



Obama Embraces Trans-Pacific Partnership

C. Fred Bergsten, coauthor of China's Rise: Challenges and Opportunities, says the US intention to engage with the Trans-Pacific Strategic Economic Partnership (TPP) could address concerns about the emergence of a China-led, Asian-only trading bloc.

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. C. Fred Bergsten, the director of the Institute, is here to talk about President Obama's trip and some news during his trip in Asia. Thanks for joining us, Fred.

C. Fred Bergsten: Good to be here, Steve.

Steve Weisman: The Obama team has announced that the United States will engage with the Trans-Pacific Partnership in a new effort toward regional economic cooperation in the Asia-Pacific Region. What's the significance of that step?

C. Fred Bergsten: I think this is a very big deal, Steve, for three reasons.

First, the Obama administration has heretofore not had any trade policy. This is their first positive initiative. It therefore puts them back in the trade negotiating game and that will help hold back protectionist relapses as well as start moving to help the American economy by opening foreign markets to our exports.

Second, there is a big movement in Asia toward the creation of an Asian trading bloc that would discriminate against the United States and that runs the risk of drawing the line down the middle of the Pacific. This initiative would create, by contrast, a transpacific economic agreement that avoids the risk of drawing a line down the Pacific and would integrate the economy across the Pacific Rim, engaging the United States fully with the Asians and reducing the risk to the United States, both in economic and foreign policy terms, of an exclusive Asian bloc.

Third, this has the potential to be one of the biggest trade agreements of all time. The current Trans-Pacific Partnership includes only four small countries—Singapore, New Zealand, Brunei, and Chile. However, three other fairly major economies have indicated they are ready to join if the United States does: Australia, Vietnam, and Peru. Moreover, I've just come back from Korea and Japan, and it's quite clear that both of those very major economies are ready to enter the arrangement if the United States does.

So that would already be 10 countries. It would make up a critical mass of the Asia-Pacific economy and it could potentially move toward being a very big deal in global trade and economic terms.

Steve Weisman: The statement announcing this new decision carefully avoids the word “trade.” They just keep talking about economic integration. But you’ve been in touch with the parties on the US and on the Asian side. You’re convinced that this could lead to reduction of trade barriers?

C. Fred Bergsten: That’s the objective of the exercise. The existing Trans-Pacific Partnership is just that: a free trade agreement among the four countries that are now involved. The three others that I mentioned, who have already been studying it, clearly have that objective in mind. There are statements from a number of the heads of state at the [Asia Pacific Economic Cooperation] APEC summit in Singapore reiterating that and as you say, I’ve been in touch with the US delegation, and others from Singapore and that is clearly the objective of the exercise.

The administration of course wants to consult closely with the Congress before proceeding. They’re being a little careful with the language they use, but there is no doubt this is aimed at creating a big and very substantially liberalized trade agreement across the Pacific Ocean.

Steve Weisman: What are the implications for other trade agreements that are pending, not only the Korea Free Trade Agreement but the Doha Round, where there is no agreement pending but negotiations are underway? Is this the Obama administration’s alternative to those agreements or does it necessarily substitute for them?

C. Fred Bergsten: I think this is a very positive complement to other agreements that are being negotiated. One clear implication, and I would say objective, is to bring under one umbrella a lot of the so-called spaghetti bowl of bilateral free trade agreements that already exist. The United States has free trade agreements already with Singapore and Chile that are in the current Trans-Pacific Partnership. It also has deals with Australia and Peru that are considering becoming engaged. But all those agreements have different, specific rules. They often conflict with each other. It would be highly desirable to bring them under one roof, and that is one of the purposes of the exercise.

Secondly, I believe this initiative will give a very positive push to the Doha Round of WTO negotiations for multilateral trade liberalization. The reason is that the Europeans, India, some African countries, and others that have been blocking agreement in the Doha Round will see that the transpacific countries are now starting to move toward a megaregional agreement that would discriminate against them. They will quickly, I think, get the message and decide it’s better for them to bring down trade barriers on a global basis through the WTO.

