

Trading Pains and Gains: Expanding Trade Alliances in Asia





Available From:

ASIA PROGRAM

Woodrow Wilson International Center for Scholars
One Woodrow Wilson Plaza
1300 Pennsylvania Avenue NW
Washington, D.C. 20004-3027

www.wilsoncenter.org

ISBN: 978-1-938027-57-4

THE WILSON CENTER, chartered by Congress as the official memorial to President Woodrow Wilson, is the nation's key nonpartisan policy forum for tackling global issues through independent research and open dialogue to inform actionable ideas for Congress, the Administration and the broader policy community. Conclusions or opinions expressed in Center publications and programs are those of the authors and speakers and do not necessarily reflect the views of the Center staff, fellows, trustees, advisory groups, or any individuals or organizations that provide financial support to the Center. Please visit us online at www.wilsoncenter.org.

Jane Harman, Director, President, and CEO

Board of Trustees

Thomas R. Nides, Chairman

Public members: William Adams, Chairman of the National Endowment for the Humanities; Carla D. Hayden, Librarian of Congress; Sylvia Mathews Burwell, Secretary of Health and Human Services; John B. King, Jr., Secretary of Education; David Ferriero, Archivist of the United States; David J. Skorton, Secretary of the Smithsonian Institution; John F. Kerry, Secretary of State. Designated appointee of the president from within the federal government: Fred P. Hochberg, Chairman and President, Export-Import Bank of the United States

Private Citizen Members: Peter Beshar, John T. Casteen III, Thelma Duggin, Lt. Gen Susan Helms, USAF (Ret.), Barry S. Jackson, Nathalie Rayes, Earl W. Stafford, Jane Watson Stetson

Wilson National Cabinet: Ambassador Joseph B. Gildenhorn & Alma Gildenhorn, Co-chairs, Eddie & Sylvia Brown, Armeane & Mary Choksi, Ambassadors Sue & Chuck Cobb, Lester Crown, Thelma Duggin, Judi Flom, Sander R. Gerber, Harman Family Foundation, Frank Islam, Willem Kooyker, Raymond Learsy & Melva Bucksbaum*, Robert & Julie Mandell, Frederic & Marlene Malek, Linda B. & Tobia G. Mercurio, Thomas R. Nides, Nathalie Rayes, Wayne Rogers, B. Francis Saul II, Diana Davis Spencer, Jane Watson Stetson, Leo Zickler
*Deceased

Contents

- 1 Introduction**
by Shihoko Goto
- 5 Expanding the TPP? Prospects for Taiwan**
by Rupert Hammond-Chambers
- 17 Expanding Trade Alliances and U.S.-Korea Relations**
by Tami Overby
- 23 Expanding the Trans-Pacific Partnership: Prospects
for ASEAN—Indonesia, the Philippines, and Thailand**
by Pek Koon Heng
- 35 About The Contributors**

Introduction

Shihoko Goto

Since its rather humble beginnings as a free trade agreement between Chile, Brunei, Singapore, and New Zealand in 2005, the Trans-Pacific Partnership (TPP) agreement has ballooned into a pact that includes two of the three biggest economies in the world. Signed by the 12 founding members in February 2016, namely the United States, Canada, Mexico, Japan, Australia, Peru, Vietnam, and Malaysia as well as the four original signatories, the TPP represents nearly 40 percent of the world's GDP. It has been described as the most ambitious multinational trade deal in history, with high standards that address issues that have not been address by trade agreements until now including environmental protection, labor rights, and addressing competition issues related to state-owned enterprises.

TPP is also an open platform. Unlike bilateral pacts that are between two countries, the underlying assumption of the multilateral deal is that it will continue to expand and increase its membership beyond the original 12 nations. In fact, even though it has yet to be ratified, there is already considerable interest among non-members in the next round, including South Korea, the Philippines, and Indonesia as well as Taiwan. Of course, joining the TPP will require adjustments and oftentimes politically unpopular changes so that potential members will adhere to the trade agreement's standards. But such adaptations are seen to be less painful in the longer term if they are not part of the TPP. The economic outlook for TPP members and non-TPP members is expected to widen, especially should membership continue to expand.

SHIHOKO GOTO is the senior Northeast Asia associate at the Woodrow Wilson International Center for Scholars' Asia Program.

