



# THE UNITED STATES AND EAST ASIAN REGIONALISM: BALANCING ECONOMICS AND SECURITY

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## EXECUTIVE SUMMARY

- **During the first decade of the 21st century, Asian regionalism was shaped by important new realities, particularly in the emergence of China as an economic and military powerhouse.**
- **The symbolic and substantive capstone of the US “pivot” to Asia came with President Obama’s nine-day trip to the region in November 2011.**
- **In response to the potential success of the TPP negotiations, China is likely to push for a competing regional economic architecture through RCEP as a less rigorous alternative to the TPP.**

Though some critics have claimed that US involvement in Asia has been “episodic and reactive” over the past two decades—spanning the beginning and maturation of a new Asian regionalism—US administrations from both major political parties have adopted and carried out remarkably unified goals. Economic and trade goals have been inextricably linked to broader diplomatic and security interests. The role of individual leadership has also played a crucial role, as the bookend contributions Secretaries of States James Baker and Hillary Clinton make clear.

By tracing the evolution of US policy towards an evolving East Asian economic architecture since the late 1980s, the major way stations and policy turning points and a developing contest between trans-Pacific and intra-Asian regional visions will be explored. In the present circumstances, the negotiations for a Trans-Pacific Partnership (TPP) agreement present a crucial test and challenge for the United States and its trading partners and diplomatic allies, most particularly for Australia. The negotiations stand at the central intersection of trade policy and diplomatic/security policy, and their success or failure will have major strategic repercussions.

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## US Trade Policy: The Shift from Single-Minded Multilateralism

**From 1945 until the late 1980s, the US steadfastly adhered to multilateralism in international economic policy, taking leadership in the GATT and in the other pillars of the Bretton Woods agreement, the World Bank and the IMF.**

But the end of the Cold War, which coincided with a newly emergent 15-nation European Union and the possibility that Japan's "flying geese" model would produce an Asian trade and investment bloc, triggered a rethinking of US international economic and diplomatic goals and priorities. Multilateralism and leadership in the GATT system remained the central priority, but bilateral and regional agreements were added to supplement the US trade policy agenda.

NAFTA was the most notable product of this US policy reset. But NAFTA was only the first of a number of new regional initiatives put forward during the 1990s, including a Free Trade for the Americas Agreement (FTAA), and continuing proposals for an FTA with Europe that would complement NATO, the long-standing US-Europe security treaty.

### Asia

The shift in US policy toward regional developments in Asia was the product both of a substantial new posture in the Bush 41 administration, as well as impetus from within Asia itself, specifically from a joint initiative by the Australian and Japanese governments. Within the Bush administration, Secretary of State James Baker was the driving force behind an important reorientation of US international economic policy—and with a closer melding of US economic policy with larger goals of US diplomatic and security policy. It was Baker who famously set out an enduring US strategic position when he avowed that the United States would oppose any "plan that drew a line down the middle of the Pacific," with the US on one side of the line and Asian nations on the other side. As Baker stated later in his memoirs, while

there were no immediate security challenges to the United States at that time, he viewed his statement as a projection of diplomatic and security power as well as a statement of economic interest.

Regarding future trade policy, as Secretary of the Treasury under President Reagan, Baker had already signaled that, in addition to the priority given to the multilateral trading system, "bilateral and minilateral systems may help move the world toward a more open system." Thus, he was immediately receptive to the proposal put forward by Australia and Japan for a new Asia-Pacific Economic Forum (APEC). The background and history of the origins of APEC are important for this essay as they introduce themes and factors that remain valid down to today. On the Australian side, Prime Minister Robert Hawke's (1983-1991) drive for economic reform domestically (deregulation, currency flotation, reduction of corporate taxes, opening to foreign investment) combined with international trade liberalization, represented a major turning point for the country. It was Hawke who first proposed a new regional institution for Asia in January 1989. Though specific circumstances and priorities have changed over the succeeding decades, Australia's motivations and goals regarding Asian regionalism have remained remarkably constant. First, it needed to establish legitimacy as a member of the Asian community. Its long-standing membership in the British empire and close ties to the United Kingdom presented difficulties in achieving true acceptance within the Asian community (In turn, combining forces with Australia for the original APEC proposal allowed Japan to assuage (partially) regional memories from World War II and more recent fears that Japan aimed to establish a new Greater East Asia Economic Sphere).

