



Can Asia Pick up the Pieces From TPP?

Anthony Fensom

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U.S. President Donald Trump's move to withdraw the world's biggest economy from the Trans-Pacific Partnership (TPP) trade pact should have surprised no one. Can Asia now pull together a new trade deal from its wreckage?

In one of his first acts as president, Trump fulfilled a campaign pledge by formally withdrawing the United States from the 12-nation pact negotiated by his predecessor.

"For too long, trade deals have been negotiated by, and for, members of the Washington establishment. President Trump will ensure that on his watch, trade policies will be implemented by and for the people, and will put America first," the White House said in a statement.

Instead, the billionaire businessman-turned-politician said Monday he would pursue bilateral deals that allowed the United States to terminate them quickly "if someone misbehaves."

Trump pledged to fight for "fair but tough trade deals" that can "bring jobs back to America's shores, increase wages, and support U.S. manufacturing," while vowing to crack down on nations that violate trade agreements.

While the TPP had been unlikely to win support from the U.S. Congress, Trump's protectionist move was criticized for eroding longstanding presidential support for free trade.

"President Trump's decision to formally withdraw from the Trans-Pacific Partnership is a serious mistake that will have lasting consequences for the American economy and our strategy position in the Asia-Pacific region," Senator John McCain said.

The Cato Institute's Daniel Ikenson described the move as a "senseless act of wanton destruction" for U.S. interests, arguing it would have helped fill the void left by the failure of global negotiations and secure U.S. economic and political interests "now and into the future."

Agreed last October after five years of negotiations, the TPP was aimed at creating the world's biggest free trade zone, with a collective population of around 800 million people and accounting for 40 percent of global economic output.

Comprising Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam, the grouping was promoted by then U.S. President Barack Obama as helping to strengthen U.S. relationships and ensure the United States wrote the rules on trade, as well as aiding its strategic “pivot” to Asia.

However, the pact required ratification by February 2018 by at least six individual member states accounting for some 85 percent of its economic output, making U.S. involvement crucial.

As previously noted by *Pacific Money*, the TPP had the potential to boost world income by as much as \$295 billion a year over the next decade, helping revive sluggish global trade. The TPP also allowed for other nations to join the pact later, serving as a potential pathway toward a greater free trade area for the region, including potentially the region’s biggest economy, China.

TPP Minus One?

Despite Trump flagging plans to withdraw during his election campaign, Asia-Pacific leaders continued to promote the TPP right up until the last minute.

Australian Prime Minister Malcolm Turnbull and Japanese Prime Minister Shinzo Abe both pledged their support for the pact, while Australian Trade Minister Steven Ciobo said Canberra was willing to work with the other participants to find a way forward without the United States – a “TPP minus one.”

Speaking to Australia’s *ABC TV* from the United States, Ciobo said:

[T]he conversations that I’ve been having have been about a reformulated TPP, what you could call a TPP 12 minus one. In other words, the opportunity to capture the gains that we’ve been able to secure under the agreement of the Trans-Pacific Partnership, but less the United States.

There’s still an appetite from a number of countries including Canada, Mexico, New Zealand, Singapore, and others to look at what we could be able to come up with that would still capture those important gains around trade facilitation and the efficiencies for small business, et cetera, but do it within that TPP framework.

Ciobo said the Australian government would still pursue legislation ratifying the TPP, even without the United States, while pursuing other trade deals with countries such as Indonesia, the European Union, India, and Britain.

“We’re going to keep that option alive [of ratifying the TPP] because we don’t know where discussions are going to go over the next couple of months, and that’s part of the reason why we need to make sure we retain flexibility,” he said.

Turnbull told reporters in Canberra that Beijing could even replace Washington in the pact: “Losing the United States from the TPP is a big loss, there is no question about that. But we are not about to walk away... certainly there is potential for China to join the TPP.”

In Tokyo, Japan’s Abe said he would “seek President Trump’s understanding about the economic and strategic significance of the TPP.”

Abe previously described the TPP as “meaningless” without U.S. participation, although his recent four-nation tour to the Philippines, Australia, Indonesia, and Vietnam was seen as highlighting both security and economic interests, including the importance of multilateral trade pacts.