All this assumes, however, that current members including the United States will ratify the deal, and soon. Yet public opposition to TPP is significant and cannot be dismissed lightly. Opposition to free trade deals and globalization in general is strong on both sides of the political spectrum. Economists broadly agree that trade deals to date have benefitted the U.S. economy. Peter Petri and Michael Plummer estimate that the pact will increase U.S. annual real incomes by \$131 billion, or 0.5 percent of GDP by 2030, and raise annual exports by over 9 percent to \$357 billion.¹

But what has been lacking in the debate on trade in Washington is how to offset the expected losses as a result of a shifting of economic base, be it through investing more in infrastructure, providing job training to those who will be adversely affected by TPP, and adapting the educational system so that more students can compete head-on in the increasingly service sector-focused economy. Certainly, a need to make considerable changes at home has been seen as a key condition for joining TPP by other member countries, as well as by potential new entrants.

On June 29, the Wilson Center hosted a discussion on prospects for expanding the TPP. This is a collection of essays from the speakers who took part in the event, with **Tami Overby**, Senior Vice President for Asian Affairs with the U.S. Chamber of Commerce making the case for South Korea joining the pact. She pointed out that the trade deal would help propel the Korean economy further, but added that Seoul must “embrace fully the spirit of the agreement, and be committed to ensuring that the terms are met without constant need for pressure to do so.” At the same time, she advised that prospective members should be prepared to address politically difficult issues and resolve them ahead of time to show that they are “willing and able to do politically difficult things.”

Rupert Hammond-Chambers, President of the U.S.-Taiwan Business Council, too stated that Taiwan’s economy would benefit from joining the TPP. Conversely, he cautioned that if Taiwan were unable to join TPP, its businesses would be shut out from the global supply chain and be at a significant disadvantage from countries such as South Korea. In addition, he stressed the importance of Taiwan joining the TPP for geostrategic reasons, as “it would allow Taiwan to mitigate the challenges posed by its current political status and Chinese intransigency.”

As for **Pek Koon Heng**, Assistant Professor and Director of the ASEAN Studies Initiative at American University's School of International Service, she said that "the prospect of becoming less competitive and having slower economic growth compared to their ASEAN TPP partners led the Philippines, Thailand, and Indonesia to reconsider their original misgivings about TPP membership." She noted that "Manila has moved further along than Bangkok and Jakarta in identifying the necessary reforms the country has to make....to comply with the TPP's requirements."

Like all Asia Program projects, this publication and the conference upon which it is based would not have been possible without the unfailing commitment of Mary Ratliff and Joshua Spooner to promote dialogue between policymakers, academics, and corporate executives both within and outside of the United States. Our hope is that this booklet will help further the discussion about the future of TPP and the emerging new economic order in the Asia-Pacific region.

*August 2016
Washington DC*

Note

- 1 Peter A. Petri and Michael G. Plummer. "The Economic Effects of the Trans-Pacific Partnership: New Estimates". Working Papers 16-2, January 2016. Peterson Institute for International Economics.

Expanding the TPP? Prospects for Taiwan

Rubert Hammond-Chambers

Introduction

Taiwan plays an integral role in the global economy, and serves as an important trading partner both for the United States and for many other economies around the world. It is also an important regional center for trade and investment, and it benefits from trade ties with neighboring China, as well as from its extensive business and trade networks throughout the Asia Pacific.

Taiwan currently serves as one of the most prominent and essential links in the global technology supply chain—particularly in semiconductors and integrated circuits, but also in many other areas of technology and electronics manufacturing. For example, Taiwan accounts for 94 percent of motherboards and notebook PCs produced globally. In addition, Taiwan serves as a critical partner to many of America’s largest technology companies. U.S. businesses like Qualcomm and Apple procure chips from Taiwan semiconductor foundries, and Taiwan hardware manufacturers such as Quanta and Wistron provide original design manufacturing (ODM) for U.S. technology companies.¹ In fact, the small size of the island belies its importance to the United States. In 2015, Taiwan was the United States’ 9th largest trading partner—ahead of India, Italy and Brazil—and the United States was Taiwan’s second largest trading partner after China and ahead of Japan.^{2,3} U.S. exports to Taiwan in 2015 totaled

RUPERT HAMMOND CHAMBERS is the president of the US-Taiwan Business Council.

