The Obama administration’s Asia hands are earning unusual praise. Consider as a point of departure the enthusiastic comment by James Fallows, the Atlantic’s admired observer of U.S. politics and Asian economics:

[After two years,] U.S. relations with China were a mix of cooperation and tension, as they had been through the post-Nixon years. But American relations with most other nations in the region were better than since before the Iraq War... The strategy was Sun Tzu-like in its patient pursuit of an objective: reestablishing American hard and soft power while presenting a smiling “We welcome your rise!” face to the Chinese.¹

Fallows is describing a burst of policy dubbed a “pivot to Asia”—upgraded military ties with Japan, Australia, and the Philippines; continued strengthening of ties to India and Vietnam; a quick response to the unexpected opening of reform in Burma; approval of the Korea-U.S. Free Trade Agreement; and an acceleration of the nine-party trade negotiation known as the Trans-Pacific Partnership (TPP)—which leaves Engaging Asia participants lots to talk about. This discussion paper is a look at the trade policy element of the pivot, and an effort to raise two questions about it from a generally sympathetic perspective:

• Does a U.S. Asia-Pacific strategy require a trade policy?
• If so, is the Trans-Pacific Partnership the right one?


² This is a discussion paper for Engaging Asia 2012: Strategies for a Shift toward the Asia-Pacific. Please see the last page for background on NBR’s Engaging Asia conference series.
To be brief, the answer to the first question is “yes,” while the answer to the second is a longer one, mixing positive evaluations of the agreement’s geographic concept and policy ideas, with several “and if” clauses.

**AN ERODING STRATEGY?**

Let us start with a preceding question: What problem does the administration hope to solve? U.S. secretary of state Hillary Clinton’s article “America’s Pacific Century” in the November 2011 issue of *Foreign Policy* posits a basic challenge: “Asians ask whether we can make—and keep—credible economic and strategic commitments and whether we can back those commitments with action.”

Implicit in this observation is a view that U.S. Asian strategy, at least in the view of some of the administration’s Asian interlocutors, was eroding. To some extent, one can ascribe this opinion to the financial crisis of 2008 and 2009, the questions the crisis has raised about U.S. public finance, and the implications of these questions for military commitments. But there are also structural factors at work. The United States’ policy toward Asia, designed in the early 1970s, rested on four pillars: first, a set of military alliances with the regional democracies, with the U.S.-Japan Security Treaty as the anchor; second, engagement and collaboration with China (when possible) on the basis of the series of U.S.-China communiqués and the Taiwan Relations Act; third, a commitment to open markets, principally through the World Trade Organization (WTO) and Asia-Pacific Economic Cooperation (APEC); and fourth, people-to-people contact through education and immigration.

These elements of policy reflected two facts of political economy enduring from the early 1970s until about 2005: the United States was the main market for Asian goods, and Japan was Asia’s largest economic and technological power. However, China has surpassed Japan as Asia’s largest economy and the United States as the main export market for most Asian countries—and a busy Chinese policy amplifies the gravitational pull of Chinese growth with free trade agreements (FTA), regional infrastructure programs, and aid commitments. These developments suggest less that the old outlines of U.S. policy are useless than that they need updating to accommodate new circumstances. The “pivot” policy is an attempt to do this in military affairs, diplomacy, and trade.

**DOES THE UNITED STATES’ PACIFIC STRATEGY NEED A TRADE POLICY?**

In this context arrives the TPP. Secretary Clinton’s *Foreign Policy* article describes it as an effort to do the following:

Bring together economies from across the Pacific, developed and developing, into a single trading community, [and act as] an agreement with high standards that can serve as a benchmark for future agreements—and grow to serve as a platform for broader regional integration and eventually a free trade area of the Asia-Pacific.

Again, before looking at the TPP in any detail, a preceding question must be asked: does a Pacific strategy require a trade component? Here the answer is probably “yes,” based on fairly simple arguments from self-interest, past experience, Asian diplomatic realities, and high-minded reformism. Briefly put, these arguments are as follows.

