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# Whither the TPP? Political Economy of Ratification and Effect on Trade Architecture in East Asia

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In the race for establishing trading architecture consistent with new landscape of the global economy, the US is ahead of the game by concluding the Trans Pacific Partnership Agreement with 11 countries. To make it reality, the ratification is essential. In the battle for ratification in the US, declining globalism confronts rising protectionism. This paper models the ratification process as contest between globalism and protectionism, and analyzes the optimal timing for ratification. Based on this framework, various ratification scenarios are analyzed. The paper argues less likelihood for the lame-duck session passage and more likelihood for prolonged and protracted delay, due to changing political dynamics and declining intellectual support for globalism. Hence, the future of Trans Pacific Partnership Agreement may prove different, compared to the North American Free Trade Agreement and the Korea-US Free Trade Agreement, both of which were renegotiated and ratified eventually. Then, the US would lose the first move advantage. The paper also discusses strategic implications of delayed ratification on the evolution of trading architecture in East Asia.

*Keywords:* TPP, RCEP, Ratification, Protectionism, Globalism, Trading Architecture

*JEL Classification:* F13, F51, F68

## I. INTRODUCTION

In East Asia, two major trading architectures are vying for dominance. They are the TPP (Trans-Pacific Partnership) and the RCEP (Regional Comprehensive Economic Partnership). 12 countries have joined the TPP, and 16 countries are negotiating the RCEP. In terms of economic significance, the membership of TPP covers 37.4 % of the global GDP and 27% of the world trade, while 30.6% of the global GDP and 30.2 % of the world trade is covered by the members in the RCEP.<sup>1</sup>

<sup>1</sup> Trade data is based on IMF (2014), and GDP data is based on IMF (2015).

RCEP is based on countries in Asia: 10 members of the ASEAN plus 6 countries (Korea, Japan, China, Australia, New Zealand, and India). On the other hand, TPP centers on the both sides of the Pacific—Japan, Malaysia, Singapore, Brunei, Vietnam, Australia, New Zealand from the Asian side of the Pacific and the US, Canada, Mexico, Chile, Peru from the American side of the Pacific. Some countries are joining both the TPP and the RCEP: Japan, Malaysia, Singapore, Vietnam, Brunei, Australia, and New Zealand.

Noticeably, the US is not in the RCEP, and China is not in the TPP. From the membership formation, perception has developed that the TPP is led by the US, while the RCEP is led by China. It is no doubt that the US has led the TPP. In the case of RCEP, realities are more complex than the simplified version of China-leading. The ASEAN has been persistent that it should be the core of the RCEP. As a matter of fact, the RCEP membership has evolved from the ASEAN plus six non-ASEAN countries (Korea, Japan, China, Australia, New Zealand, and India), each of which has its bilateral FTA with the ASEAN. The problem is that the ASEAN cannot lead the RCEP negotiations. In terms of economic power and negotiating leverage, only China is capable of leading the RCEP negotiations. Question is whether China is willing to lead. So far, China has been hesitant and unwilling to exercise its leadership in advancing the RCEP talks. Now, with the conclusion of the TPP, China finds itself facing the moment of truth: either lead or lose.

These mega FTAs build on the decade-long attempt of making bilateral FTAs in East Asia. While motivation of harmonizing and integrating a variety of rules of origins in bilateral FTAs has given rise to the necessity for mega-FTA, these mega FTAs aim further and beyond the familiar work program of bilateral FTA: substantial liberalization of service and investment, introducing disciplines on behind-the-border measures, and establishing trading rules related to digital economy. Through a series of multilateral negotiations under the aegis of the GATT in the 20<sup>th</sup> century and a series of bilateral FTAs in the early part of the 21<sup>st</sup> century, tariffs on goods have been reduced to substantially low level in many East Asian countries. When tariffs become ‘trade issue’, it is mainly for the two reasons: first, the gap between binding tariffs and actual ones is large, hence creating uncertainty for trading partners; second, remaining binding tariffs are difficult to be reduced due to stubborn domestic opposition. For these reasons, the importance of tariff negotiations is not the same as before. Tariff negotiations are no longer

the most important negotiating agenda for trade talks. This is precisely the case in the TPP and the RCEP (Schott and et al., 2016; Solis, 2016).

Global economy has taken new landscape, driven by technological advances and digital revolution. Deepening the Global Value Chain, vibrant cross-border flow of capital for greenfield investment and merger and acquisition, and digital trade have become an integral part of the global economy, but not effectively reflected in the current global trading rule. As for investment, various bilateral investment treaties have been agreed but failed to form multilateral investment agreement. Considering the ever-increasing flow of cross-the-border investment, the patchwork of bilateral ties would generate regulatory confusion and risk to investors and regulatory loophole for policymakers. In the light of neck-breaking speed of digital transaction across national borders, the absence of trading rule in this new economy is striking.

If this gap between economic realities and trade disciplines persists, it would create regulatory uncertainty and risk, with the likely impact of only strengthening the dominance of incumbents at the expense of innovation and consumers. While the WTO has not delivered any meaningful response to this task of the times,<sup>2</sup> like-minded countries aim to establish trade rule in these area among them before others do. This is essentially the nature of competition between the TPP and the RCEP.

In the competition for establishing trading rule, the TPP is clearly ahead of the game. The 12 participating countries reached the agreement in October 2015 and signed on it February 2016. With one more step, it will go into effect. On the other hand, the RCEP is slow in moving. So far, the 16 participating countries had the 16 rounds of talks with a modest progress. They agreed to delay the deadline of the end of 2016. Notwithstanding this asymmetry in progress, ‘the last step’ in making the TPP as a reality is proving uphill battle (Putz, 2016). Ratification of the TPP in the most important signatory is defying any easy conclusion. Headwind of protectionism is blowing strong in the US. The TPP agreement is not welcomed by those key politicians who supported before. The president Obama, whose vision and gut carried the TPP talks to conclusion, is counting his days in the office. Both Presidential candidates from the two major parties declared their opposition to the TPP. (CNN, 2015; Fox News, 2016; Jacobs, 2015; Roberts and Felton, 2016)

<sup>2</sup> At the WTO Ministerial Conference in Nairobi 2015, the US made it public that the Doha Round (formally, known as the Doha Development Agenda) had reached the dead end. (Froman, 2015; USTR, 2015)

If the US fails to ratify, the TPP would remain a document sitting on the table. According to the TPP agreement, it will enter into force 60 days after all original signatories have notified completion of their domestic legal procedures. If this has not occurred within two years of signature, the Agreement will enter into force 60 days after the expiry of that two year period if at least six original signatories accounting for 85 percent of the combined gross domestic product of the original signatories have ratified the agreement.<sup>3</sup> Even if all other 11 signatories complete their ratification process, the TPP would not be effective without the US ratification.<sup>4</sup>

The Obama administration is adamant in pushing the TPP in the lame-duck session. (Kasperkevic, 2015) When they go for it, they are fighting with history: No controversial trade agreement was ever ratified in the lame-duck session in the year of the Presidential election. Will it happen? How much chance for the lame-duck session ratification? What if the US fails to ratify the TPP during the term of Obama? Does this mean the end of the TPP? Will it survive beyond the Obama administration in the ever-increasing tide of protectionism? How will the future course of the TPP influence the future of the RCEP, and the evolution of trading architecture in East Asia? These questions motivate this paper.