US\$25.9 billion, making Taiwan the 14th largest market for American goods exports, while imports from Taiwan in 2015 totaled US\$40.7 billion.⁴

Taiwan has been a member of the World Trade Organization (WTO) since 2002, and since joining has played an active role in global trade reform and liberalization. In addition to trade arrangements with several nations in Central America, Taiwan has signed Free Trade Agreements (FTAs) with Singapore and New Zealand—two of the original member countries of the Trans-Pacific Strategic Economic Partnership (TEPSEC) that evolved into the Trans-Pacific Partnership (TPP).⁵

However, Taiwan has largely been absent in most recent discussions on regional trade agreements in the Asia-Pacific, often due to the political pressures placed on other participants by the People's Republic of China, which refuses to countenance Taiwan's joining such agreements. China's economic and political clout in the region has therefore hindered the island's ability to participate effectively in the international trade community. This is despite the fact that an economically competitive and prosperous Taiwan could also lead to benefits for China—as Taiwan's largest trading partner and as a significant source of Foreign Direct Investment (FDI) in China.⁶

Benefits of Membership

Taiwan's participation in regional trade agreements could have a substantial positive effect on Taiwan's economy. For example, some estimate that Taiwan participation in the Regional Comprehensive Economic Partnership (RCEP)—a proposed trade agreement between the Association of Southeast Asian Nations (ASEAN) and the six states with which ASEAN already has FTAs—would increase Taiwan's GDP by up to 4 percent and exports by over 6.5 percent.⁷

Taiwan participation in other regional trade agreement scenarios would also have a positive impact on the island's Gross Domestic Product (GDP) and economic welfare, and would boost exports (Table 1).

Substantial economic gains have also been forecast should Taiwan be able to join the TPP. Some economists estimate that inclusion in the

Table 1: Impact on Taiwan of an ASEAN6-Plus-3 FTA

	Exclusion	Inclusion	Net Difference
GDP (% change)	-1.74	2.09	3.83
Economic Welfare (% of GDP)	-0.73	1.17	1.90
Total Exports (% change)	-1.40	5.02	6.42
<u>Change in Taiwan's Exports (US\$ billion)</u>			
East Asian FTA Members	-6.6	20.06	26.66
Rest of the World	3.5	-8.48	-11.98
Total	-3.2	11.59	14.79

ASEAN6 includes Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. The "Plus 3" includes China, Japan, and South Korea.

Source: "The FTA Music is Playing in Asia: After ECFA, Will Taiwan Join the Dance?"⁸

TPP would allow Taiwan to enjoy a TPP income effect as high as US\$2 billion, and could lead to a US\$4 billion increase in exports by 2030.⁹ Others estimate that joining the TPP would increase Taiwan's GDP by nearly 2 percent and expand exports by almost 7 percent.¹⁰

In addition, Taiwan TPP participation would be beneficial from the standpoint of its partners in the agreement. A study by the Chung-Hua Institution for Economic Research (CIER) estimates that Taiwan joining the TPP would increase real GDP for the—then 13—TPP members by US\$74.4 billion, while exports and imports would increase by US\$17.8 billion and US\$19.4 billion, respectively.¹¹

Conversely, a Taiwan failure to join the TPP would allow countries in the agreement to enjoy the benefits of more competitive exports to other participating member countries, the trade-diverting effect of which would be magnified given Taiwan's reliance on technology exports. In other words, if it remains outside the agreement, Taiwan businesses could be shut out of the global supply chain, which could have disastrous effects on the Taiwan economy. Competitors such as South Korea, who has already signed an FTA with the United States, would have preferential access that would force Taiwan to compete from a considerably disadvantageous position.