An argument from American self-interest. Asia is the United States’ largest goods-trade partner, accounting for a third of imports and a quarter of exports. It is the world’s fastest-growing region, set to account for $9.5 trillion of the world’s likely $21.6 trillion in GDP growth over the next five years. The case for tapping this dynamism by lowering Asian trade barriers as a support for the U.S. economy is easy to make—and especially so in the aftermath of the 2008–9 financial crisis, with the United States in unusual need of export growth for a strong recovery. Options for trade policy to help with this need are easy to find: Asian tariffs tend to be higher than U.S. tariffs (although see below for

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some exceptions). The U.S. Trade Representative Office’s annual “National Trade Estimate” reports are never short of examples of agricultural discrimination, regulatory barriers to manufactured goods, copyright piracy, closed procurement bidding, and services monopolies. Likewise, the WTO’s anti-dumping figures find China and India alone imposing 50 of the 131 anti-dumping tariffs on U.S. goods over the past fifteen years.

An argument from past success. Trade liberalization in the Pacific has been successful as a device for growth, development, and political stability, and can achieve more. The commitment made at the 1994 APEC Leaders Meeting in Bogor to “free and open trade” in the Pacific by 2010 is now often scoffed at as a failure but in fact was fairly successful. After that meeting came the Uruguay Round agreements, which created the WTO in 1995; the WTO’s Information Technology Agreement in 1997, which scrapped tariffs on computers, telephones, cameras, semiconductors, and other IT goods; U.S. trade normalization with Vietnam, Cambodia, and Laos between 1995 and 2001; and WTO accession agreements with China, Taiwan, Cambodia, and Vietnam between 1999 and 2007. The cumulative effect is a Pacific economy more open and integrated than at any time in at least four hundred years. This steady opening and integration has helped underpin two generations of Asian growth; support a decline in Asian poverty rates from 77% in 1981 to 14% in 2009 for East Asia and the Association of Southeast Asian Nations (ASEAN), and from 61% to 38% for South Asia; and undergird the longest era of unbroken peace among major Pacific powers since at least the seventeenth century.

An argument from current diplomacy. In the second decade of the 21st century, regional trade policy is one of the central ways that Asian governments deal with one another. The “noodle bowl” of Asian trade agreements suggests this fact—ranging from the ASEAN FTA and an ASEAN-China agreement to proposals for China-India and China-Japan-Korea agreements, Singapore’s omnidirectional agreements, and the like. The United States has played only a modest part in this activism, and China quite a large one. Absence from the region’s trade policymaking means absence from one of the Asia’s main policymaking venues generally.

An argument from reform. Pacific trade policy is an area in which reform can achieve much more, opening markets to encourage regional growth, strengthen common interests among the region’s major powers, and help Asia’s poorer countries develop. The invaluable Interactive Trade and Tariff DataWeb of the U.S. International Trade Commission (USITC) shows that while Asia provides about 36% of U.S. merchandise imports, taxation of Asian clothes, textiles, shoes, cars, and consumer-electronics goods accounts for $22.7 billion of $28.6 billion in tariff revenue, or 80%. U.S. barriers are particularly high on the clothes and textiles that low-income states Cambodia, Bangladesh, Laos, Pakistan, and Indonesia (and likely a future, post-sanctions Burma) sell to the United States. The trade regimes of other major powers sometimes have similar

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8 This figure is dated from the Tokugawa shogun’s “closed country” Sakoku Edict of 1635.
ethical flaws and are often particularly restrictive or disruptive in food goods. A table drawn from 2011 data for imports, with a 2007–11 supplement for trade remedy actions, illustrates this situation (see Table 1).