Japan’s parliament has already ratified the TPP and Tokyo remains cautious toward any bilateral deal with Washington that might require even lower tariffs. Another concern is a potentially greater role for China in shaping regional trade rules if the TPP fails to eventuate, according to Japan’s *Nikkei*.

Yet asked whether Japan would consider a TPP without the United States, Japanese Deputy Chief Cabinet Secretary Koichi Haguida said: “As Prime Minister Abe has made clear, TPP without the United States is meaningless and the balance of interests would crumble.”

Abe, however stressed that Japan would pursue a trade deal with the European Union, along with a “high-level” deal under the Regional Comprehensive Economic Partnership (RCEP) grouping including China and other Asian nations.

Malaysia’s Trade Minister Mustapa Mohamed said TPP negotiators would remain in communication over the best way forward.

“Notwithstanding the current position of the new U.S. administration on [the TPP], we will continue to engage with our American colleagues to strengthen our bilateral trade and economic relations, given the U.S.’s importance as our third-largest trading partner and a major source of investment,” he said.

However, Singapore’s Ministry of Trade and Industry said: “Without the participation of the U.S., the TPP agreement as signed cannot take effect. There are other regional integration initiatives still ongoing, including the Regional Comprehensive Economic Partnership and the proposal for a Free Trade Area of the Asia-Pacific. Singapore will continue to participate in these initiatives.”

New Zealand Trade Minister Todd McClay said ministers from the other TPP nations would meet in coming months to discuss the pact. Yet New Zealand Prime Minister Bill English said the focus could switch to other deals, such as RCEP, which is being negotiated between the 10 ASEAN member governments and their six FTA partners, comprising Australia, China, India, Japan, New Zealand, and South Korea.

According to the *Wall Street Journal* (WSJ), the biggest U.S. trading partners among TPP members are Canada (\$500 billion in annual trade), Mexico (\$482 billion), and Japan (\$177 billion), with a large gap to the next-largest Vietnam (\$48 billion).

The business newspaper suggested Trump “consider taking the bones of TPP and building it into a U.S.-Japan bilateral trade deal” – a potential measure flagged previously in *Pacific Money*.

However, any bilateral deal between the TPP’s two biggest members would leave the rest of the group on the sidelines, while Tokyo could reasonably fear being disadvantaged at the negotiating table with its stronger partner.

Meanwhile, as warned by the WSJ, “the economic damage will come in the months ahead if trade becomes a game of beggar-thy-neighbor self-interest in which national success is measured by a simple trade surplus. Then we’ll look back on TPP’s demise as a watershed to regret.”

For the United States though, there might be a longer-term cost to pay, according to the Cato Institute’s Ikenson: “Reformers in foreign governments that incurred political costs to push the TPP in their countries with expectations of U.S. participation wouldn’t soon forget that the United States proved to be an unreliable partner.

“Hopes for the TPP jump-starting a new wave of global trade liberalization would be dashed and, with U.S. credibility diminished around the world, America’s policy objectives would become more difficult to meet.”

Thailand’s central bank governor even suggested U.S. withdrawal “might provide a better opportunity for some of the regional trade agreements” such as RCEP.

Yet regardless of whether the remaining TPP members can pull together a new deal or abandon the TPP completely, a bigger worry for Asia is the prospect of suffering the fallout from a U.S.-China trade war. Trump has threatened steep tariffs on Chinese imports and to declare Beijing a “currency manipulator,” while apparently taking a harder line on the South China Sea.

“The whole world now has to manage the brutal reality of Trump’s version of ‘Only America First.’ The prospect of some sort of trade war with China is now a very real risk despite the dangers for everyone involved, including American consumers if he proceeds with his threat to impose tariffs,” the *Australian Financial Review*’s Jennifer Hewett said.

For Asia, salvaging the wreckage of the TPP, preventing a U.S.-China trade war, and keeping the region’s free trade momentum going just got a lot tougher. After the shocks of 2016, reality is biting hard in the Year of the Rooster.