This paper is organized as follows. In the next section, we develop a theoretical framework to analyze the ratification game. Section III provides the analysis of various ratification scenarios. Section IV discusses the changing dynamics of trade politics in the US and analyzes its effect on the future of the TPP. Strategic implication of the TPP ratification in the context of trade architecture competition in East Asia is analyzed in section V. Section VI concludes this paper.

## II. FRAMEWORK FOR ANALYSIS: MODEL OF RATIFICATION GAME

We model the ratification battle as the contest between globalism and protectionism. For the ratification of an international trade agreement, the government advocates economic benefit, security and credibility to the international community. Inherently,

<sup>3</sup> Article 30.5 “Entry into Force” in Chapter 30 “Final Provisions” from the TPP Agreement. (USTR, 2016)

<sup>4</sup> Among the 12 signatories, the US has 62% and Japan has 17% of the GDP share. Hence, the TPP will not become effective without ratification from both the US and Japan, if the 85% threshold is to be invoked. It would be unimaginable for Japan to reject the TPP, once the US ratifies it.

these arguments are based on globalism. Economic benefits are usually phrased in terms of job creation, economic growth, and welfare gain to consumers, from expected trade and investment increase. The government will make a strong case on trade-security nexus, claiming that increased economic ties through trade and investment will reduce tension among countries and promote stability and security. These positive benefits from the treaty are only materialized when the treaty becomes effective.

Against the case for ratification based on globalism, opposing groups play the card of protectionism. They speak loudly the negative effect of the agreement on the domestic economy, national system, and people. Protectionist resorts to the fear of voters, while globalist plays the music of hope. In a deeper level, opposition to international trade agreement is decomposed to three fronts: economic opposition, ideological opposition, and strategic opposition.<sup>5</sup>

The first category of opposition is manifest in those who bear the brunt of the fierce import competition. Politicians from this constituency are bound to oppose international trade agreement, which would push their voters to more intensified competition with cheap foreign products and low-wage foreign workers. The mid-west region of the US is beset with manufacturing industries, exposed to this kind of international competition. Because of their low productivity and lack of proper empowerment program, industries were hit hard and workers find themselves between jobless and job searching.<sup>6</sup>

The second category of opposition is from those who believe that the public policy space is infringed for the benefit of capitalist. Organized labor and environment group are prime case of this category. They have been blaming on trade causing the race to the bottom, by downgrading environmental standards and labor standards. Recently, some NGOs and political activists join this category of opposition through their opposition to the ISDS (Investor-State Dispute Settlement) mechanism.<sup>7</sup> The

<sup>5</sup> Choi (2006) is the first study to classify the opposition to international trade agreement in this manner.

<sup>6</sup> Section IV provides more details on this.

<sup>7</sup> Elizabeth Warren, Senator from Massachusetts, has championed this case. Warren and President Obama have exchanged sharp words on this ISDS in the TPP, where each called the other “lying” or something equivalent. The ISDS controversy in the EU interrupted the TTIP (Trans-Atlantic Trade and Investment Partnership) talks between the US and the EU. In the ratification process of the KORUS FTA, main opposition party of Korea campaigned to reject the agreement solely based on its opposition to the ISDS.

ISDS, which gives foreign investors the legal right to challenge sovereign state at an international court on disputes related to their investment, is accused to serve big companies at the expense of sovereign state and citizens.<sup>8</sup> The opposed in this category are driven by their perspective on the world affairs, and thereby purely ideological.

The third category of opposition is from those who support international agreement in principle, but criticize it because their interest is not effectively met. This kind of opposition is prevalent among politicians and business sector people, who initially supported the idea of trade negotiations, but changed their support on the ground that the final agreement is falling short of their expectation.

Among those opposed, those of the first and the third category stand some chance for withdrawing or reversing their opposition. The government has ways and means to change their minds. The TAA (Trade Adjustment Assistance) is designed to address the opposition of first category (Hornbeck, 2013). When the Congress grants the TPA (Trade Promotion Authority) to the administration, there has been tendency to include the TAA as a package.<sup>9</sup> The most recent TPA of 2015, which met strong opposition at the Congress, could barely pass because of the TAA in the package.

The explicit way of addressing the third category of opposition is to fix the agreement to their liking. Additional agreement with the foreign signatory (or signatories) or exchange of side letters between the government representatives may be sought. Non-explicit ways<sup>10</sup> have been amply documented in numerous political memoirs and films. The more specific charges against the treaty become, the more likely the explicit way of handling the opposition. Renegotiations of the NAFTA of 1992 on labor and environment issues are the government endeavor to mitigate opposition, mindful of the second category and the third category of opposition. Renegotiating the KORUS FTA of 2007 on auto sector was surgical attempt to achieve the same effect.

<sup>8</sup> The changing attitude towards the ISDS in the US and the EU is somewhat puzzling. The ISDS has been the integral part of the international investment treaty for more than half century. From the beginning, the ISDS has been the initiative of the Western world, where the lion share of investment came.

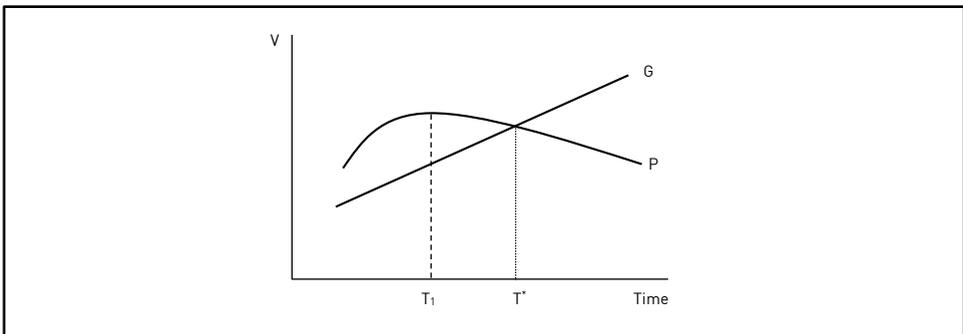
<sup>9</sup> The TAA has been practiced since 1962.