Therefore, to answer the question raised at the beginning of this section: yes, from a variety of perspectives, trade policy has an important place in the United States’ Pacific policies. As U.S. Trade Representative Ron Kirk observed at the 2011 Engaging Asia conference, the United States will be well served by a program that can create “a platform for broad-based regional trade that is more responsive to global producers’ and consumers’ needs today, as well as flexible enough to grow with future business and technology developments.”

**IS THE TRANS-PACIFIC PARTNERSHIP THE RIGHT TRADE POLICY?**

The second and more complex question is whether the TPP is the right foundation for a Pacific trade policy. Fundamentally, such a trade policy would need to (1) define “the Pacific” in a way that matches American and allied visions of the future, (2) be large enough to have a big effect on future trade and investment flows, (3) be imaginative and original enough to affect emerging and future issues, and (4) avoid unintended damage to other U.S. goals in security, diplomacy, and other fields. Does the TPP have these characteristics? Here the answer is not yet clear, and a quick survey finds a few reasons for concern alongside some very appealing and valuable ideas.

**Members, Geography, and Policy Concepts**

We can begin by defining the TPP agreement, based on its membership and general policy outlines after eleven negotiating rounds.

*Members and geographical concept.* The TPP is a nine-party negotiation. Originating in a four-country project launched by Singapore, Chile, Brunei, and New Zealand, which entered into force in 2006, the TPP now includes these countries plus Australia, Malaysia, Peru, Vietnam, and the United States, with the United States being a negotiating partner since 2008. Canada, Mexico, and Japan also have expressed strong interest in joining, although in some cases with qualifications. Others have not wished to join or else have not been invited. The TPP includes none of Asia’s least-developed countries (LDC) or small island states; large mid-income ASEAN members Thailand, the Philippines, and Indonesia watch

<table>
<thead>
<tr>
<th>Region</th>
<th>Goods imports ($b)</th>
<th>Tariffs imposed ($b)</th>
<th>Tariff rates (%)</th>
<th>AD/CVD tariff actions 2007–11</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>2,186.0</td>
<td>28.60</td>
<td>1.3</td>
<td>139</td>
</tr>
<tr>
<td>World excluding Asia</td>
<td>1,394.0</td>
<td>5.90</td>
<td>0.4</td>
<td>24</td>
</tr>
<tr>
<td>Asia</td>
<td>792.0</td>
<td>22.70</td>
<td>2.9</td>
<td>115</td>
</tr>
<tr>
<td>Cambodia</td>
<td>2.7</td>
<td>0.46</td>
<td>16.9</td>
<td>–</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>4.9</td>
<td>0.75</td>
<td>15.3</td>
<td>–</td>
</tr>
<tr>
<td>Pakistan</td>
<td>3.8</td>
<td>0.39</td>
<td>10.4</td>
<td>–</td>
</tr>
<tr>
<td>Vietnam</td>
<td>17.0</td>
<td>1.56</td>
<td>9.0</td>
<td>8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>19.0</td>
<td>1.10</td>
<td>5.8</td>
<td>5</td>
</tr>
<tr>
<td>China</td>
<td>398.0</td>
<td>12.73</td>
<td>3.2</td>
<td>66</td>
</tr>
<tr>
<td>Taiwan</td>
<td>41.0</td>
<td>0.62</td>
<td>1.5</td>
<td>6</td>
</tr>
<tr>
<td>India</td>
<td>36.0</td>
<td>0.88</td>
<td>2.5</td>
<td>6</td>
</tr>
<tr>
<td>Japan</td>
<td>128.0</td>
<td>2.13</td>
<td>1.7</td>
<td>1</td>
</tr>
<tr>
<td>Korea</td>
<td>56.0</td>
<td>0.80</td>
<td>1.4</td>
<td>12</td>
</tr>
</tbody>
</table>

The TPP has a friendly definition of the Pacific as a region united by geography and common interest rather than ethnicity, political orientation, or cultural background.
Causes for Concern

If the TPP is considered, as Secretary Clinton’s article in *Foreign Policy* implies, to be the basis for Pacific economic strategy, the agreement does contain some causes for concern, however. Two such concerns—trade diversionary effects on very poor Asian countries and implications for ASEAN—are potentially unfortunate side effects. These can be headed off with some attention in the months ahead, but have received little attention and require conscious decisions by TPP members. The other concern—the potential membership of Japan, Canada, and Mexico—is a significant issue before TPP members now.