That incidentally is exactly what happened back in 1993 when the creation of APEC and its stated goal of achieving free trade in the Asia-Pacific region were decisive in bringing the last big multilateral round, the Uruguay Round in the GATT, to a successful conclusion. The Europeans very explicitly got the message that they could be discriminated against by a transpacific grouping. They immediately saw the advantage in sticking to the multilateral system and bringing down barriers and they agreed with alacrity after having blocked that GATT agreement for three years.

So I think this is a win-win for the global trading system and will support the multilateral approach as well as proceed to open up trade among a very significant group of transpacific countries themselves.

Steve Weisman: Speaking of alacrity, what's the timetable, in your judgment, on this agreement given that APEC—the Asia-Pacific Economic Cooperation forum—is scheduled to meet, I think in two years, on American soil?

C. Fred Bergsten: I think that meeting in the United States in two years is probably going to become the target date for at least initial agreement on this Trans-Pacific Partnership including the Group of 8 to 10 countries that I mentioned before.

Steve Weisman: And by the way, you were telling me some news about where that meeting is going to take place.

C. Fred Bergsten: It's been agreed now that the United States will host the 2011 APEC summit in Honolulu, President Obama's hometown, a very natural place to do it since Hawaii symbolizes the United States as a Pacific power and is a transpacific meeting point between Asia and the United States. I think that will give President Obama and his administration a particularly strong stake in reaching agreement. It'll be the Honolulu Agreement or the Hawaii Agreement, one of the great international initiatives of the current era, if it pans out. It would be a crowning success, I might add, for President Obama.

And so, I would think that the goal will be to bring this initial effort announced over the weekend into at least its initial stage of agreement by the two-year anniversary from now when the United States hosts APEC at Honolulu in the fall of 2011.

Steve Weisman: So this line down the Pacific—how serious a concern should Congress have over it? And what do you think the reception to this initiative announced this week will be in Congress? Do you think that they will also view this initiative as an effective response to the growing integration within Asia and Asia turning into itself?

C. Fred Bergsten: I think Congress should and almost certainly will support this initiative. The alternative is to permit an Asian bloc to develop on its own, discriminate against the United States, hurt our trade, cut our jobs, discriminate against our investment as well as our exports. That in turn would have broad foreign policy and national security implications. If an Asian bloc starts discriminating against US trade and hurting our economy. I think there would be repercussions in the Congress that would jeopardize continued US engagement with Asia across the board, including in the foreign policy and even military areas. So I suspect that the Congress will welcome this agreement.

In part, it's defensive to avoid negative effects on the United States, but to put it more positively, for the United States to reassert leadership in the region, reiterate its historic stake in a successful Asia—a close Asian relationship with the United States. I think this one is eminently saleable to the Congress and will in fact be very widely supported as, in fact, a number of senators and congressmen have already called for it in letters to the White House, statements of their own, and preparations for the president's trip over the last few weeks.

Steve Weisman: These trips— while they're important because of the message that the president is delivering to the places he's visiting—are also important because of the message that he delivers back home and to the American people: that they have to think about the rising Asia.

C. Fred Bergsten: The 800-pound gorilla in this drama is of course China, which is the rising global economic power. China is at the heart of the developing Asian bloc and in ways subtle sometimes, not so subtle other times, is trying to magnify its own considerable national power by developing an Asian bloc around it. No less than the former prime minister of Singapore, Lee Kwan Yew, made that argument very explicitly when he was here in Washington three weeks ago meeting with the president and meeting with top US officials prior to the president's trip to Asia.

This in a way is a US counter to that strategy. The United States does not want to be discriminated against by a China-led Asian bloc. The United States does not want to be relegated to second place or no place in terms of the politics and strategic relationships in Asia.

I think the United States can do this in partnership with China. I think eventually if the other countries that I mentioned join this Trans-Pacific Partnership China will feel it necessary to do it as well. And then, we would be on the road toward the ultimate goal that was proposed in APEC about three years ago, a Free Trade Area of the Asia Pacific. But this more limited group has plenty to address and work on now and, as I said, I'm hopeful and believe that over the next two years it can be brought to initial fruition.

Steve Weisman: Fred, thanks very much for joining us. And come back and assess the trip as it concludes later this week.

C. Fred Bergsten: Happy to do so, Steve.

Steve Weisman: Thanks.