APEC also provided a crucial means to achieve a second goal that had guided Australian foreign policy after 1945: to anchor the United States securely in East Asia. To this end Australia pressed for US involvement and leadership not only in economic institutions but also in security-related institutions such as the later Asia Regional Forum that supplemented strong US-Australian bilateral security arrangements. Close ties have not meant that the two nations have always seen eye-to-eye on economic and diplomatic issues; but a common commitment to democratic values and competitive capitalism has provided the base for broad agreement.

In the event, APEC quickly achieved strong cross-party support in Australia after the Labor administration of PM Paul Keating (1991-1996) enthusiastically backed APEC and was instrumental in persuading President Clinton to raise the status of APEC with an annual leaders' meeting in 1993. Subsequently, Keating also provided important support for Bogor goals of free trade in the Asia-Pacific by 2010 from developed country APEC members, and 2020 for developing country APEC members.

With the adoption of the Bogor goals and with strong initial support from the Clinton administration, the trans-Pacific vision of an Asian economic architecture moved to the fore—at least until the late 1990s. President Clinton was fortunate to preside over the brief “unipolar” moment in post-war history. Thus, with no urgent security or diplomatic issues on the horizon, US Asian regional policy tilted toward an economic focus, with a powerful tinge of mercantilism. In the early years, the US was just recovering from the brief, but sharp, recession of the early 1990s; and Japan's economic keiretsu-driven model was still widely envied—and feared. Thus, it is no coincidence that, in pushing forward with APEC, the administration had identified six of ten most promising export markets as being located in East Asia. It should be noted, however, that while security considerations were not predominant in Clinton administration calculations regarding APEC, other political factors were important—most particularly, in APEC (as in NAFTA) the US vision included a strong emphasis on advancing democratic deals and the rule of law.

There are several other elements of the APEC structure and modus operandi that are relevant for the present. First, in form and operation, APEC represented a compromise: it did set specific free trade goals, as the US demanded; but the mechanisms for achieving those goals were rooted in more traditional Asian diplomatic characteristics, including protection of national sovereignty and a preference for negotiation and mediation over binding legal clarity. This distinct modality of operation included decision-making by consensus and a voluntary liberalization process, defined by the term “concerted unilateralism.”

During the 1990s, APEC steadily added new activities and program areas to its agenda, including the environment, telecommunications, education, human resources, small and medium enterprises, tourism, science and technology, and a series of so-called ECOTECH programs for less developed countries. Thus, in addition to trade bureaucrats, representatives from other ministries such as agriculture, commerce, industry, the environment and science appeared at separate gatherings.

Though papered over for some years, tensions were built into the APEC trade negotiating process from the beginning. On the one side, were the so-called “Anglo-Saxons,” the US, Australia, New Zealand and Canada, who wanted the negotiations to shift toward defined interim timetables and the establishment of binding reciprocal agreements. Arrayed against this vision were the Asian nations who espoused continued reliance on unilateral liberalization, with each nation determining the pace and content of its market-opening policies. There was also disagreement over whether the multilateral principle of unconditional MFN would hold, or whether future liberalization would be “conditioned” on a reciprocal basis.

Matters came to a head in 1997-1998 when the United States failed in a major

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effort to change both the negotiating mechanisms and accountable timetables for APEC. At that point, the Clinton administration, wisely or not, concluded that APEC had become another Asian “talking shop” and shifted its trade priorities back to the WTO and to bilateral initiatives. There are important lessons from the high promise and ultimate frustration in APEC negotiations in the 1990s. On the merits, the United States was correct that at some point non-binding “unilateralism” needed to evolve into concrete and definable rights and obligations. However, in its impatient push for liberalization clarity—even as the Asian financial crisis gathered hurricane force in 1997-1998—the US clearly invited, and got, a negative reaction that set back APEC trade liberalization for some years.

A good deal of water has gone over the dam since 1998, but in the current TPP negotiations, there are abiding lessons for the United States: most particularly, though its goal to produce a “21st Century” regional agreement is both laudable and defensible, in order to achieve this ultimate goal it will have to compromise on both substance and timing in key negotiating areas. And with the emergence over the past decade of an alternate intra-Asian vision for economic and political regionalism the stakes are even higher than in the less contested 1990s.