The TPP may cause unintended harm to low-income nonmembers through trade diversion. Trade diversion is a well-recognized effect of FTAs and regional agreements, in which an agreement shifts imports away from businesses in a nonmember still subject to tariffs to members for which tariffs are waived. Sometimes this is by design—TPP members may well feel that some loss of exports will put useful pressure on nonmembers to enter the agreement.

It is, however, important to anticipate these effects and ensure that they do not cause unintended damage to vulnerable economies. While diversion away from large and highly successful economies—China, India, the Philippines, Indonesia, and Thailand—may be useful to negotiators, the most vulnerable countries are actually the Asian LDCs and near-LDCs that have not been asked to join. These countries were mentioned earlier as especially reliant on selling high-tariff clothing and light manufactures to the United States: Cambodia, Laos, and likely a post-sanctions Burma, along with Bangladesh and near-LDCs Sri Lanka and Pakistan. For example, Cambodia’s $2.7 billion in exports of clothes to the United States in 2010 is 10% of PPP-basis GDP (that is, the size of Cambodia’s economy as measured by purchasing power) and about 30% of currency-basis GDP.\(^1\) Competition against a much larger, zero-tariff rival in Vietnam likely poses a risk of disinvestment, urban job loss, accompanying loss of remittances to rural areas from city workers, and general economic and political destabilization. TPP members should anticipate this possibility and design a duty-free program for the most vulnerable Asian countries to avert it.

The TPP could disrupt ASEAN cohesion. A second risk, if a less immediate one, is a potential weakening of ASEAN policymaking. Today’s TPP membership has Brunei, Malaysia, Singapore, and Vietnam on the inside, while Indonesia, the Philippines, and Thailand join the three LDCs on the outside. If U.S. Pacific strategy envisions ASEAN emerging over time as a strong organization able to work as a group vis-à-vis Southeast Asia’s larger neighbors, one element of that strategy should be encouraging common ASEAN positions in economics. By dividing the organization, the TPP may work against this hope. This suggests the need to offer the three countries, or ASEAN as a group, a credible process of joining the TPP in a reasonable amount of time.

The TPP remains small. Finally, and most relevant to the role that Secretary Clinton envisions for the TPP as a platform for integration and a precursor to a Pacific free trade area, for now the agreement remains modest on the economic scale. To put this in context, Asia’s three largest economies—India, China, and Japan—have over 2.6 billion people and account for $14.7 trillion of Asia’s $20.9 trillion GDP and $6.9 trillion of its projected $9.6 trillion in growth by 2016.\(^2\) None are TPP members. Nor are Indonesia and Korea, the fourth- and fifth-largest

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\(^1\) Trade data is from USITC DataWeb. GDP information is from World Bank, "World Development Indicators 2011," table 1.1.

\(^2\) IMF, "World Economic Outlook Database."
Asian economies, respectively. The TPP’s six Asia-Pacific members account for just $2.8 trillion in GDP, a projected $0.8 trillion in growth between 2011 and 2016, and 100 million people. Furthermore, Singapore, the United States, Australia, New Zealand, and Chile already have FTA relationships with at least some TPP members.

It should be specified that the absence of the very big countries is not the fault of the United States or the other TPP members. Rather, it is a consequence of the current political landscape of trade policy. The WTO’s Doha Round has been blocked since 2003 by the negotiating deadlock between the United States on one side and India and China on the other. This deadlock is also a barrier to an APEC agenda, and the same issues will likely arise should India and China join the TPP. TPP’s current members therefore should neither accept blame for their absence nor feel that they should not proceed without these big economies. But it is nonetheless true that the TPP is not now big enough to be a platform for integration or a Pacific free trade area. Instead, it is a medium-sized, unusually ambitious addition to the existing “noodle bowl” of intra-Asian and trans-Pacific agreements, and is likely to have only a relatively small effect on growth and the flows of trade and investment.