<sup>10</sup> Backroom dealing, promise of campaign support, offering prestigious post, granting privilege and so on.

In the dimension of time, protectionists are divided into two groups: opportunistic protectionist and convicted protectionist. Convicted protectionists do not change their stance over time. They are deeply committed to their cause of fight against free trade. They would not be persuaded by logic, data, and fact. Opportunistic protectionists are ready to be convinced. Those in the second category in our previous analysis are convicted protectionists. Those in the third category are opportunistic protectionists. Those in the first category are either opportunistic or convicted.

Figure 1 shows the force of two conflicting forces—protectionism and globalism—over the time. The curve labelled P is the force of protectionism over time. The protectionism includes both opportunistic and convicted opposition. The force of protectionism would increase as the election time (indicated as  $T_1$  in Figure 1) is approaching. After the election, the force of protectionism decreases, because opportunistic protectionists would change their stance after the election. Not all of them would change their opposition immediately after the election. Some would change soon, and some would change later. The speed of reversal reflects the effectiveness of the effort of the government to address concern and complaints of those opposed. Hence, the curve P exhibits inversed-skewed U shape. The curve labelled G in Figure 1 is the force of globalism over time. It is upward sloping, reflecting common observation that the government intensifies its advocacy for the benefit from the treaty as the time for ratification approaches.<sup>11</sup>

Figure 1. Ratification Game: Globalism vs Protectionism



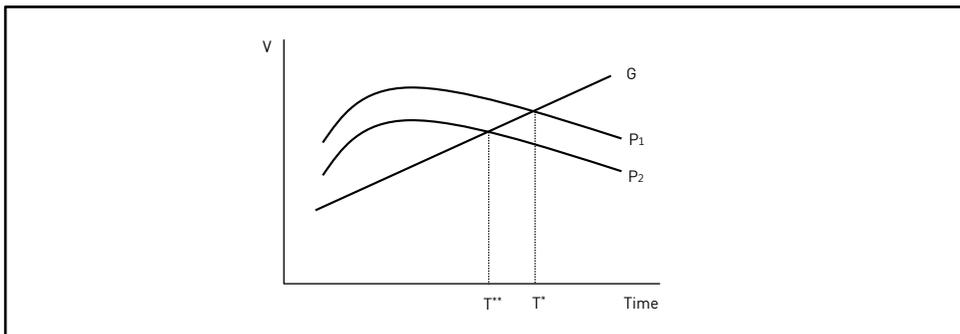
<sup>11</sup> In some cases the G curve may not be linear, reflecting that the effort of marshalling support for the ratification hit the wall and becomes less effective. The model in this paper captures this possibility with the skewed P curve.

The ratification game is the contest between globalism and protectionism. When the force of globalism is stronger than that of protectionism, ratification is obtained. When the force of protectionism is stronger than that of globalism, ratification is not possible. Hence,  $T^*$  is the optimal timing for ratification.

Prior to  $T^*$ , time is not right for sending the implementation bill to the Congress, because the force of globalism is weaker than that of protectionism. If the government pushes the ratification in time prior to  $T^*$ , it risks political defeat. If the government is serious about the ratification even though time is not ripe, it should make strategic move to lessen the force of protectionists. If such strategic move can be successfully deployed, it would shift the  $P$  curve downward. Alternatively, the government may try to increase the force of globalists, which would shift the  $G$  curve upward.

Figure 2 shows such a possibility of strategic move by the government to hasten the time for ratification by lowering the force of protectionism. In Figure 2, the  $P$  curve is shifted downward to  $P_2$  from  $P_1$  due to the government strategy. Such a move will shorten the optimal ratification time from  $T^*$  to  $T^{**}$ .

Figure 2. Strategic Move in Ratification Game



In the battle for ratifying the TPP, the government seeking for ratification will throw its weight behind globalism, while downplaying protectionism. The government-now and the future-would ask for ratification by arguing for positive economic effect and strategic significance. In the time of prolonged economic recession, the best argument for economic effect is job creation through trade. Strategic significance means taking global leadership in shaping new trade rule, and outmaneuvering China. The Congress is divided between globalist and protectionist.

For the successful ratification, the government should create coalition with globalists in the Congress, irrespective of their political affiliation.

There may not be any optimal time for ratification at all. Ratification of international treaty is sought by the President. Each Presidency has term. If the force of protectionism is so strong and overpowering that of globalism throughout the term of the President, then it is possible that the P curve is above the G curve for any time during the Presidency, meaning no cross of the G curve and the P curve, hence no chance for ratification (no  $T^*$  would be found).

### III. THE RATIFICATION SCENARIO OF TPP

For the TPP to be effective, it should be ratified by each participating country, or at least six original signatories accounting for 85 percent of the combined gross domestic product of the original signatories need to ratify the TPP. In either case, the TPP would not be effective without the US ratification. Among the 12 signatories to the TPP, the case of the US represents the most difficult challenge for getting this last step done. The problem is that clock is ticking away. The president Obama, who pushed the TPP all the way in the midst of strong opposition from his Democratic party, has only few months before his departure from the presidential office. The presidential election in November 2016 will decide between Hilary Clinton and Donald Trump as the next President of the US. Both have expressed their opposition of the TPP as it was agreed. The forthcoming election also determines the fate of the one third of the Senate and the entire House. Considering these political calendar, three scenarios are emerged for the ratification of the TPP: lame-duck session, sometime in the next administration, and beyond the next administration. Each scenario is analyzed in turn in what follows.

#### *1. Lame-Duck Session*

Lame-duck session is the Congressional session after the presidential election in November. The proponents of lame-duck session ratification argue that the Congress should be able to pass the TPP, after the election and the dust is cleared. To make this a viable scenario, three things should take place. First of all, objection of some key Congress men's dissatisfaction with the TPP should be taken care of.

Second, the administration should have the TPP implementation bill ready to submit to the Congress in time. Third, the Speaker of the House should work with the administration in agreeing to have the TPP implementation bill on the floor.