## **Intra-Asian regionalism: From Mahathir to the ASEAN Plus Three**

The vision for an “Asia only” economic and political architecture originated almost simultaneously with the trans-Pacific regionalism first embodied in APEC. Malaysian Prime Minister Mahathir presented this alternate vision for East Asian regionalism as early as 1990. He foresaw new regional institutions that would be exclusive to Asian nations alone (he did not consider either Australia or New Zealand “true” Asian nations). Specifically, Mahathir proposed an East Asian Economic Caucus in place of APEC. Both the US and Australia opposed this plan, and it was in reaction to Mahathir that Secretary of State Baker made the now famous statement that the United States would oppose plans to exclude it from the Asian economic and political institutions and alliances.

But a rising sense of regional identity provided a continuing impetus for a drive for a more formal Asian institutional structure; and the shock of the Asian financial crisis in 1997—along with a strongly perceived cold shoulder from the developed world and the IMF—made a move toward a common regional response even more compelling. The first APT leaders summit (ASEAN plus China, Japan and Korea) was convened in Kuala Lumpur in December 1997 in conjunction with the 30th anniversary of ASEAN’s founding. Though the financial crisis dominated the early meetings, after 2000 the APT broadened its focus. In 2002, APT leaders established an East Asian Study Group (EASG), composed entirely of government officials, which later recommended a “step-by-step” approach to trade and financial liberalization, including postponing for the foreseeable future negotiations for an intra-East Asian FTA.

Despite this initial cautious approach, after 2002 the APT steadily moved to duplicate and overtake many of the functions of APEC. Annual meetings of trade ministers were established, and the APT process expanded into additional activities, with accompanying ministerial meetings, such as the environment, energy, tourism, health and safety, financial services, and—more tentatively—regional security.

Originally behind the scenes, but later more openly, the PRC pushed to increase the activities and stature of the APT. For China, there were three positive attributes of the organization and process: neither the US nor Taiwan is a member and the overriding vision foresees a more exclusive intra-Asian regionalism. Chinese scholars, if not Chinese officials have been quite candid in their views of future Asian regionalism and the role of the United States. Chu Shulong, a scholar close to the Beijing government (and a 2006-2007 visiting scholar at the Brookings Institution) wrote bluntly in 2006: “Americans...have to realize soon (er) or later, that a regional economic and security arrangement without direct US involvement is inevitable in the long run...simply because...Asia needs its own economic and security mechanism to (take) care (of) itself.”

Fears of Chinese domination produced strong reactions, resulting in successful efforts by Japan, Singapore and Indonesia to broaden the institutional vision to

include balancing voices. The upshot was the establishment of the East Asian Summit (which includes India, New Zealand and Australia, and now the United States and Russia), and the ASEAN Plus Six, which added Australia, New Zealand, and India to the original APT.

## 21st Century Asian Regionalism: Adjusting to New Economic and Political Realities

During the first decade of the 21st century, Asian regionalism advanced, but it was shaped by important new realities in both the economic/trade and political/security spheres. On the trade front, after eschewing formal bilateral agreements for decades, the nations of Asia launched dozens of bilateral FTAs after 2000. And on the political/security front, the emergence of China as both an economic and military powerhouse added a wholly new dimension to the evolution of Asian regional institutions as well as the future role of the United States in Asia.

### The Surge of Bilaterals

Between 2000 and 2012, the greatest trade activity in East Asia came from the burst of bilateral FTAs that were negotiated among Asian nations and between Asian nations and nations outside the region. As late as 2000, except for the loose ASEAN grouping, no nation in East Asia had concluded a bilateral FTA. However, in reaction to the rapid expansion of FTAs in other parts of the world, East Asian nations reacted with a move to “defensive regionalism,” to lock in future export markets both within and outside the region. By mid-2012, according to the Asian Development Bank, East Asian nations were planning, negotiating, or had concluded over 250 FTAs. Singapore emerged as the champion in the movement (36 FTAs), with Korea (32), Thailand (25), Australia (21), Japan (23), and Indonesia (20) following on.

The decision to negotiate and ratify multiple bilateral FTAs has direct implications for current regionwide trade proposals. The FTAs are based upon reciprocal concessions and also include enforcement provisions, though they vary greatly

in the depth of integration, as well as the nature of the enforcement actions. But taken together, they represent a step beyond the mantras of the “ASEAN way” that dominated the debates of the 1990s— and caused the halt of trade advances in APEC. Negotiating multiple FTAs also gave most East Asian nations the experience of determining their own national priorities and trading off those priorities against those of other negotiating partners.

