CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES | SIMON CHAIR IN POLITICAL ECONOMY

Global Economics Monthly

VOLUME II | ISSUE 12 | DECEMBER 2013

ECONOMICS AND THE REBALANCE

MATTHEW P. GOODMAN

Economics is at the heart of U.S. involvement in the Asia Pacific. This statement is as true today as it was in 1784, when the first U.S. merchant ship bound for Canton set sail from New York. Trade, investment, and other economic ties across the Pacific today are measured in the trillions of dollars, support millions of American jobs, and underpin our national security.

Like administrations before it, the Obama administration has put economics at the center of its Asia-Pacific strategy. But it has arguably raised the stakes by making the overall success of its policy of "rebalancing" to Asia contingent on a successful economic strategy, in particular completion of a high-standard Trans-Pacific Partnership (TPP) trade agreement.

The economic leg of the rebalance is driven by three broad objectives: promoting growth and jobs, upholding and updating the rules of the international trading system, and supporting America's long-term presence in the region. It is worth noting that these objectives get to both sides of the coin regarding the relationship between economics and foreign policy: using diplomatic tools to support better economic outcomes, such as more growth and jobs; and—arguably more challenging—using economic tools in a strategic way to support foreign policy objectives, such as strengthening the rules and supporting our presence in the region.

In pursuit of these objectives, the Obama administration has used a multilayered approach to economic engagement in the Asia Pacific. This has bilateral, regional, and global strands, from the Strategic & Economic Dialogue with China, to TPP and the Asia-Pacific Economic Cooperation (APEC) forum, to the G-20, half of whose members are Asia-Pacific countries. And it encompasses all aspects of economic policy, including promotion of strong domestic-demand-led growth in large Asian surplus economies; negotiation of bilateral investment treaties; and strategic use of development assistance.

But trade—and TPP in particular—is the sharp end of the spear when it comes to Obama economic strategy in Asia. Through TPP, the administration seeks to advance all three objectives mentioned above, with an accent on updating the rules. TPP aims to establish disciplines on an array of behind-the-border impediments, such as excessive or nontransparent regulation; preferences for domestic, especially state-owned, enterprises; and inadequate intellectual property protection. The administration's aim appears to be making a successful TPP the driver and *de facto* template for a new multilateral system of rules.

Failure to reach a TPP deal at this month's ministerial meeting in Singapore was disappointing but not fatal. Trade talks are always darkest—and noisiest—before the dawn, as differences are narrowed to the most politically contentious issues. There are still grounds for optimism that a basic TPP deal can be reached by the time of President Obama's planned trip to Asia next April.

Recent Events

- December 18: Economic Engagement in the Asia-Pacific (Senate Foreign Relations Committee)

Upcoming Events

- January 22–25: World Economic Forum Annual Meeting (Davos)
- January TBD: TPP Ministerial (London)
- January 29: Asia Forecast Conference (CSIS)
- February 12: Japan Official Development Assistance Conference (CSIS)

ECONOMICS AND THE REBALANCE *(continued)*

The stakes could not be higher for the White House. Conclusion of TPP is the *sine qua non* of success for the Asia rebalancing strategy. In addition to its economic benefits, a successful agreement would anchor the United States more firmly in the Asia Pacific and bolster American leadership there. Without TPP, the rebalance would contain little of substance that is new and would be perceived in the region as driven primarily by military considerations.

The U.S. Congress can support the economic leg of the rebalance in several important ways. First, enacting trade promotion authority legislation would give the administration the guidance and certainty it needs to close a high-standard TPP deal; without TPA, it is difficult to see how the Office of the U.S. Trade Representative (USTR) can persuade its counterparts that it can fulfill its end of the bargain.

Second, Congress should insist that the administration allocate sufficient senior-level staffing and policy attention to Asian economic issues, and it should provide adequate funding for these activities. In particular, the White House—including the National Security Council and USTR—as well as the State Department do not have sufficient resources or "share of mind" devoted to Asian economics.

Third, Congress can help explain to the American people that the United States is a Pacific power with deep and enduring economic interests in the region. A successful economic strategy in the Asia Pacific is essential to sustaining American growth and jobs into the twenty-first century. It is also central to our efforts to remain a champion of the global rules-based order. And it underpins America's long-term presence in the region, which in turn is critical to the region's security and prosperity. ■

Note: This month's newsletter is adapted from CSIS Simon Chair Matthew Goodman's December 18 testimony before the Asia Subcommittee of the U.S. Senate Foreign Relations Committee at a hearing on the economic dimensions of the U.S. "rebalance" to Asia.

Matthew P. Goodman *holds the Simon Chair in Political Economy.* ***Global Economics Monthly*** *is published by the Center for Strategic and International Studies (CSIS), a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions. Accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the author.*

Simon Says…

Note: "Simon Says" has taken an early holiday break but will be back in January. We wish all our readers a joyful holiday season and a happy, healthy, and prosperous 2014. ■