Once the TPP reached the agreement and the full text of the agreement is made public, some politicians, who supported the TPP, became offensive. Some lawmakers at the Congress want to have stronger provision on currency manipulation. Some Democrats want to see more disciplines in labor and environment. The most salient objection of the TPP is from Senator Orin Hatch, the Chairman of the Finance Committee of the Senate. He was one of the key members who worked with President Obama in passing the TPA in the early 2015, without which concluding the TPP was not possible. (Behsudi, 2015) However, he is now openly critical of the TPP because of “insufficient” intellectual property protection for biologics. (Headlines and Global News, 2016; Caporal, 2016)

Without fixing these problems in one way or another, there would not be any lame-duck session for the TPP. With the limited time, renegotiating with the other 11 TPP signatories would be logistically impossible. Other solutions such as exchange of the side letter are openly resisted by other countries on the ground that such a revision would tip the balance of the agreement to the US side. Extended delay in fixing these problems would mean less time for preparing the implementation bill, thus smaller chance for the lame-duck session.

Another road block is conflict between the current administration and the next President-elect. No matter who may win the presidential election, it may be politically unrealistic to have the vote on the TPP in the lame-duck session, especially when both Presidential candidates expressed strong opposition to the TPP. There may not be many politicians at the Congress who would dare to ruin their political career by supporting the extremely unpopular TPP.

One needs to recall the fiasco of 2008. In 2008 the Bush administration wanted to get the ratification of the three bilateral FTAs with Colombia, Panama, and Korea respectively. The Democratic Party had the majority of the Congress with the House Speaker from the Democratic party. The Republican administration pressed hard for the ratification of the three FTAs on foreign policy ground. The Democrat-domineering Congress was not cooperative at all. What happened was that in April 2008 the Bush administration sent the US-Colombia FTA to the Congress without coordination with the Congress. Against the pressure tactic, the

House Speaker Nancy Pelosi responded by stopping the time-clock of the TPA.<sup>12</sup> Nonetheless, the US administration was confident in getting the ratification during the lame-duck session, on the ground, after the election, that politicians would rather freely express their support for the three FTAs without political pressure. As it turns out, it proved just a wishful thinking. There was no lame-duck session for those FTAs. In fact, it took three more years to get ratification of the KORUS FTA only after renegotiations.

This episode amply demonstrates how it is important to have a good working relationship between the administration and the Congress. To have the vote on the TPP in the lame-duck session with the Democratic administration and the Republican-dominant Congress would need a lot of imagination. If Hilary Clinton wins, it is argued that she may let Obama to go ahead with the lame-duck session. This argument is based on observations that Obama has been the most important supporter of Hilary Clinton's campaign, the TPP is the legacy of Obama, and the TPP is sort of trouble maker for Hilary Clinton. The lame-duck session ratification of the TPP, the argument goes, would be a win-win for both the incumbent President and the President-elect. The question is whether Republicans at the Congress swallow their defeat and support the TPP.

When the TPA was battling its way through the Congress in 2015, the overwhelming support of the Republican was essential to grant the TPA to the Obama administration. In the House, only 28 Democrats supported while 158 Democrats did not support. On the other hand, 190 Republicans in the House gave their support to the TPP. The vote was close: 218 yes versus 208 no. After the TPP talks were concluded and the agreement was known to the public, some key Republicans withdrew their support. They made it clear they wanted to fix the TPP as it was agreed. Time is so limited to find a solution. Even though those complaints can be taken care of in one way or another, will these Republicans cast 'yes' vote to the TPP after their party's defeat at the Presidential election?

If Trump becomes the next President, the chance for the lame-duck session would be even smaller. How many Republicans would come out to vote 'yes' to the TPP, positioning themselves against the next President from their party? One may counter by arguing that pro-trade Republicans and Democrats at the Congress would be even more united, because the future of the TPP under Trump

<sup>12</sup> Choi. S (2016) vividly records the whole process of this confrontation. Choi (2016), pp 83-85.

administration becomes so unpredictable. This is an interesting hypothesis, but fails to grasp the changing dynamics of Republican leadership in trade.

President Obama is seeking for the ratification of the TPP by playing the card of globalism. In his statement released after the signing of the TPP, he claimed “TPP allows America-and not countries like China-to write the rules of the road in the 21st century, which is especially important in a region as dynamic as the Asia-Pacific.” (White House, 2016) The lame-duck session ratification is fighting for its historical place. In time right after the Presidential election of 2016, the force of globalism would be outmatched by the force of protectionism. No controversial trade agreement was ever introduced to the lame-duck session of the Congress in the year of the presidential election. If the TPP is ratified during the lame-duck session, it would be the victory of the determined and visionary. Such a wonder rarely occurs.

## *2. Sometime in the Next Administration*

If the TPP ratification moves on to the next US administration, the fate of the TPP would be up in the air for some time. No matter who wins the Presidential election, it would be inconceivable to ratify the TPP as it was agreed. Both Presidential candidates are critical of the TPP, blaming ‘falling short of the high standards’ (Hillary Clinton) and ‘the worst trade deal ever’ (Trump). Their powerbase does not support the TPP, at least as it was agreed. Under these circumstances, no new President would want to deal with such a controversial matter as priority in her/his first year as the President. Whither the TPP?

### 1) Under Hillary Clinton Presidency

Hilary Clinton’s opposition to the TPP is opportunistic, typical behavior of presidential candidate. (Wall Street Journal, 2016) When Hilary Clinton was serving the Secretary of the State in the Obama administration, Hilary Clinton was supportive of the TPP by saying that the TPP was “central to the Obama administration’s strategic pivot to Asia” and “the gold standard in trade agreements.” (Carroll, 2015) In her book, *Hard Choices* (2014), she stated: “It’s safe to say that TPP won’t be perfect but its higher standards, if implemented and enforced,

should benefit American businesses and workers.”<sup>13</sup> In her campaign trail, Hilary Clinton changed words and became critical of the TPP. Immediately after the conclusion of the TPP in October 2015, Hilary Clinton remarked: “I have said from the very beginning that we had to have a trade agreement that would create good American jobs, raise wages and advance our national security, and I still believe that is the high bar we have to meet”<sup>14</sup> and “I don’t believe it’s going to meet the high bar I have set.”<sup>15</sup> When the Democratic Party race for nominating the presidential candidate became intensified and she was being cornered by anti-TPP Bernie Sanders, Hilary Clinton became increasingly critical of the TPP. (Bloomberg, 2015)

Hilary Clinton’s stance on the TPP shows a typical campaign politics. All the presidential candidates make stances pursuant to the power base, and they converge to the middle of the road when they become presidents. This phenomenon is well documented in the US politics. Obama on the KORUS FTA and Clinton on the NAFTA are prime examples. In 2008 race, Obama criticized the KORUS FTA, which was agreed by the outgoing Republican administration of Bush, calling it unfair in auto trade. Once he elected as the President, he sought for the renegotiations on the auto sector with Korea and secured ratification from the Congress.<sup>16</sup> In 1992 race, Clinton was critical of the NAFTA, which was agreed by the Republican administration of Bush, on the grounds of weak labor and environment protection. When he became the President, he negotiated side agreement on labor and environment and fought all the way to get the ratification in the midst of strong opposition of his Party.<sup>17</sup>

Hilary Clinton may follow the same course of action. Hilary Clinton has changed her tune, from once speaking favorably about the TPP to now saying the agreement needs “fixing.” As the President, she would seek some changes in the current TPP so that she could claim that the TPP at last meet her ‘high’ bar. It

<sup>13</sup> Quote from Carroll (2015).