### China

China first seriously enters any chronicle of contemporary Asian regionalism with the conclusion of its successful effort to join the World Trade Organization in 2001. However, quietly but steadily after reforms were instituted under Zhou Enlai in 1979, the PRC had attained momentum for growth averaging over 10 percent per year, and within the first decade of the 21st century it would surpass Japan as the largest economy in Asia. On the trade front, by 2010 China had become the number one trading partner for most of the nations of East Asia.

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In contrast to Japan, the PRC also emerged as a formidable military power, though still far outdistanced by the United States. Over the past two decades, Chinese military expenditures have grown steadily and dramatically, never failing below 10 percent of GDP. Still, as it accrued military power and resources, at least until recently China had steadfastly argued that its goal was a “peaceful rise,” necessitated by the overwhelming need for regional stability.

To that end, immediately after joining the WTO, the PRC in 2002 surprised everyone with a generous offer for an FTA with ASEAN. Since that time, it has gone on to plan or ratify some 19 FTAs with nations in the region (viz., New Zealand, Singapore) and around the world (Peru, Chile), And as noted above, it has actively pushed for an intra-East Asian FTA, built upon the APT model. Currently as the next step

in that process, the PRC's major goal is the completion of a trilateral FTA among China, Japan, and Korea. China, Japan and Korea already have negotiated FTAs with ASEAN, and thus Beijing's ultimate goal is to meld a trilateral China-Japan- Korea FTA into the existing separate FTAs with ASEAN to produce an overall East Asian regional agreement. Until very recently, Beijing has always outwardly deferred to ASEAN leaders' vision that an ultimate regional FTA would be built around the centrality of ASEAN.

## The Bush Administration: A Formal Fusion of Trade and Security Policy

The shock of 9/11 deeply colored and shaped the foreign and international economic policy of the George Bush W. administration. The security and diplomatic focus shifted heavily in the direction of the war in Iraq and the war on terrorism in Afghanistan. Thus, from 2001 to 2005, the Bush administration allowed APEC to drift, though it did unwisely attempt to engraft security issues onto the APEC leaders' meetings agenda.

However, though at the regional level policy stagnated, this does not mean that Bush administration trade policy ignored East Asia entirely. Indeed, Asia played an important role in two hallmark themes under President Bush and his first U.S. Trade Representative, Robert Zoellick. The first was doctrine of "competitive liberalization," a slogan that signaled that the administration was committed to supplement the multilateral agenda in the WTO Doha Round negotiations with a commitment to negotiate free trade agreements bilaterally, minilaterally with small groups of nations, as well as regionally. Zoellick argued that the discrete use of the huge US market would trigger a competitive process toward global free trade. The second hallmark was a public and explicit linkage between trade policy and overall US foreign and security policy.

## Trade and Security

Robert Zoellick, an acolyte of James Baker with foreign policy credentials and

ambitions far beyond those of a typical USTR, from the outset placed US trade policy in the broader context of US foreign policy and security goals.

In September 2002, the administration formally included trade policy in its white paper, "The National Security Strategy of the United States of America." The introduction to the document stated:

"The United States will use this moment of opportunity to extend the benefits of democracy, free markets, and free trade to every corner of the world...The United States will work with individual nations, entire regions and the entire global trading community to build a world that trades in freedom and therefore grows in prosperity... (We) will build on these common interests to promote global security"

In a 2003 speech to the Peterson Institute of International Economics, Zoellick succinctly stated the twin trade and security goals, when he affirmed in choosing prospective FTA partners, the administration would seek "cooperation—or better—on foreign and security policy...given that the U.S. has international interests beyond, why not try to urge people to support our overall policies."

## Competitive Liberalization

Previous administrations had negotiated bilateral and even regional FTAs, but the George W. Bush administration was the first to place these agreements in the context of a comprehensive national trade strategy. In speeches, testimony and formal documents, Zoellick set forth the explicit rationale. He stated: "We (will) pursue a strategy of 'competitive liberalization' to advance free trade globally, regionally and bilaterally. By moving forward simultaneously on multiple fronts the United States can overcome or bypass obstacles; exert maximum leverage for openness; target the needs of developing countries...establish models of success..."

