

US Trade Policy Options in the Pacific Basin: Bigger Is Better

Jeffrey J. Schott
Senior Fellow, PIIE

February 16, 2017

Is the TPP history?



- **Withdrawing from the Trans-Pacific Partnership (TPP)** was one of the first acts carried out by President Donald Trump.
- **Trump's objections to TPP:**
 - Typical of “bad” trade deals that have caused “mounting trade deficits and a devastated manufacturing base.”
 - US paid too much and got too little from other TPP countries.
 - Contains loopholes that allow China to “free ride” on the deal.
 - Enforcement provisions are too weak.
- **Instead, Trump plans to negotiate bilateral trade deals. But the TPP critique is flawed and his bilateral strategy unlikely to bear fruit.**
- **Conclusion: Revisit the regional initiative**
 1. Most business and farm groups and Republican leaders want a regional deal that fixes flaws and improves the TPP.
 2. Negotiate a revamped, enlarged, and probably renamed Asia-Pacific pact.
 3. Reopen and restructure old deal into bigger and better trade pact with more countries providing a larger payoff for US firms and workers.

What's Wrong with Trump's View of TPP



Claim: TPP is typical of “bad trade deals” that have caused “mounting trade deficits and a devastated manufacturing base.”

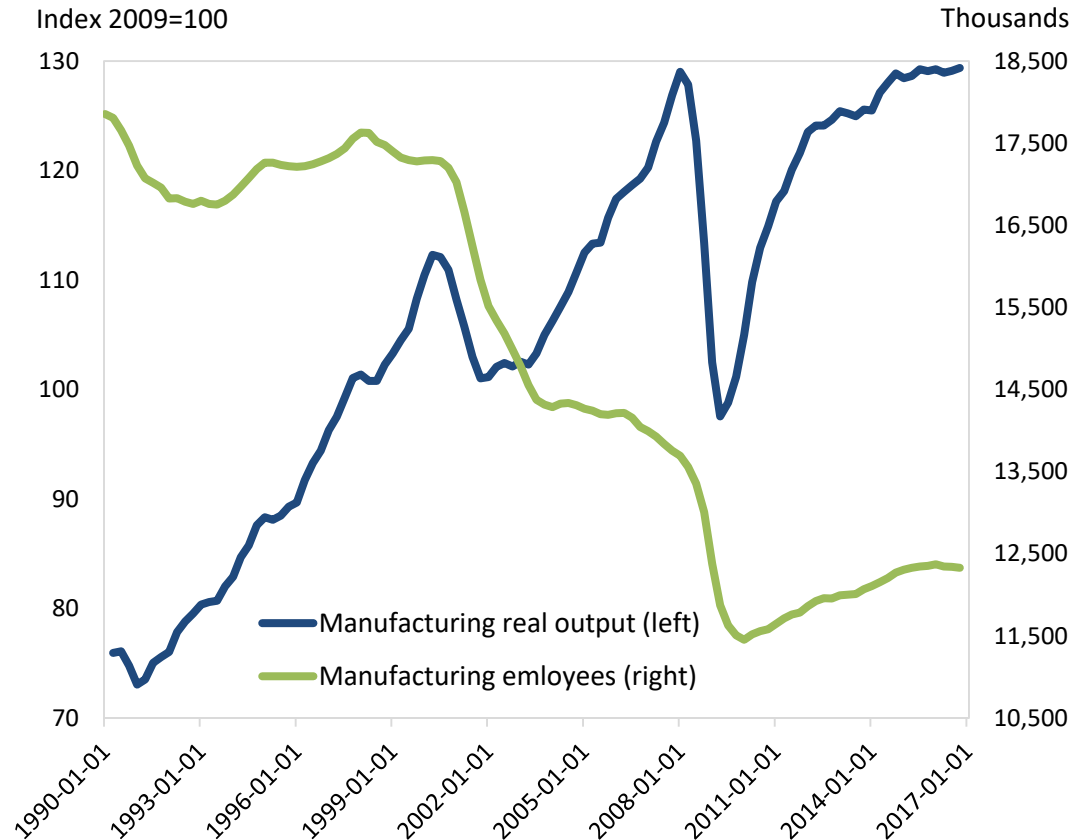
US goods trade with TPP, 2015, US\$ billions

	US imports	US exports	Trade balance
Total goods	856.5	680.0	-176.5
<i>Manufactures</i>	592.8	319.0	-273.8
Autos	125.6	32.3	-93.3
NAFTA + JPN	125.5	29.2	-96.3

Note: Auto trade based on motor vehicles for transport of people and goods, HS 8702-04.

