. The U.S. also required investment protections for its corporations, which thanks to the overvalued dollar could buy up foreign assets on the cheap, and which required such protections when 'outsourcing' their production to surplus nations.

The U.S. thus needed to protect its intellectual property owners and investors overseas, and allow market access for its service industries. The foundational agreements of the WTO emerging from the Uruguay Round reflected these needs on services (General Agreement on Trade in Services), investment (Agreement on Trade-Related Investment Measures) and intellectual property (Trade-Related Aspects of Intellectual Property Rights). The TPP was often trumpeted as a so-called '21stCentury agreement'. This is because it embodied the template for international trade that built on the success of the WTO and which was refined through various preferential agreements in the 2000s. It expanded intellectual property rights and enforcement. It established more rights for investors, specifically the right to challenge government policy in an international tribunal. It created open data flows for the internet. It further expanded the neoliberal trade model, one which supported the financialisation of the world economy via U.S. banks, funded by U.S. consumer and government debt. The TPP sat nicely within neoliberal order – an order that was collapsing.

The Collapse of the Neoliberal Trade Regime?

In an attempt to maintain its dominance over international finance following the collapse of the Bretton Woods system the U.S. intentionally hollowed out its domestic manufacturing industry. In its stead grew a reliance on service industries, which are more difficult to outsource. The U.S. also began to export services. However, service industries are highly stratified. On the one end are minimum-wage working poor service jobs. On the other is high-paid professional jobs like the ones in Silicon Valley, an industry that often relies on migrant labour due to domestic skill shortages. What is missing is the sort of reliable, well-paid blue-collar union jobs that exist in the manufacturing industry. The contradiction at the heart of this system is best captured, prophetically, by former U.S. Senator Byron Dorgan in 1997:

And if one fries more hamburgers and sells more insurance policies and is fat and happy, trading services and doing lots of wonderful things but sees the demise of its manufacturing sector because we have decided that it is appropriate to allow those who produce to find the lowest cost of production anywhere in the world, produce there, and ship back into our marketplaces, you can conceivably show perhaps even reasonable trade balances and show some economic growth at the same time that you are seeing your economy wither and seeing the long-term demise of a strong economic base (Dorgan 1997, 40).

This came into sharp relief when the global financial crisis shook the economic foundations of the neoliberal order – namely the 'privatised Keynesianism' which had propped up consumer demand. However, the political foundations have also been eroding fast. The backlash against free trade, the TPP and other treaties such as the North American Free Trade Agreement in the U.S. has not been universal. Some workers, particularly those in Wall Street, Silicon Valley and Hollywood, have fared well. However, Trump's shock victory in 2016 came from the industrial mid-Western states that have been the main losers, not of globalisation, but of the world that the U.S. built after the 'Golden Age of capitalism' came to a close. The political anger of the out-of-work toolmaker in Wisconsin is an echo of the fundamental change in the international political economy that has rung out since the early 1970s, and which has grown louder over time. Today it is deafening.

Following the global financial crisis, Colin Crouch (2009) asked how capitalism and democracy could now be reconciled. That is, the question for the survival of the current economic system is not only whether the U.S.'s economy is strong enough to sustain it, but if it can secure consensus from enough of America's workers. The failure of the TPP is a sign that this consensus in neoliberalism is fracturing. What comes now is more interesting. It can be expected that efforts of the U.S. to pursue its 'template' for international trade will now be hampered. The fate of the bilateral agreement with Europe and the cross-regional Trade in Services Agreement will be indicative of how, or if, the U.S. can solve this problem. The U.S. may consider a complete break, abandoning neoliberalism in favour of a new order which can maintain its leadership and achieve consensus at home. What this could be, however, is unclear.

Conclusion

The TPP embodied the U.S. trade objectives in the neoliberal era. This is based on maintaining the U.S.'s centrality in international finance, and the role of the dollar as the world's reserve currency. This was achieved under the neoliberal era as the U.S. actively worked to build a new international economic order in its favour, following the collapse of the Bretton Woods system. Under this neoliberal system, the U.S. receives capital from surplus nations to fund its trade and government budget deficits. This capital also funds consumer debt, which in turn helps U.S. workers buy cheap imported goods. This allows the U.S. to be the world's consumer, despite the fact that the real wages of its workers had stagnated since 1973. As a result, the U.S. economy is now orientated towards consumption and service industries. This includes highly competitive service industries which export to the rest of the world, and contribute to the U.S.'s technological superiority. This was supported by a 'template' for international trade governance, enshrined in the founding agreements of the WTO and further expanded upon in later agreements. The TPP was such an agreement, and one that would have reinforced the U.S. preferred template in the Asia Pacific to counteract the influence of China.

However, this has created a number of domestic 'losers' namely in pervious manufacturing areas. With the ability of consumer debt to continue to prop up living standards now shaken by the 2008 global financial crisis, the trade 'template' used to sustain the international neoliberal order, as the U.S. designed it, is facing a lack of political consensus at home. The TPP became a symbol of this in the 2016 presidential campaign, and in the Democratic presidential primary also. The exit of the U.S. from the TPP is indicative of the fracturing consensus. It will be important to watch the fate of ongoing negotiations that also apply this template to see how existential this facture may prove to be, and whether or not it can be mended.

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