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Is the Trans-Pacific Partnership Worth the Fuss?

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On December 14, 2009, United States Trade Representative Ron Kirk announced that the United States would enter into formal negotiations on a regional, Asia-Pacific trade agreement known formally as the Trans-Pacific Strategic Economic Partnership Agreement (also known as the Trans-Pacific Partnership, or TPP). The first negotiating session of this group will meet this week, March 15–19, in Melbourne, Australia. While any positive move from the Obama administration on trade is welcome—especially in light of almost a year's worth of neglect at best and protectionism at worst—there were ominous caveats and concessions in the announcement for those who cared to look. Those murky details call into question the true value of this deal, especially when more valuable, signature-ready agreements are sitting in the hopper.

A Deal Based on Potential

Before considering the deal's shortcomings, however, it is worthwhile to evaluate its potential. The original TPP came into force in 2006 with just four members—Brunei, Chile, New Zealand, and Singapore—and aims to eliminate all tariffs between the group by 2015. Australia, Vietnam, and Peru announced that they would join negotiations in November 2008, just two months after the United States had first expressed interest in joining.

There is potential for the agreement to expand even further. Indeed, in his letter to congressional leaders announcing the administration's intentions, Ambassador Kirk pointed to the deal's potential to one day take in other members as one of the reasons for joining: "U.S. participation in the TPP Agreement is predicated on the shared objective of expanding this initial group to additional countries throughout the Asia-Pacific region." Malaysia, with whom bilateral negotiations stalled in 2007, signaled some interest in joining in February 2010.[1]

It is true, as Ambassador Kirk wrote, that the Asia-Pacific region is huge and growing. Table 1 shows the relativelyfast growth rates in most members over the last decade.

Table 1
Trade Profiles of Current TPP Negotiating Partners

Partner	Rank in US goods export importance, 2009	Simple average tariff facing US goods†	Avg. annual growth rate, 2002–2007, %
Singapore (F)	12	n/a	8.4
Australia (F)	14	n/a	3.5
Chile (F)	25	n/a	5.5
Peru (F)	35	n/a	7.4
Vietnam	50	16.8	9.5
New Zealand	58	2.2	3.5
Brunei	142	2.5	2.3*

Sources: U.S. Department of Commerce, World Trade Organization, and *The Economist Pocket World in Figures*, 2010 edition.
*1997–2007
(F) Denotes that an FTA is already in effect with this partner.
† The most-favored nation rate for non-FTA partners only. The average applied tariffs in Vietnam is higher than the final average bound rate of 11.4 percent because Vietnam is still implementing the commitments it made when it joined the WTO in 2007.

Economic engagement in the region is overwhelmingly in the U.S. national interest. Kirk pointed out that U.S. goods exports to the region grew by more than 8 percent in 2008 and its service exports by 7.7 percent[2] (although he neglected to mention that's a slower pace of export growth than occurred generally: U.S. exports of goods and services to all regions grew 12 percent in 2008).[3] Moreover, that modest growth obscures some loss in market share: Kirk pitched the TPP as a way to halt the "significant decline in the U.S. share of key Asia-Pacific markets over the past decade," partly as a result of proliferating bilateral and regional agreements to which the United States has not been a party. The idea, Kirk wrote, was to "reverse this trend and enhance U.S.

competitiveness and our share of job-creating economic opportunities in the region."[4]

A successful TPP that extends to all members the trade-liberalizing parts of individual agreements would indeed reduce distortions in the market caused by overlapping tariff treatment and other trade regulations. Harmonizing so-called rules of origin, which determine where a product originates for the purposes of applying duties—a complicated exercise in this era of frequent transshipment—would be helpful to business by reducing transactions costs. That would be especially beneficial in Asia, an important hub for global supply chains. Beyond harmonizing existing provisions and rules, the TPP could liberalize trade even further for all signatories and improve on the trade relationships already established. These opportunities, however, must be weighed against the real prospect of backsliding if existing agreements within the TPP are re-opened, for example, by inserting labor and environmental standards.

Caveat Negotiator

Supporters of genuine trade liberalization can question the value of the TPP as it currently stands, and the likelihood of negotiating a truly liberalizing agreement that would bring benefits to U.S. consumers and businesses. There are ominous signs that trade advocates could be disappointed by the deal.

First, four of the seven TPP negotiators—the most important export markets for the United States in the group—already have bilateral free trade agreements (FTA) with the United States. And as Table 1 shows, the non-FTA partners (Brunei, New Zealand and Vietnam) are not currently big markets for U.S. exporters: Vietnam—the most important of them—ranked 50th. Of course, one could argue that high trade barriers might be behind the poor performance, and that the TPP would thus improve U.S. standings in those countries. But the non-FTA markets are small. Even the generally pro-trade Peterson Institute for International Economics, in a submission to the USTR in January in *support* of the TPP, admits that "the U.S. payoff . . . depends on extending the TPP to other major economies of the Asia-Pacific region."[5]

Second, the potential to fully realize gains from free trade with the remaining TPP partners with which the United States does not already have an FTA is questionable. For example, they all present political problems. Although not necessarily a serious irritant, especially under the new administration, New Zealand's long-standing refusal to admit nuclear-powered ships into its harbors or join the Iraq war effort was seen as an obstacle to a previously proposed bilateral trade deal.[6] Human-rights concerns in Vietnam and Brunei are in the sights of trade skeptics.[7]

Third, and assuming the political obstacles can be overcome, the gains to American consumers from lowering tariffs on imports from the non-FTA TPP partners are by no means certain. Brunei, for example, exports mainly oil and petroleum products, which accounted for more than 96 percent of its total exports in 2008.[8] The U.S. tariff on petroleum products is relatively low, and Brunei is not a significant source of oil for the United States. According to the U.S. International Trade Commission, the United States did not import any oil or related products from Brunei in 2009; indeed, total imports of all products from Brunei in 2009 came to just $41.6 million.[9] The ability of American consumers to benefit from lower prices and greater product variety is by no means assured, especially compared to the benefits offered by other, bigger deals that the administration could promote.

