

The United States and the Trans-Pacific Partnership

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While not the originator of the trade initiative, the United States has been the driving force behind the negotiation of the Trans-Pacific Partnership (TPP). The TPP is by far the most comprehensive free trade agreement (FTA) involving both developed and developing countries. It advances both US commercial and strategic interests in the Asia-Pacific region, and sets important precedents for strengthening the world trading system.

The TPP will reinforce US relations with its closest allies in the region, Japan and Australia. It will update and strengthen the North American FTA (NAFTA) with its traditional partners, Canada and Mexico. It will forge new trade links with key ASEAN members Malaysia and Vietnam. And it will encourage the further evolution of economic reform in America's neighborhood by reinforcing integration efforts underway among three Pacific Alliance partners (Chile, Mexico, and Peru) and potentially other Latin American countries going forward (e.g., Colombia).

This note summarizes why the TPP is so central to US trade policy and US relations in the Asia-Pacific region.

First, in economic terms, the TPP is a big deal involving countries that together account for almost 40 percent of global output and 25 percent of world merchandise exports. The deal opens up new opportunities for increased trade and investment in goods and services, including farm trade barriers long resistant to reform, and should contribute importantly to economic growth (and more modestly on average to growth in non-member countries as well). Overall, TPP countries should achieve permanent gains in real income of more than 1 percent over baseline projections once the deal is substantially implemented in 2030, or almost \$500 billion in 2015 \$US.

For the United States, the TPP could generate permanent real income gains of 0.5% of GDP – which is a very big number! US exporters and investors gain substantial new access to TPP economies, especially Japan and Vietnam where US farmers and service companies should post important gains.

Second, the TPP updates and augments economic integration in North America between the United States and its NAFTA partners, Canada and Mexico. NAFTA has helped bolster US competitiveness over the past 20 years but it needs updating to address the challenges of global commerce in the 21st century. Similarly, the TPP updates other US FTAs, including in some areas the recent Korea-US pact.

Third, the TPP establishes new trade rights and obligations that fill important holes in the WTO rulebook and that update and expand WTO obligations in other areas. Advances in TPP rulemaking establish precedents for other regional and multilateral negotiations (covering issues such as environment, e-commerce, and disciplines on state-owned enterprises), and should help inform ongoing plurilateral talks like those on services.

Fourth, the TPP establishes a comprehensive template for broader Asia-Pacific economic integration and could provide the core of a prospective Free Trade Area of the Asia-Pacific (FTAAP) that the United States, China and the other APEC members agreed to advance at the Beijing APEC Summit in November 2014. To that end, US policy seeks to expand TPP membership over time to all countries in the region willing and able to implement and enforce the pact's broad ranging obligations. Note that the TPP is not an alteration or competitor to the Regional Comprehensive Economic Partnership (RCEP) that China is now negotiating with 15 other countries in Asia and Oceania. Indeed, almost half of the RCEP countries also

are in TPP and several others are preparing for possible TPP participation in the future, including possibly China!

Finally, the TPP will also make a critical contribution to US foreign policy and national security. US participation in the TPP will reassure the region of an ongoing US presence and that the Asia-Pacific will continue to be accorded priority in US foreign policy. This is about both the perception and reality “on the ground” of being a reliable partner. Some members of the US Congress may not understand this point clearly enough; but countries like South Korea and Japan, facing the threat of North Korean missiles and adventurism, understand and value it very highly. So, too, do other Asia-Pacific nations that depend on open and secure sea lanes for their commercial prosperity. And so should China, which would benefit from constructive US engagement in the region that supports economic prosperity and peaceful relations among Asia-Pacific countries.