<sup>14</sup> Quote from Carroll (2015).

<sup>15</sup> Quote from Carroll (2015).

<sup>16</sup> The US Congress passed the KORUS FTA implementation bill in November 2011 with the House 278 ‘yes’ and ‘151’no’ while the Senate 83‘yes’ and 15 ‘no’. (Williams et al., 2014).

<sup>17</sup> Both in the House and the Senate vote, Democrats voted more ‘no’ than ‘yes’. In the House, they were divided between 156 ‘no’ and 102 ‘yes’, while in the Senate 28 ‘no’ and 27 ‘yes’. (Choi, 2009).

would not be a full-blown renegotiation in major scale, but would be confined to some specific areas. This attempt to modify the TPP would invite resistance from foreign signatories to the TPP and her powerbase. (Ehrenfreund, 2016) Foreign signatories to the TPP would resist, because renegotiation would tip the balance of the agreement. (Japan Times, 2016; Damodaran, 2016) Reopening the TPP, which had been extremely unpopular among the Democrats, would gather storm in her Presidency. Any attempt to change the current TPP would face uphill battle. It would prove a long and winding road.

Once fixing the problem in the current TPP, Hilary Clinton will probe for the proper timing for ratification. Seeking the TPP ratification in the early phase of her Presidency may be risky. By doing so, she would turn her party and her powerbase adverse to her from the beginning of her Presidency. The window of opportunity for ratification will be either before the mid-term election of 2018 or after. Which time would be more likely depends on how the two opposing forces of ratification game-protectionism versus globalism-are being fought.

In the run-up to ratification, Hilary Clinton would play the card of globalism: If the TPP is not ratified, she would proclaim, the US would lose leadership and its credibility in the global community. Without TPP, she would advocate, China would overtake the US leadership in East Asia. Nonetheless, marketing the TPP as the US grand strategy of containing China would confront vehement opposition from the Congress anti-trade protectionists. The protectionist force in the Congress will be tough to counter. If the Republicans have the majority in the next Congress, the ratification stands a better chance.

## 2) Under Trump Presidency

Trump rose from a minor outsider to the Presidential candidate of Republican Party. In his remarkable rise, his destructive anti-trade and anti-global speeches and stances played a great role. Trump claimed: 'Globalization has made the financial elite, who donate to politicians, very wealthy. ... But it has left millions of our workers with nothing but poverty and heartache. ... Trillions of our dollars and millions of our jobs flowed overseas. ... Today, we import nearly [US] \$800 billion more in goods than we export. We can't continue to do that.' He opposed trade agreement by saying: '[First], the disaster called NAFTA. Second, China's entry into the WTO. And finally, 'The Trans-Pacific Partnership is the greatest

danger yet. The TPP, as it is known, would be the death blow for American manufacturing'.<sup>18</sup>

Trump's anti-trade stance is radical departure from the conventional Republican Party stance on trade. The past Republican presidents have negotiated the Uruguay Round, the NAFTA and the KORUS FTA. His predecessors maintained pro-trade stance in the middle of controversy. Trump appeals to those distressed by the import competition by accusing the past trade agreement as delivering more advantages to the big business at the expense of workers.

The case of Trump Presidency is more unpredictable. Is he another case of opportunistic protectionist or a convicted protectionist? Only time will tell. In either case, his approach to the TPP is expected to be different from that of Hilary. For Trump, the main target of his trade policy is to contain China. (Miller, 2016) China is labelled as 'unfair' trading country by Trump. In his plan for reforming US trade relations with China, he stated that he would formally designate China a currency manipulator, crack down on theft of US intellectual property, and expose its various export subsidy practices. (Barfield, 2016) Hence, TPP may not be given priority, because China is not in the TPP. If he begins to understand the strategic significance of the TPP, however, he may approach the TPP more cautiously.

If Trump pursues to advance the TPP, he would press hard to renegotiate the TPP in much wider scope and scale, compared to the scope and scale of possible renegotiations under Hilary Clinton, under the threat of aborting the TPP.<sup>19</sup> Resistance from the other countries would be much strong. Renegotiations would bring the 12 signatories to the TPP to a new ball game. The situation may be out of control, if the Democrats would regain their majority in the Congress.

#### IV. IS THIS TIME DIFFERENT?

The last step to make the TPP reality is getting treacherous difficult. TPP may become either another NAFTA or another Kyoto Protocol. The NAFTA was renegotiated in 1993 under the new President of Bill Clinton from the Democratic

<sup>18</sup> Quote from Barfield (2016)

<sup>19</sup> Republican Party Platform 2016 on trade hints what it is like: "Republicans understand that you can succeed in a negotiation only if you are willing to walk away from it. A Republican president will insist on parity in trade and stand ready to implement countervailing duties if other countries refuse to cooperate."

Party and got ratified in the heated debate, and even against the mighty opposition from the Democrats in the Congress. The new administration of Bill Clinton adhered to globalism against the fear of protectionism. Intellectual support joined globalism. The Kyoto Protocol on Climate Change was negotiated and signed by the US in 1997. The US Congress refused to ratify on the ground that the then-potentially biggest polluting country, China, was not the member of the country in the agreement. The Kyoto Protocol got never ratified in the US. With the collapse of the Kyoto Protocol, the US leadership and credibility in fighting climate change got severely damaged. If the TPP ratification becomes adrift and dragged, it risks the repetition of the Kyoto Protocol. In assessing the future course of the TPP in the US, two new unsettling developments are noticeable: new tide of protectionism and declining intellectual support for globalism. We discuss them in turn and analyze implications to the future trajectory of the TPP.

