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## Five Myths about TPP

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The decision to welcome Japan into the Trans-Pacific Partnership (TPP) promises to be transformative, not only for the world's third-largest economy (see [March 2013 Global Economics Monthly](#)), but also for the trade negotiations themselves. With Japan included, TPP will now cover nearly 40 percent of the world economy, and the group will have another champion of high-standard, 21st century rules at the table—albeit a complex one. Given the higher stakes, and with less than six months remaining until the October deadline for completing an agreement, this is a good time to dispel a few popular myths surrounding TPP and U.S. economic strategy in Asia.

### *1. The economic leg of the Asia pivot is weak.*

Many commentators on the Obama administration's strategy of rebalancing to the Asia-Pacific region, popularly known as "the pivot," argue that it has been heavily weighted toward the military dimensions such as force posture, maritime security, and nonproliferation. To be sure, deployments of U.S. ships and Marines in the western Pacific are an essential and visible element of the strategy. But Japan's TPP entry refutes the notion that the pivot does not have a serious economic component.

The fact is that economics have been a central tool of the rebalancing strategy from the outset. In her [seminal Foreign Policy piece](#) articulating the rationale for the pivot, former Secretary of State Hillary Clinton said, "Harnessing Asia's growth and dynamism is central to American economic and strategic interests." National Security Adviser Tom Donilon was more explicit in a [speech last month to the Asia Society](#), calling TPP "the centerpiece of our economic rebalancing" and "an absolute statement of U.S. strategic commitment to be in the Asia-Pacific for the long haul." It is often overlooked that the November 2011 trip on which President Obama announced a rotational deployment of 2,500 Marines to Australia was bracketed by a successful Asia-Pacific economic summit in Honolulu—including a side meeting of TPP leaders—and by the largest-ever sale of Boeing aircraft in Indonesia at the end of his trip.

Indeed, the pivot is unsustainable without TPP. Opinion polls and [statements by political leaders](#) make clear that while most Asians want the U.S. military presence in the region as a force for peace and stability, they also want America's markets, innovations, and participation in regional economic affairs. Much the same can be said for the American public, who will not long support U.S. troop deployments in the Asia Pacific unless engagement with the region produces tangible economic benefits in the form of exports, growth, and jobs.

The trouble with trade negotiations is that they can be long and tortuous and the payoff is not obvious until agreement is reached. It is easier to see the strategic value of military maneuvers, and even unsuccessful diplomacy gets points for effort. But a successful TPP agreement will arguably do as much to underpin long-term U.S. engagement in the Asia Pacific as the network of U.S. alliances there.



## Upcoming Events

- May 11: G20 Sherpas' Meeting (St. Petersburg, Russia)
- May 14: CSIS/JETRO Seminar on Asia-Pacific Economic Integration (CSIS)
- May 16: The Indonesia Conference @ CSIS (CSIS)
- May 22: APEC Senior Finance Officials' Meeting (Manado, Indonesia)

## Five Myths about TPP *(continued)*

### ***2. TPP is splitting Asia.***

This complaint comes in two varieties. First, critics note that only four of the ten members of the Association of Southeast Asian Nations (ASEAN) are currently in TPP, that three smaller ASEAN members (Cambodia, Laos, and Myanmar) are not even eligible for TPP membership, and that India's absence is also glaring. Second, it is argued that Asian countries have been forced to choose between the U.S.-led TPP and trade arrangements favored by China, notably the Regional Comprehensive Economic Partnership (RCEP).

On the first point, TPP was deliberately set up among a small group of like-minded economies from the Asia-Pacific Economic Cooperation (APEC) forum who were ready to work toward high-standard, 21st century rules for trade. The idea was to incentivize other economies to join the effort over time at a similar level of ambition, eventually realizing the APEC vision of a Free Trade Area of the Asia-Pacific (FTAAP). The strategy is working: TPP has grown from five original members in 2008 to eleven today, with Japan soon to be the twelfth. There is no theoretical barrier to the rest of APEC's 21 economies signing on when ready or to eventual expansion of TPP to the rest of ASEAN, India, and beyond.

Nor does the assertion of an irreconcilable split between TPP and RCEP hold water. For one, six Asian countries are participating in both arrangements; Japan will be the seventh. Moreover, a healthy competition between TPP and RCEP is not only possible but desirable. As [Peter Petri's study for the Peterson Institute](#) has shown, an eventual linking of TPP and RCEP in a single FTAAP could bring substantial income gains to the region and the world.