This position points to the importance of the expression of interest by Japan, Canada, and Mexico in joining the TPP before the end of the current set of negotiations. Should these countries enter—or even should Japan alone enter—the TPP will become a very significant agreement, joining two of the world’s three largest economies, with commensurate implications for the future Pacific economy. It also points again to the need for the TPP to rapidly develop a viable way to accept new members. Precedents elsewhere suggest the difficulty of this challenge. Apart from the WTO, the European Union is the only trade grouping in the world that has managed an accession process. The EU’s attraction reflects the fact that from its origins in the 1950s it was a large and powerful organization comprising the four largest economies of continental Europe—Germany, France, Italy, and the Netherlands. If the TPP is to succeed in attracting members beyond its original signatories, its participants need to think long and hard about how this will work in practice.

**CONCLUSION**

As a judgment on the long-term success of the pivot to Asia, James Fallows’s optimism may be slightly premature. But his admiration for the Obama administration’s Asia-policy activism seems to this observer very justified. The administration’s diplomats, military officers, and trade negotiators have been imaginative, patient, and busy. They have put in motion a series of policies that appear coherent and well-suited to the requirements of a changed landscape. However, most of these policies are still in concept and liable to reversal.

The TPP is one of these policies. It is not yet complete, and would need new members if it is really to shape future Pacific flows of trade and investment. But it is also an interesting and original concept, designed to address new issues whose importance will grow in the next decade and also to reinforce a concept of the Pacific suited to the goals of the United States and its partners. As such, it merits a place in the administration’s pivot to Asia and a share of the effusive praise that this bit of diplomatic activism has rightly won.

[The TPP] is not yet complete, and would need new members if it is really to shape future Pacific flows of trade and investment.
BACKGROUND ON ENGAGING ASIA

The Engaging Asia initiative convenes government and academic experts from the United States and Asia to provide analysis and policy recommendations for future U.S. engagement with the region. The fifth conference in this series, Engaging Asia 2012: Strategies for a Shift toward the Asia-Pacific, will take place in Washington, D.C., on April 18, 2012.

PAST ENGAGING ASIA CONFERENCES

- **Engaging Asia 2011: The 112th Congress and Post-Crisis Asia** Featured speakers included Ambassador Ron Kirk, U.S. Trade Representative; Congressman Rick Larsen; Rear Admiral Scott Swift, U.S. Pacific Command; and Minister Akira Chiba from the Embassy of Japan. The event also included a critical analysis of the NBR publication *Aftershock: The 112th Congress and Post-Crisis Asia*, featuring authors Edward Gresser (ProgressiveEconomy) and Daniel Twining (The German Marshall Fund of the United States).


- **Engaging Asia 2009: Strategies for Success** Featured speakers included Deputy Secretary of State James B. Steinberg, Congressman Rick Larsen, and Congressman Mark Kirk. Edward Gresser (ProgressiveEconomy) and Daniel Twining (The German Marshall Fund of the United States) elaborated on findings in their NBR publication *Shock of the New: Congress and Asia in 2009*.

- **Engaging Asia 2008: U.S. Strategic Interests, Priorities, and Policy Tools** Featured speakers and discussants included Congressmen Rick Larsen and Kevin Brady and Ambassador Christopher R. Hill, Assistant Secretary of State for East Asian and Pacific Affairs, U.S. Department of State; Admiral Dennis C. Blair, U.S. Navy (ret.); Ambassador Charlene Barhefsky, Senior International Partner at WilmerHale; Ambassador Lee Tae-sik, Embassy of the Republic of Korea; and Ambassador Chan Heng Chee, Embassy of Singapore.

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