### *1. New Tide of Protectionism*

Rise of protectionism in the election time is not something new. We have seen it before. In 1992, the NAFTA was the focal point of controversy. In 2008, the KORUS FTA drew attention. In the presidential race of 1992, Bill Clinton campaigned to renegotiate the NAFTA. In 2008, Obama called the KORUS FTA unfair.

Is what is happening now déjà vu in the election year? But this time is different. Both major parties are talking of protectionism. Republican Party turned its back on long-held pro-trade stance. Trump's opposition to the TPP is something unheralded for the Presidential candidate from the Republican Party, which has been the mainstay of the US leadership in global trade. Two biggest trade agreements in the past two decades were initiated, negotiated, and concluded by the Presidents from the Republican Party. It was George Bush, who negotiated the NAFTA. It was his son, George Bush, who negotiated the KORUS FTA. In the past two Presidential elections, which elected Obama and re-elected him as the President, each Presidential candidate from the Republican Party defended free trade. Trump broke this long-held pro-trade stance of the Republican Party. His influence is seen in the position switch of many notable Republicans. (Barfield, 2016) Their reversal of stance may be opportunistic, but damage is done in the

forthcoming election and beyond: many Republican voters may withdraw their support.

Democratic Party, which has been not-friendly to free trade, became more anti-trade in the name of fair trade. In 1993, 102 House Democrats cast yes vote for the NAFTA. In 2015 only 29 House Democrats supported the TPA request of President Obama. Despite virtually no chance for getting nomination, Bernie Sanders stayed in the campaign race to the very end to press Hilary Clinton to accept this anti-TPP stance. Being pressed to the corner, Hilary Clinton was forced to be critical of the TPP.

The rise of Trump and so-called Trumpism, about-face of Hilary Clinton, surprising tenacity of Bernie Sanders are all related to the economic misfortunes of the middle and the lower class in the US. Since the 1970s, the median real wages and real taxable income in the bottom 90% of the income distribution has seen no progress at all. (Gordon 2016, p. 605) A giant gap has emerged and sustained between the top 10% and the others since the early 1970. Average real income in the bottom 90% was actually lower in 2013 than it was in 1972. (Gordon 2016, p. 609-610) In the previous elections, these people were less represented, but this time their anger and frustration found populist outsiders in the name of Trump and Sanders. External and internal factors are at work behind their economic misfortune. Somehow, external forces-international trade and immigration-got the most of the blames. To understand why, we need to find what drives this new surge of protectionism.

## *2. Declining Intellectual Support*

Compared with the KORUS FTA and the NAFTA, the intellectual surrounding of the TPP is unfavorable for the ratification. Strong intellectual support for globalism, which was instrumental in advancing the NAFTA and the KORUS FTA against convicted opposition, is not found with the TPP. The ratification of the NAFTA in 1993 was a battle between the protectionist and the globalist. Against the argument of job dislocation from the US to Mexico, the globalist countered: “more job and better job will be created.”<sup>20</sup> Back then, job-creating argument was

<sup>20</sup> Clinton, while signing the NAFTA bill, stated that “NAFTA means jobs. American jobs, and good-paying American jobs. If I didn’t believe that, I wouldn’t support this agreement.”

supported by the mainstream economists. Now, it is hard to find such undivided intellectual support for job creation from trade agreement.

Intellectual pendulum has swung to the argument that trade produces so many painful job losses, which are not usually replaced by better jobs. The argument goes further to claim that trade has caused the deepening of inequality. Lakner and Milanovic (2013) and Milanovic (2016) argue that people in the lower and middle parts of rich countries are “losers” from globalization, while the middle and upper classes of the relatively poor Asian countries and the global top 1% are “winners” from globalization, based on the global income distribution during the period from 1988 to 2008.

Some commentators interpret their research as evidence for “globalization tradeoff”: a hypothesis that economic growth of poor countries is achieved at the expense of the middle class in developed countries. This interpretation has developed popular notion that trading with poor countries is bad for the middle class in the US. In this time of election, the main target is China.

The rise of China challenges the existing consensus among the economics profession up to the turn of the century that trade had not been a major contributor to declining manufacturing employment or rising wage inequality in developed countries; workers in import-competing sectors could readily reallocate to other regions if displaced by trade; and aggregate gains from trade in the U.S. would be positive even in the short-run or medium-run. (Autor et al., 2016)

With the accumulated data for the 15 years or so, the increasing number of papers and reports compile negative effect of the Chinese import penetration to the US market, which is more disruptive than expected. Negative effect of job dislocation from trade prolonged. Negative distributional consequences are not brief. Adjustment was not frictionless. The US had seen the surge of Japan in the 1970s. The surge of China this time is considered to be different by the intellectual circle of the US. The sentiment of ‘China shock’ is best summarized in a leading newspaper: “No other country came close to its combination of a vast working-age population, super-low wages, government support, cheap currency and productivity gains.” (Davis and Hilsenrath, 2016).

During 1979 to 2016, jobs in the US manufacturing sector have gone from 19 million to 12 million. Manufacturing jobs fluctuate around 18 million by 2000. Sharp declining began from 2001. During period from 2000 to 2010, 5.6 million manufacturing jobs are lost. This is the largest decline in manufacturing employment

in U.S. history. The sharp decline in American manufacturing employment began in 2001 just as Chinese imports took off. Political activists blame trade as the main culprit. Study of trade impact on jobs is getting growing attention among academic circle. The work of Autor, Dorn, and Hanson (2013) has made an interesting entry to this growing literature. They estimate that a quarter of the US job loss in the manufacturing during 1990 to 2007 is due to import from China. Pierce and Schott (2014) document the strong relation between the sharp decline in the US manufacturing decline since 2001 and the US conferral of permanent normal trade relations on China, under which the US grants the most favored nation treatment on China like other WTO member.<sup>21</sup>

Conventional wisdom has been that technological change was more to blame. For instance, Hicks and Devaraj (2015) analyzes that the job loss during 2000 to 2010 is largely accountable for by technology than by trade. Technological factor contributes 85% of the job loss, whereas trade factor contributes 13.4%, according to their estimate. What has driven this transformation is the productivity increase. Hicks and Devaraj (2015) analysis delivers this point home. “Had we kept 2000-levels of productivity and applied them to 2010-levels of production, we would have required 20.9 million manufacturing workers. Instead, we employed only 12.1 million.” Although the US manufacturing sector has experienced the massive job loss since 2001, the productivity of the manufacturing sector has steadily increased.