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strengthen America's ties with all regions within the global economy; and create a fresh political dynamic by putting free trade on the offensive."

Guidelines published by the Bush administration for prospective FTA partners include a mix of economic, political and diplomatic criteria, including: readiness to conclude a WTO-Plus FTA; economic and commercial benefit to the US; compatibility with US political interests, including support for US diplomatic and security goals; support by US domestic actors, both private groups and the Congress.

## The Record

9/11 and the turmoil in the Middle East explain the decision to go forward with FTAs with Jordan, Morocco, Oman, and Bahrain, as well as a long-range plan (never realized) to establish a Middle East FTA within a decade.

Bringing the focus back to Asia, clearly Bush and Zoellick saw FTAs as a means of getting around the stalemate in APEC. Thus, they completed a pending FTA with Singapore; successfully negotiated an FTA with Australia; started negotiations with Thailand and Malaysia (suspended later), and—of most significance for both commercial and diplomatic/security reasons--negotiated an FTA with South Korea.

Foreign policy considerations played a strong role in the choice of partners. Australia was moved to the head of the line as a result of support for the Iraq war, including the provision of troops on the ground. Conversely, despite substantial support in the US Congress, New Zealand was turned away, large because of its long-standing refusal to allow US nuclear warships into its ports and because of its opposition to the 2003 Iraq invasion.

Only in the second Bush administration (2005-2009) did the president and USTR turn US attention back to a future Asian regional economic architecture. In 2006, the administration endorsed a long-range plan for a Free Trade of the Asia Pacific (FTAAP) to be negotiated under the auspices of APEC. Then, just as it was leaving office, it took a small, but fateful move. Under prodding by USTR Susan Schwab,

the president signaled that the United States would join four disparate nations—Singapore, New Zealand, Brunei, and Chile—in beginning negotiations for a Trans-Pacific Partnership Agreement.

## The Obama Administration and the Asian "Pivot"

Though in many ways the foreign policy of the Obama administration has differed dramatically from that of the Bush administration, in both administrations diplomatic and security considerations played a large role in shaping trade policy. This was underscored by the decision of the Obama White House to assign major strategic and political trade decisions to the National Security Council, and not to the USTR. Further, the role of individual leadership in shaping US Asian policy forms a key element in the Obama administration, with Secretary Hillary Clinton's central focus on Asia providing a bookend to Secretary Baker's guiding vision two decades previously.

## Asia: Trade and Economic Policy

As he entered office, President Obama seemed an unlikely candidate to push forward with a bold US trade agenda. Famously, in the campaign he boasted that he had opposed the NAFTA agreement and subsequent bilateral FTAs; and he led a Democratic party deeply divided by trade liberalization and globalization issues. Thus, for almost a year the US in effect had no trade policy. But by the end of 2009, a combination of economic imperatives and foreign policy challenges would impel a major turnaround on the trade front.

Though the financial crisis ebbed during 2009, the recession dragged on; and despite continuing Democratic congressional opposition, Obama turned to trade policy—and exports—to boost the flagging US economy. This resulted in a major National Export Initiative to boost US exports around the world, but particularly in the rapidly expanding Asian economies. Under the initiative, the president promised to double US exports over a five-year period.



With the WTO Doha Round hopelessly stalled, this also meant a belated about face to free up pending bilateral FTAs with Colombia, Panama, and Korea, and a commitment to join TPP negotiations. Administration economists played a role, most particularly Lawrence Summers, one of the president's most influential advisers. Summers had long pressed for "all lateral reductions in trade barriers, whether they be multi-, bi-, tri-, or plurilateral." "Global liberalization," he had argued, "may be best, but regional liberalization is very likely to be good."

## Asia: The Pivot

Though economic factors were important, what more decisively shaped the course of Obama administration Asia policy was the rapidly shifting diplomatic and security conditions in the region. As former British Prime Minister Harold Macmillan is said to have replied when asked what could steer a government off its current course: "Events, dear boy, events." "Events" indeed explain the decisive "pivot" by the Obama administration in Asia, as well as the forward movement on the trade and economic front.

Within months after assuming office in 2009, North Korea heightened tension on the Korean peninsula and threatened South Korea, a US treaty ally, by first conducting an underground nuclear test, and then shooting off two rounds of short-range missile across the Sea of Japan. Pressure mounted immediately for a show of support for South Korea, resulting, from the administration's own accounts, in a decision by the president to announce a goal of completing negotiations on the stalled KORUS.