Source: UN Comtrade database.

US manufacturing sector output and employment, 1990-2017



Source: Bureau of Labor Statistics.

What's Wrong with Trump's View of TPP



Claim: The United States paid too much and got too little from other TPP countries.

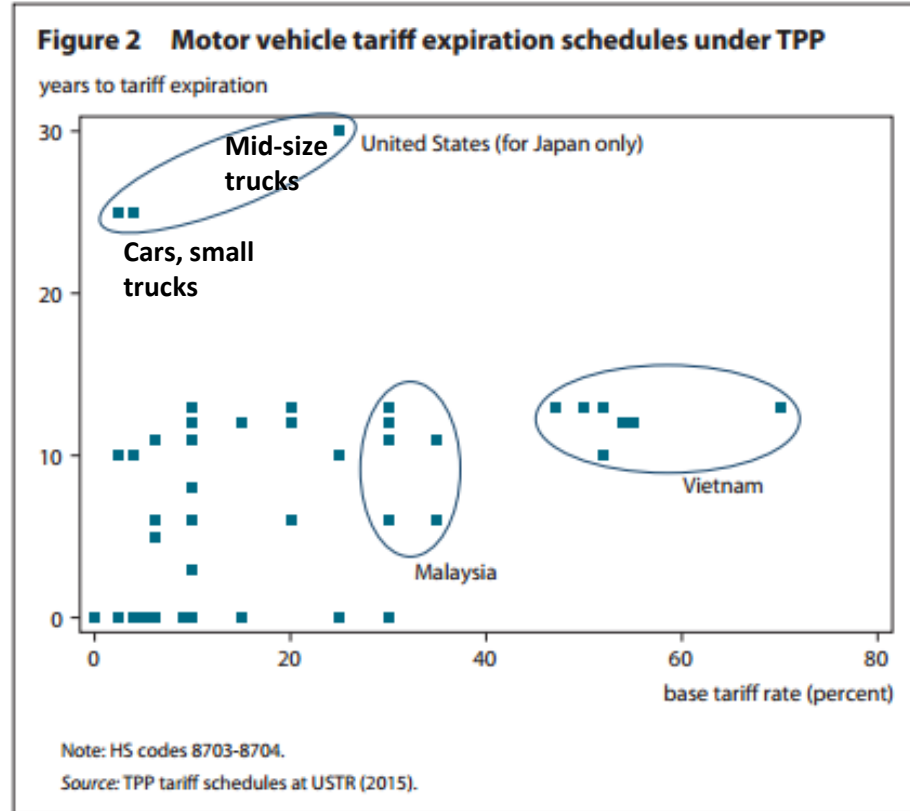
- **In fact, US concessions in the TPP were very limited.**
 - 2.5% tariff on Japanese auto imports remains for decades
 - Protections for US dairy and sugar largely intact
 - No coverage of subfederal government procurement
- **The United States got “paid” twice by our TPP partners:**
 1. Reciprocal concessions in each market.
 2. Bonus payment from many countries for helping them get better access to Japanese, Vietnamese, and other TPP markets.
- **Takeaway: TPP would have yielded large US gains with few US concessions.**

What's Wrong with Trump's View of TPP



Claim: TPP has loopholes that allow China and other non-TPP countries to “free ride.”