This macro picture may miss the point, though. The estimate of Hicks and Devaraj (2015) shows that trade plays a bigger role in job loss in the sectors where import competition from developing countries, including China, is intense. In furniture and apparel sectors, trade factor played more than 40 percent. Workers in these sectors are paid well below compared to those in export sectors. In 2012, the average product of labor for all manufacturing was \$149,299, from a low of \$45,930 for manufacturers of apparel and leather goods to \$733,861 for petroleum and coal products manufacturing. (Bureau of Labor Statistics, 2016)

Cheap imports have been lethal for many American manufacturers, particularly in the mid-western rustbelt and in the south. The upsurge of protectionism in these regions is no coincident at all. What is troublesome is that those workers in these

<sup>21</sup> The US conferred this permanent normal trade relations on China, when the US and China concluded China’s accession negotiations to the WTO.

sectors show the tendency of being trapped to the vicious circle. When they lose their jobs, they get another job in the same sector, and find themselves in job search sooner or later in the same sector again. This phenomenon is mainly due to their lack of proper skill or training to seek jobs in other sector. Data reveals sharp rise in the college premium—the additional wages earned by skilled workers—from around 30% in 1979 to almost 50% by 2000. (Bureau of Labor Statistics, 2016) Tracing the change of real weekly earnings by educational attainment during 1963–2012, Autor (2014) reports that the earning of those with greater than bachelor's degree increased to 190, those with bachelor's degree saw their earnings increasing to 140, but others fluctuates around 100–110.

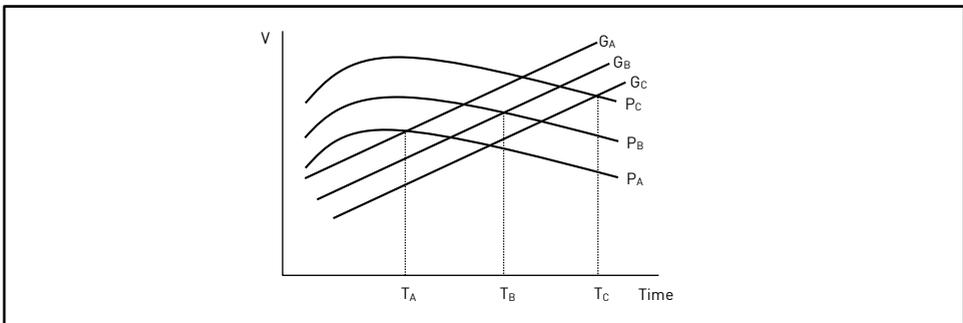
The new tide of protectionism in the US cannot be fully appreciated without understanding of the changing nature of intellectual debate on globalization and trade. These two are closely related and reinforcing each other. As protectionism becomes stronger, chance for ratification gets lower. The NAFTA was signed in 1992, and ratified in 1993. The KORUS was signed in 2007, and ratified in 2011. Each agreement could not be ratified as it was agreed and signed by the negotiating authority. It underwent some form of revision to assuage domestic opposition, inviting hostile response from the other country. In the process, delay was inevitable. The NAFTA waited for a year after signing the initial agreement. The KORUS FTA had to wait for 4 years and half for the ratification.

Compared to the NAFTA and the KORUS, the TPP is the most unpopular trade agreement. This climate change of the US trade politics is captured in Figure 3. The curve  $P_A$  measures the force of protectionism in the ratification battle for the NAFTA, and the curve  $P_B$  measures the force of protectionism in the ratification battle for the KORUS FTA. The curve  $P$  has shifted upward, reflecting more intense and strong protectionism compared to the ratification battle for the NAFTA and the KORUS FTA, the two most controversial FTAs so far. On the other hand, the curve  $G$ , which measures the force of globalism, has shifted downward ( $G_A$  for the NAFTA and  $G_B$  for the KORUS FTA) over time, reflecting less support for globalism.

In the ratification battle for the TPP,  $P_c$  measures the force of protectionism and  $G_c$  for the force of globalism. As a result, time for obtaining the ratification of the TPP is delayed, as shown in  $T_c$  in Figure 3. As analyzed in the previous section,  $T_c$  may not be sometime in the early phase of the next Presidency. Or it is even possible that  $T_c$  may not be occurring sometime during the term of the next

Presidency. Considering the ever-increase anti-trade force in the US politics, the future of the TPP is expected to be more tumultuous, compared to the previous case of the NAFTA and the KORUS FTA.

Figure 3. Changing Political Dynamics of the Ratification



## V. TRAJECTORY OF TPP AND STRATEGIC IMPLICATIONS ON THE EVOLUTION OF TRADING ARCHITECTURE

Expecting the TPP to be ratified during the lame-duck session of the Obama presidency would be optimistic scenario, as analyzed earlier. Considering the dynamics of political economy surrounding the US trade policy, it would be reasonable to expect the TPP to be modified during the next US Presidency, if it is ever to be saved. This move by the US heralds the stormy sea for the future evolution of trading architecture in East Asia.

There are three layers in the TPP: agreement related to the old economy; so-called Singapore Issues (investment, competition, procurement, trade facilitation); and agreement related to the new economy, mainly digital trade and global value chain. Comparing with the RCEP, the TPP is more comprehensive and ambitious. The TPP aimed for the complete elimination of tariff, while the RCEP aimed for 90%. The TPP adopted “negative list” approach, whereas the RCEP adopted “positive list” approach in service liberalization. There are a wide range of issues included only in the TPP, not in the RCEP. These are Government Procurement, SOE, E-Commerce, Environment, Labour, Trade Remedies, Textiles and Apparel, Temporary Entry, Horizontal Issues like SME, Supply Chain Facilitation, and

Regulatory Coherence. These issues exclusive to the TPP are often called “21<sup>st</sup> Century Issue.”<sup>22</sup>

Another important aspect of the TPP is the US-Japan economic alliance. When Korea was vigorously pursuing FTA with the US and the EU, in spite of strong domestic opposition from the farming sector, Japan was not able to emulate the success of Korea. (Choi and Oh, 2011) Japan’s decision to join the TPP is the game-changing move. Even though Japan had been contemplating its participation at the TPP talks for some time, the decisive leadership of Prime Minister Abe was instrumental in Japan’s place at the TPP. Significance of economic reform under the economic blueprint of Abenomics and strategic vision of consolidating the US-Japan alliance in order to contain the rise of China propelled Japan to join the TPP talk. Never before had Japan committed to comprehensive tariff cut in this scale and scope.