On a broader scale, even before the Obama administration took office, Beijing had hardened its attitude and diplomacy on a raft of disagreements and conflicts with its East Asia neighbors. Though not repudiating the mantra of a "peaceful rise," China's leaders became much more assertive in their relations with individual nations—as well as ultimately with ASEAN as an organization. In May 2009, just after the administration took office, the Chinese government published a map of the South China Sea containing nine dashed lines in a U-shape that laid claim to over 80 percent of this maritime area. Subsequently, it has clashed repeatedly with

its neighbors inside this self-proclaimed perimeter—particularly the Philippines and Vietnam. In addition, the PRC grew bolder in contesting the claims of South Korea and Japan, respectively, in the Japan and East China seas.

Finally, in a move that further unsettled the region, in July 2012 the PRC nakedly intervened in the deliberations of ASEAN foreign ministers. Behind the scenes, Beijing diplomats leaned heavily—and successfully—on Cambodian officials to block publication of a joint communiqué alluding to the clashes in the South China Sea and calling for a united ASEAN front on these issues. Resentment against the PRC for this move is palpable among ASEAN nations, and the brazen intervention put at risk Beijing's careful cultivation of an "ASEAN-centric" regional diplomacy. Still, it remains to be seen just how much the PRC has really jeopardized its decade-long "peaceful rise" campaign.

Though more details are beyond the scope of this paper, the point is that escalating tensions and the growing potential for armed confrontation among the nations of north- and southeast Asia provided the larger context out of which President Obama and his team has attempted to assert and make real the proclaimed "pivot."

## The US Response

Secretary of State Clinton's first trip abroad was not—as had been traditional—to Europe, but to Asia. In speeches and testimony during the first months of the Obama administration Clinton proclaimed with some bravado that the United States was "back" in Asia, vowing to pursue a "more rigorous commitment and engagement." To that end, she beefed up the economic resources and mission of the State Department and pressed for forward movement on US regional trade and investment issues. Within months, the US signed the Treaty of Amity and Commerce with ASEAN, paving the way for membership in the East Asian Summit. Since 2009, the secretary has made nine trips to Asia, more than to any other region of the world.

With Clinton leading the way (backed strongly by two successive secretaries of defense), the US took firm positions on the fractious maritime issues—and

steadfastly refused to back away from those positions despite a drumfire of criticism from Beijing. At the 2010 Shangri-La Dialogues, US Secretary of Defense Robert Gates affirmed that the US would not take sides on the individual territorial disputes, but it would oppose any action that “threatened freedom of navigation in the South China Sea.” Later in July 2010, symbolically at a summit in Hanoi, Secretary Clinton reiterated the US non-position on the sovereignty issues; but at the same time she declared that the US had a strong and historic interest in protecting freedom of the seas, and much vexed Beijing with an offer to mediate among the contending parties.

## Obama’s Trip to Asia

Statements and visits by secretaries of state and defense are important, but both the symbolic and substantive capstone of the US “pivot” came with President Obama’s nine-day trip to Asia in November 2011. Starting in Hawaii as host to the APEC Leaders Meeting, the president went on to make major pronouncements and policy advances in Indonesia where he met with ASEAN leaders and became the first American president to join the East Asian Summit.

The president chose Australia to deliver his most important and far-reaching address reaffirming the US commitment to Asia—and to the Australian alliance. “The United States is a Pacific power, and we are here to stay,” he averred, adding: “In the Asia Pacific in the 21st century, the United States of America is all in.” Later in Darwin, the president and the prime minister announced a new security arrangement under which the US would deploy a rotating group of 2500 marines, establishing an important symbolic presence in maritime Southeast Asia.

From the outset of the trip in Hawaii, however, it was the TPP that created the “buzz” that would continue throughout remainder of the president’s journey. With the announcement that a “framework” had been agreed to, the TPP moved to center stage as the most concrete symbol of renewed US leadership in the region. As US deputy national security adviser, Michael Froman, has recently stated: “This really embeds us in the fastest-growing region of the world, and gives us a leadership role in shaping the rules of the game in that region.”