- Rules of origin set criteria for goods to qualify for preferential tariffs. If good doesn't qualify, subject to most favored nation (MFN) tariff—US MFN auto tariff is 2.5% regardless of imported content of those vehicles.
- Trump officials think origin rules for autos allow too much foreign content—even more than NAFTA.
- But most US car imports are effectively excluded from TPP preferences:
 - Almost no tariff preference to Japanese cars for 25 years.
 - Canada and Mexico already receive duty-free treatment under NAFTA.
- US auto *parts* tariffs are higher and would phase out sooner, but Chinese parts in Japanese exports to US not a significant problem given low MFN tariffs.



What's Wrong with Trump's View of TPP



Claim: TPP enforcement provisions are too weak.

- The Trump administration commits to “identify all trade violations and to use every tool at the federal government’s disposal” to enforce US rights under trade deals.
- Concerns about TPP enforcement provisions also echo charges that investor-state dispute settlement (ISDS) serves corporate interests and not US workers—though US has not lost a case brought by a foreign investor.
- Asia-Pacific countries want to attract foreign investment and are likely willing to amend or delete ISDS procedures to secure approval by Trump administration.

Bilateral FTAs Are Not the Answer



- **In place of TPP, Trump wants to pursue bilaterals:**
 - **Canada & Mexico:** No specific agenda yet for “modernized” NAFTA.
 - **Korea:** “Updating” KORUS FTA might focus on certain sectors, e.g., autos, steel, financial services, rice, and currency provisions.
 - **Japan:** Japanese interest driven by security concerns but trade offer likely to be far less generous than TPP.
 - **Taiwan:** A bilateral would likely cause major ruptures in US-China relations.
- **Bilateral option unlikely to bear fruit:**
 - Trump aims to negotiate “better” deals by seeking more concessions from abroad but fewer from US—but why would countries do so when they already have good access to the US market?
 - Why expend huge political capital advancing individual FTAs through Congress instead of one comprehensive pact restructured to meet his specifications?
- **Takeaway: Better bilaterals require bigger US concessions.**



Revisiting the Regional Approach

- **Why Trump administration may consider new trade deal that is bigger and broader than TPP:**
 1. Pressure to “fix” TPP from many Republicans leaders in Congress and business and farm groups who want a TPP-style deal;
 2. Concerns US competitiveness will be adversely affected as US industries face discrimination from deals excluding US;
 3. Pressure to reinforce strategic interests in Asia-Pacific—most TPP countries now pursuing new or enhanced pacts with China.
- **Would Pacific Basin countries agree to reopen, restructure and rename the TPP?**

The “Go Big” Option: New Content



TPP flaws could be fixed in a new trade negotiation:

1. Add enforceable currency provisions
 - Commitments in side declaration should be incorporated in the TPP.
 - Japanese support in particular would be critical.
2. Revise or drop ISDS
 - In case of financial services, ISDS was subject to specific clearances by national authorities, i.e., preclearance to start ISDS litigation.
3. Incorporate other changes to TPP provisions sought by congressional leaders in 2016.
4. Where TPP results were limited because of reluctance to reduce US restrictions (e.g., dairy, procurement, services), if US negotiators want more liberalization, they would need to revisit US exceptions.



The “Go Big” Option: New Members

Reopening trade talks also allows new participants, such as Korea, Taiwan, and Colombia—more countries provides several benefits:

1. Cumulative GDP of these countries is ~\$2.5 trillion, adding them would open significant new opportunities for US firms and workers.
2. Including Korea and Colombia provides means to upgrade existing bilateral deals and fix implementation problems.
3. Broader participation provides more promising option to reinforce trade ties with Taiwan.
4. Restores US economic engagement in Asia-Pacific and strengthens strategic alliances.



Conclusions

- Like Wagner's music, the TPP isn't as bad as it sounds...or has been described by Trump and his trade team.
- The Trump administration has an opportunity to formulate a new trade policy with Asia-Pacific region.
- A broader, renamed Asia-Pacific deal would expand the value of the original TPP deal, achieve greater regional integration, and expend less US political capital than a country-by-country bilateral approach.
- New regional trade talks would allow US negotiators to fix flaws in the old deal and add new obligations on currency manipulation and other issues.
- And, importantly, a new mega-deal would reinforce US strategic leadership in the Asia-Pacific region.