As for grand strategy in the era of the steady declining of the US power coupled with the rise of China in the global stage, the TPP is ‘rebalancing to Asia’ in order to contain China. In affirmative sense, the TPP is the US grand strategy to lead the way in the 21<sup>st</sup> century. (Gordon, 2012; Solis, 2016) By creating a critical mass on the new trade rule with high standards, the TPP would induce participating countries to reform themselves pursuant to the principle of competitive liberal market economy.

If the TPP becomes effective in the near future, i.e. lame-duck session or 2017, then the TPP will become de facto standard for the future trade agreement. Countries in East Asia, which have stood outside of the TPP talks, would try to accede to the TPP. The RCEP talks would lose the momentum. Increasing number of countries would leave the negotiating table, although not formally, but in their heart. In this process, China would be isolated. China will not be able to accede to the TPP anytime soon for two reasons. The current TPP standards are too high for China, and the US domestic politics would not accept China as a new member to the TPP in the near future. If the TPP is materialized, global trading regime of the 21<sup>st</sup> century would be shaped by the US vision and under the US leadership. The TPP will become an expanding universe. Growing number of like-minded

<sup>22</sup> Calling some negotiating agenda as the 21<sup>st</sup> century is not purely economics-oriented, but politically motivated with domestic and international audience in mind.

countries in the Asia Pacific would be connected through the TPP. The expansion will stop at a certain point, however.

This evolutionary trajectory of the TPP will give rise to the fragmented global trading system: countries in the TPP versus those outside of the TPP. Without China in the TPP, this fragmented trading architecture would be 'new normal'. This 'new normal' would be prone to intermittent trade disputes between China and members in the TPP, which would not serve anyone's interest. China would suffer from disadvantageous market access to the US. Members in the TPP would suffer from lack of transparency and regulatory uncertainty in the Chinese market. The absence of no common trading rule in the 21<sup>st</sup> century agenda would prove even more troublesome for Chinese firms and non-Chinese firms alike. The longer this fragmentation persists, the higher cost to both sides. Time will come when China judges disadvantage of being isolated from the TPP too much to bear. Then, China will pursue its place in the TPP. If such a moment arrives, it will be China at the WTO redux.

China spent 15 years to accede to the WTO. Its WTO accession negotiations provided China with opportunities to reform its economy pursuant to the global standard. Negotiations with the US were tough. The US demanded China to open up much wider and deeper than China imagined. China resisted but the US continued to mount its pressure. At some point, China almost gave up its hope to join the WTO. But for the visionary leadership of Chinese top political elite, China would not have acceded to the WTO.<sup>23</sup> Then, the rise of China with this spectacular magnitude would not be possible. China knows that it cannot possibly join the TPP without substantial reform of its economic system. China's decision to seek its membership at the TPP would mark the new era for the global trading system in East Asia and beyond.

What if the TPP ratification is being delayed and dragged on? If the TPP fails to become effective in the near future, say after 2018, the ball will be in the court of China. China might have incentive to promote the RCEP as alternative to the TPP. Two factors may stand in the way for advancing the RCEP to the conclusion. First, some members may not be cooperative to China's drive. Japan in particular would find no compelling reason to follow the lead of China. In order to induce Japan to

<sup>23</sup> China's WTO accession negotiations, focusing on the US-China relations, are analyzed in full in Choi (2015), pp. 271-279.

the conclusion of the RCEP, China should be able to offer attractive terms for Japan's access to Chinese market. Considering the Chinese negotiating strategy, it would be a tall order. Second, China may lose the sense of urgency, in case it perceives that the TPP ratification gets lost. Hence, the failure of the TPP ratification does not automatically imply the success of the RCEP.

## VI. CONCLUSION

This paper presents the analysis of the TPP trajectory with focus on the TPP ratification in the US, and strategic implications of TPP trajectory on the evolution of the global trading architecture. Having concluded the TPP, the US has the first mover advantage in the race for establishing a new trade rule. However, the last step to make it reality proves difficult. The ratification of the TPP in the US Congress meets the strong headwind of growing protectionism.

Whither the TPP? A glimpse of the future may be offered by the case of the KORUS FTA. It was agreed and signed in 2007 by the Bush administration. It did not go through in the lame-duck session of 2008. The 2008 Presidential campaign saw Obama criticizing and opposing the KORUS FTA. Lopsided trade deficit in auto was perceived to be unfair. To make matters worse, in 2008 the financial meltdown swallowed the US and spread through the world. Auto sector was one of the hardest hit. After a long delay, only in the later part of 2010, the US and Korea sat at the bargaining table and renegotiated auto in the KORUS FTA. A year later in 2011, the KORUS FTA got ratified in both countries.

Like the KORUS FTA, the TPP finds opposition in some specific areas. If this opposition can be effectively dealt with, the door to ratification may be opened. Fixing would require renegotiation. Renegotiating the auto sector in the KORUS FTA was strongly resisted. It took considerable time for both sides to come up with bargaining zone. Renegotiating some problematic sectors of the TPP from the US perspective would meet even strong resistance. The TPP was negotiated among 12 countries. Finding bargaining zone to fix the problem would be daunting challenge. All the opposed groups would regroup themselves and mount their opposition against the TPP.

Compared with the KORUS FTA and the NAFTA, the intellectual surrounding of the TPP is unfavorable for the ratification. Strong intellectual support for globalism, which was instrumental in advancing the NAFTA and the KORUS FTA

against convicted opposition, is not found with the TPP. In the past, trade was argued as creating job-better jobs, more jobs than jobs destroyed. Intellectual pendulum has swung to the argument that trade produces so many painful job losses, which are not usually replaced by better jobs. The argument goes further to claim that trade has caused the deepening of inequality.

Tide has changed. As the election is coming around the corner, the force of protectionism is gaining momentum like typhoon gaining the force as it approaches to the land. For the first time in the US history since the World War II, this election saw no major party taking side with free trade. Against all these odds, will the TPP reach its final destination? The outcome will be determined by the relative force of globalism and protectionism. The analysis in this paper provides framework to find the optimal timing for ratification. It also offered strategies, which could change the relative strength of two opposing forces to advance the TPP. What emerges from the analysis is that the ratification of the TPP likely to be prolonged. A way forward would be found in lessening the force of protectionism by appealing to opportunistic protectionists.

The ball is in the US court. They can either make it or break it. If they can make it, we are about to witness the emergence of a new trading architecture in East Asia. In case they break it, it would create trade leadership vacuum and China could fill the vacuum, if it is willing to lead. In the strategic rivalry between the US and China, the US is ahead of the game, but the game is far from being over.

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