This symbolism comes with substantial risks. While a framework has been announced, TPP negotiations have yet to tackle the most difficult economic and political negotiating issues. Whatever the outcome, the president’s imprimatur and his repeated reference to the negotiations as a cornerstone of US renewed leadership means that the success or failure of these negotiations will be taken as a central symbol for the success or failure of US leadership and the long-term impact of the “pivot.”

## TPP

The Trans-Pacific Partnership negotiations grew out of the four-nation (P-4) agreement, concluded in 2005 by Chile, New Zealand, Brunei, and Singapore. Subsequently, in 2008, Australia, Peru, Vietnam, and the US signed on—followed in 2010 by Malaysia, and now Mexico and Canada. Detailed negotiations began in early 2010, and since then there have been 14 formal negotiating sessions. At this point, the goal is to complete the pact by the end of 2013.

This paper is not the place for a detailed description of the projected provisions of the TPP; and indeed, since there are no published texts such a task would be impossible in any case. There is, however, enough information available to make important observations about its characteristics and content—what the TPP is, or will be, and what it is not.

For instance, there has been a good deal of hype that the agreement will be the first important “21st century” trade pact. If the negotiations are successful, these statements will bear an element of truth. But it must also be acknowledged that the TPP is not *sui generis*. It can be seen as a more advanced version of so-called WTO-Plus agreements that have been negotiated by the US, the EU and a few other nations over the past decade. Specifically, for this paper, Bush administration FTAs all were sold as “Gold Standard” FTAs that went beyond the liberalization of the multilateral Uruguay Round. The TPP will build upon these agreements, and it is likely that the recently concluded US-Korea FTA can be considered a proximate template. It should also be noted the original P-4 agreement that preceded the TPP was consciously modeled on the WTO-Plus agreements negotiated by the Bush

administration.

Briefly, then, the TPP will include more traditional sections on market access and tariff reduction; rules of origin; agriculture; services (a negative list); technical barriers to trade; sanitary and phytosanitary standards; labor and the environment; and intellectual property. In these areas, the question becomes how far beyond existing FTAs will liberalization be pushed. As examples, will the US agree less protectionist rules of origin for textiles? Will Canada agree to reform its trade distorting dairy and grain policies? Will Vietnam grant additional opening in its services sectors? And what will be the outcome of the reported push by the US for stronger IP protection for patents and copyrights, and for binding dispute settlement on labor and environmental issues?

The most significant new (21st century) issues being debated include: new rules for state-owned enterprises (SOEs); regulatory reform and coherence; government procurement liberalization; trade facilitation measures; supply chain management; and measures to promote trade by small- and medium-sized businesses. On regulatory reform, the overarching goal is the harmonization (or at least mutual recognition) of regulatory barriers that exert a major influence on international trade. Among the proposals discussed in the negotiating sessions are procedural rules for transparency; elimination of duplicative or overlapping regulations; restriction on anticompetitive practices; mutual recognition agreements for services and for health and safety measures. On SOEs, the goal is to promote “competitive neutrality” between commercial enterprises and government-owned entities, particularly in the areas of subsidization and regulatory discrimination.

## Unique Challenges

The TPP is a huge undertaking, with both traditional obstacles and challenges unique to these singular negotiations. For instance, a number of the TPP members already have bilateral FTAs with their negotiating partners (as examples, US-Australia, US-Singapore, Singapore-Australia, Chile-Mexico). At the same time, not all members have existing FTAs with all other TPP members (for instance, the US has no FTAs with Brunei, Malaysia, Vietnam or New Zealand). The daunting challenge relates to

the degree of ambition for common market access rules, as opposed to settling for a hybrid that allows for important bilateral schedule exceptions.

Further, there are questions of future membership. TPP members are committed to open regionalism, and from the outset they have stated that (at least) all APEC members are eligible to join the trade pact. This presents a unique challenge, for by implication new members could be admitted in the midst of the negotiations. And indeed, this is now taking place with the decision to allow Canada and Mexico to join the negotiations in December 2012. With the goal of reaching a full agreement by the end of 2013, the only other potential major entrants would be Korea and Japan. But as with Canada and Mexico (though both nations agreed not to reopen decisions already taken), accommodating the priorities and sensitivities of new negotiating partners will certainly complicate the end game toward a final agreement.