### ***3. TPP is designed to contain China.***

There is a widely held view in Beijing that TPP is part of a broader effort by the United States to "contain" China. Senior Obama administration officials—starting with the President himself—[have repeatedly dismissed this notion and explicitly welcomed China's rise](#). Moreover, a trade agreement cannot "contain" China; even if it could, other

Asian participants would not be party to this scheme since they all want to deepen their economic ties with China.

It is true that TPP is aimed at updating the rules of the road for the regional trading system and that some of these rules are being designed with China in mind. But the motivation for creating new disciplines on state-owned enterprises (SOEs) or strengthening ones on intellectual property is to create a level playing field that enables other countries to better compete with China, not to limit the latter's growth or integration. Yes, trade rules can be thought of as a kind of "constraint," preventing countries from pursuing self-destructive economic policies, whether sugar subsidies in the United States or investment restrictions in China. But this is a far cry from the conspiracy theories popular in Beijing; indeed, just as it did when it chose to join the WTO in the 1990s, China should welcome a little externally sourced "constraint" as it manages its own transition to a more market-driven, consumption-led economic model.

### ***4. The standards Washington is seeking are too ambitious for Asia.***

Many critics assert that TPP is designed in the United States' image and that most Asian countries are not ready for its proposed high-standard rules. True, there is no lack of ambition in a trade agreement that seeks not only to reduce tariffs and other barriers at the border but also to establish disciplines on how governments manage their economies through regulation, competition policy, government procurement, and an array of other behind-the-border policies. Every TPP participant has highly sensitive areas on which they are reluctant to give ground: Vietnam on SOEs, Australia on investor-state dispute settlement, the United States on agriculture and textiles. But as the last example makes clear, it is not only Washington that is a "demandeur" in the talks; all participants recognize that there are substantial welfare gains to be had from a high-standard agreement that opens up new market opportunities and helps each member address structural impediments in its own economy. Yet it is also true that most Asians quietly want the United States to remain a champion of high-standard rules in the Asia Pacific. This is what brought Japan to the table and

## Five Myths about TPP *(continued)*

has several other Asian economies knocking at the door, including Thailand, the Philippines, and Taiwan.

### 5. *The negotiations are bogged down and agreement could take years.*

After three years and sixteen rounds of talks, TPP appears from the outside to be making little tangible progress. Reaching agreement on a high-standard agreement among such a diverse group of countries was never going to be easy. Adding a large, complex economy like Japan so late in the process could further delay agreement. But it could also give important momentum to the talks, as the economic weight of the group has grown by one-third and there are more potential gains to play for. Several chapters of the text have already been closed and negotiators report a strong sense of purpose in the group. In particular, U.S. resolve to complete a TPP agreement within this year should not be underestimated, as signaled by President Obama's public reaffirmation of the goal in his [State of the Union speech](#) in February and by the enormous political risk the Administration was willing to take to bring in Japan.

Trade negotiations always seem darkest before the dawn; the political horse-trading comes at the very end and

a deal can emerge quickly. There remains a reasonable prospect of agreement on the core text of a TPP deal, if not on the detailed market-access schedules, by the APEC Leaders' Meeting in Bali in October.

Some of the angst about TPP is well founded. The administration should be working more forcefully to get trade promotion authority (TPA) from Congress. Washington needs to be ready soon to put some market-access concessions on the table if it wants to win agreement from other TPP countries on the 21st century rules it seeks. Failure to conclude TPP would certainly imperil overall U.S. objectives in the Asia Pacific. But the negotiations are challenging enough without the perpetuation of myths about the strategic objectives, status, and regional perceptions of these vital talks. ■

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## Simon Says...

All roads may no longer lead to Rome, but someday they may lead to FTAAP. In addition to TPP, the other main route to the APEC vision of free trade is RCEP, which brings together the 10 ASEAN nations plus China, Japan, Korea, India, Australia, and New Zealand—economies with a combined GDP of \$21 trillion. Launched at last November's East Asia Summit in Phnom Penh, RCEP held its first substantive round of talks last month and is scheduled to conclude by the end of 2015. Compared to TPP, the standards and degree of liberalization sought in RCEP are low; the founding document emphasizes the “individual and

diverse circumstances” of its members, and provisions on labor rights, intellectual property, SOEs, and other behind-the-border issues will either be left out or only lightly addressed. This will ease the burden on negotiators tasked with brokering an agreement that can find favor in capitals from Delhi to Seoul. Despite its low standards, RCEP could produce significant economic gains; **one estimate puts the potential annual benefits to the world economy at \$644 billion in 2025.** Even better, if the TPP and RCEP tracks eventually meet at a region-wide FTAAP, the gains could be as high as \$1.9 trillion—real money by any standard...