Vietnam provides an instructive example of the significant distance between potential and success. While Vietnam has potential to be an important export market for U.S. businesses because of its rapid growth and anticipated future need for high value-added imports of goods and services, its experience with United States trade politics does not augur well for a truly liberalizing agreement this time around. Two of its main export products, shrimp and catfish, are subject to extra tariffs under U.S. "unfair trade" laws. Separate to the TPP negotiations, news reports indicate that ongoing skirmishes over catfish inspections continue to complicate the trading relationship and threaten to spill over into U.S. beef exports to Vietnam.[10] Textile and apparel imports, which would offer significant benefits to American consumers if they were allowed to come in freely, are politically sensitive and would likely be subject to long phase-ins and carve-outs, if they are covered at all. Indeed, the U.S. textile lobby successfully convinced the Bush administration to subject Vietnamese textiles to formal monitoring by the U.S. Department of Commerce when Vietnam joined the WTO in 2007, and has called for textiles to be excluded from the TPP negotiations.[11] Negotiators can expect strong lobbying efforts from special interests eager to protect their turf.

Similarly, the bruising experience with the sugar lobby during the negotiations for the FTA with Australia serves as a warning for those that hope a TPP might, through freer trade with New Zealand, bring U.S. consumers long-overdue access to competitive dairy products. Dairy would likely be subject to significant carve-outs and delayed liberalization, especially if, as Ambassador Kirk threatens, members of Congress are intimately involved with proceedings. Hopes that a TPP would yield an opportunity to reopen the sugar provisions of the FTA with Australia look equally dashed. The Office of the USTR has already hinted that sugar would not be on the table for further liberalization, even though it would bring significant gains for U.S. consumers.[12]

An Unconvincing Sales Pitch

The language the administration used to promote the deal should give cause for concern to every proponent of genuinely liberalizing trade agreements. First, but not unusually, this deal was pitched overwhelmingly in terms of its potential to increase exports, thus reinforcing the damaging myth that promoting exports is the true end of trade policy and imports are, at best, a necessary evil. This is a recurrent theme with the Obama administration which, in its recently-released 2010 trade policy agenda, mentioned imports only 5 times.[13]

During his appearance at the 2010 USDA Outlook Forum—an event that partly aims to talk up agriculture, one of America's key export sectors—Ambassador Kirk said that members of Congress "are more open and receptive" to the idea of creating a trans-Pacific agreement because they could start the agreement from scratch.[14] Congress, in other words, would be free to insert potentially deal-breaking labor and environmental standards and generally assert their will.

That is not good news. As a general matter, members of Congress take a more parochial view of trade agreements than do administrations, being naturally concerned about the effect of any trade deal on politically powerful constituents rather than the national interest. Deferring to the current Congress in particular is unlikely to lead to more trade-friendly agreements: most of the Democratic majority has signed on to a bill sponsored by Rep. Michael Michaud (D-ME) that calls for a new trade policy that includes a long list of environmental, labor, investment and consumer protection standards.[15] Although the bill has little chance of becoming law, support for it demonstrates the extent of trade skepticism in the 111th Congress. A newly introduced bill that would withdraw the United States from NAFTA is a similar indication of congressional mood.

Far from upgrading trade agreements to "platinum" status, as some commentators have insisted that they would, adding extraneous social and intellectual property standards may tarnish the sheen of otherwise promising opportunities to expand economic liberty. That assumes, of course, that the inclusion of such standards and conditions does not preclude a deal entirely: developing countries strongly resist such standards as a rule, and it's likely that even the bilateral agreements within the TPP would need to be renegotiated to fit the new administration's vision.

In a truly disappointing display of political timidity, Ambassador Kirk gave depressing reasons for why the administration sees the TPP as higher priority than other agreements that have already been signed. Negotiations would, he said, be less of a political burden for Congress because they would likely take 18 to 24 months to develop and the agreement would not come up in Congress for approval until after the 2010 elections. Congress, he said, would look on these features favorably.[16] That should worry our TPP partners. When the main ambassador for U.S. trade is selling the slow pace and likely complications as a *feature* of the agreement rather than a bug, you know to put the champagne back on ice.

All of this calls into question the administration's true commitment to freer trade. Why, for example, given their insistence about the importance of the Asia-Pacific region for America's economic prosperity, is the administration not being more proactive in promoting the completed agreement with South Korea? The TPP is less politically controversial, to be sure, but that is an indication that it is less ambitious.

Conclusion

The Obama administration's interest in engaging in trade liberalization is a good sign for the future of U.S. trade policy. Announcing negotiations on the TPP pact is the first truly positive move on trade from an administration whose first year has been marked by almost total indifference to trade liberalization, and a consistent willingness to appease special interests calling for protection from foreign competition. Any positive efforts towards economic openness should therefore be encouraged.

That does not mean, however, that advocates of free trade here and abroad should be content. If the administration is truly interested in expanding trade and opportunities for American consumers and businesses, it should establish its commitment by first passing the bilateral agreements already completed. The choice to pursue a politically safe but economically marginal deal instead of promoting agreements already signed and ready for passage does not engender confidence in the administration's commitment to economic liberty and international engagement. The burden is on the administration to demonstrate that TPP negotiations are not a stalling tactic designed to distract policymakers (or, for that matter, trade advocates) from the more promising gains to be made from broader multilateral or, preferably, unilateral trade liberalization.

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