Of course, the large elephant in the room is China. Though Beijing itself has generally been circumspect in its reaction to the TPP, a myriad of Chinese commentators have repeatedly asserted that the negotiations are part of a US plot to “encircle and contain” China. Obama administration trade and diplomatic officials have worked assiduously to counter this charge, and have also steadfastly affirmed that the TPP is open at a minimum to all APEC members, including China. They have also held out the possibility that if Beijing returns to an economic reform agenda it will be able to meet the 21st century obligations under negotiation in the TPP.

For the foreseeable future, however, the PRC is more likely to push for a competing regional economic architecture. Despite rising tension over maritime security and sovereignty issues, on August 30, ASEAN trade ministers announced the launch of negotiations for a Regional Comprehensive Economic Partnership (RCEP)—in effect a formal ASEAN Plus Six regional agreement (ASEAN plus China, Japan, Korea, India, Australia, and New Zealand). It is too early to discern either the pace or the seriousness of these negotiations. But in reaction to the potential success of TPP negotiations, Beijing will certainly attempt to press RCEP as a less rigorous alternative to the TPP.

## Concluding Observations

As this paper is being completed, the TPP negotiations are going into a period of outward hibernation; and already, this has resulted in speculation (see the September 22nd Economist) that the regional pact is bogged down. Actually, under the surface a good deal of maneuvering is taking place looking to an endgame by the middle of 2013. Formal progress, however, awaits the results of the US presidential election. Both candidates strongly support the TPP, but the US will not be able to put its final negotiating positions on the table until the electorate has given a mandate to one of the them.

Looking forward to the endgame process, the most important trade-offs for the United States will come from balancing advances it wants in the 21st century issues cited above—rules for SOEs, regulatory reform, protecting data flows, among others—against concessions it will have to make on more traditional 20th century issues such as market access: sugar, cotton, dairy, textiles; rules of origins; and agricultural supports. In addition, it will have to devise—and accept—workarounds, exceptions and extended transition periods on issues that encompass individual national sensitivities. And it will have to curb demands for rigid legal bindings in every area. In order to provide stronger leadership to complete the negotiations, the US needs to put in place a more focused, unified negotiating structure. Given the centrality of the TPP agreement to the future US role in Asia, the next administration should appoint a single administrator in the White House (a Czar, if you will), reporting directly to the president and given authority to pull together strands of the trade and diplomatic decision making apparatus. Working with the USTR and the State Department, this person would speak for the administration, and be tasked with final substantive and political decisions, after consulting with other White House staff and interested agencies, the Congress and outside stakeholders.

Looking back over the history described in this paper, there is the danger that the US will overreach as it did in APEC in 1998. Here the role of the middle-power TPP member states—Australia, New Zealand, Singapore, and now Mexico

and Canada—becomes central. Optimally, these nations will fulfill a dual responsibility: standing up to the US when its demands seem excessive, and mediating between the US and developing member states who will need time to live up to a number of new obligations under negotiation. Vigorous responses from the middle powers will serve a broader purpose: the resulting give-and-take will force difficult trade-offs by all TPP members, not least the United States. If successful, however, the tough negotiating process will insulate the agreement from the inevitable charge that it represents solely the economic interests of the United States. The success or failure of the TPP negotiations has implications far beyond trade policy. In order for the United States to succeed ultimately in “rebalancing” toward Asia—particularly in a time of economic retrenchment—a credible and vital security presence will need to be underpinned by the large economic benefits that will grow from a more liberal trans-Pacific economic order. These visible benefits in turn will provide a solid base for future presidents to sustain support from the American public and the Congress for a continuing US Asian leadership role.

Finally, with the launch of potentially serious RCEP negotiations, Australia has a choice of paths to regional economic integration. Both RCEP and the TPP will provide a means to achieving one of Australia’s key regional goals: a place at the table as a future economic architecture is hammered out. But the TPP also offers the most promising means of achieving a second major goal: that is, to anchor US economic and security weight firmly in Asia’s evolving regional institutions.

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Claude Barfield's areas of research include international trade, Asian regionalism, intellectual property, science and technology policy, and US competitiveness. His most recent publications include: SWAP: How Trade Works (with Philip Levy), and a study of the Chinese telecommunications giant, Huawei. Among his earlier publications are: Biotechnology and the Patent System (with John Calfee); High-Tech Protectionism: The Irrationality of Anti-Dumping Laws; and Free Trade, Sovereignty, Democracy: The Future of the World Trade Organization.

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