Table 2: Trade with China and Hong Kong vs. Trade with TPP Countries

	% of Total Taiwan Trade				% of Total Taiwan Exports			
	2009	2011	2013	2015	2009	2011	2013	2015
Australia	2.20	2.47	2.03	1.75	1.16	1.19	1.23	1.14
Brunei	0.01	0.01	0.02	0.07	0.02	0.01	0.01	0.01
Canada	0.69	0.78	0.68	0.72	0.72	0.83	0.79	0.84
Chile	0.43	0.44	0.36	0.35	0.13	0.13	0.12	0.11
Japan	13.42	11.94	10.84	11.39	7.12	5.91	6.29	6.87
Malaysia	2.28	2.63	2.84	2.68	1.99	2.24	2.68	2.54
Mexico	0.38	0.37	0.45	0.55	0.54	0.50	0.59	0.79
New Zealand	0.20	0.20	0.23	0.25	0.15	0.14	0.19	0.15
Peru	0.14	0.13	0.08	0.09	0.10	0.12	0.10	0.09
Singapore	3.55	4.21	4.88	4.79	4.23	5.48	6.39	6.16
United States	11.03	10.54	10.04	11.92	11.56	11.80	10.66	12.22
Vietnam	1.83	1.84	2.01	2.36	2.94	2.93	2.92	3.38
TPP-12 Subtotal	36.15	35.55	34.44	36.92	30.65	31.26	31.97	34.29
China	20.81	21.63	21.62	22.67	26.64	27.24	26.78	25.40
Hong Kong	8.09	7.08	7.14	7.76	14.46	13.00	12.91	13.57
China + HK Subtotal	28.90	28.71	28.76	30.43	41.09	40.24	39.69	38.97
Overall	65.04	64.26	63.20	67.35	71.74	71.51	71.66	73.26

Source: Taiwan Bureau of Foreign Trade – Trade Statistics database¹²

TPP accession, however, would strengthen supply chain linkages across TPP member countries, and would allow Taiwan to reap the benefits of mutually beneficial tariff concessions. Taiwan’s joining the TPP would likely also help address non-tariff barriers (NTBs), help to reduce costs associated with cross-border transactions, and improve efficiency.

In addition to the economic benefits for Taiwan of participation in the

TPP, accession to the agreement would help demonstrate Taiwan's significance as a trade partner to the existing members, and would promote the island as an important player in the region. This would allow Taiwan to mitigate the challenges posed by its current political status and Chinese intransigency. Taiwan already has extensive trade with the 12 current TPP members, and TPP accession could also potentially be a means to alleviate Taiwan's dependence on exports to China (Table 2).

The Road Ahead for Taiwan

Taiwan must overcome numerous challenges, both domestic and foreign, in order to join the TPP. While there appears to be political consensus among the ruling Democratic Progressive Party (DPP) and the opposition Kuomintang (KMT) that Taiwan should strive to join the agreement, Taiwan's new President Tsai Ing-wen still needs to build a consensus on if the long-term benefits of joining the TPP are worth enduring the economic and trade reforms and restructuring that are required ahead of accession.

A survey conducted by the PollocracyLab at National Chengchi University found that Taiwan's experience with previous trade agreements, particularly with the Economic Cooperation Framework Agreement (ECFA) signed with China, have created a lukewarm perception regarding the TPP among the Taiwan public. It is also concerning that despite both politicians being in favor of the TPP, just over 56 percent of survey respondents believed that former President Ma Ying-jeou supported the trade agreement, but only about 8 percent thought that President Tsai was supportive.¹³ Taiwan requires a clear and consistent message from its leaders that explicitly supports the TPP and explains the importance of free trade. Otherwise, louder fringe voices will dominate the dialogue, and public support of the TPP will be incredibly difficult to garner.

President Tsai's vocal determination to cure Taiwan's ailing economy has been widely credited as a reason for her victory in the January 2016 presidential election. Next she must make a concerted effort to convince the Taiwan public that making the painful but necessary adjustments to join the TPP are essential to meeting that campaign goal. Anxiety over Taiwan's economy becoming excessively focused on cross-Strait trade has grown, and Tsai should present the TPP—

in conjunction with her recent “Southbound Policy” push—as an opportunity to diversify Taiwan’s international trade.

Yet Taiwan membership in the TPP cannot be considered merely as an avenue to move Taiwan trade away from dependency on China. Tsai should also highlight the benefits of the TPP to domestic businesses and workers, including potential opportunities for its services sector, increased FDI, and the opening of new export markets. Some in Taiwan may feel that making sacrifices—such as unilateral liberalization of trade regulations—in preparation to join the TPP is not worthwhile, because pressure from China could prevent Taiwan from being accepted into the trade bloc at all. But the reforms that are required to prepare for TPP accession would bring Taiwan benefits in the long run, no matter what happens with the TPP, making the island more economically competitive and well suited to negotiating other trade agreements in the future.

Sectors that could be vulnerable to liberalized trade, such as agriculture, produce the most significant domestic Taiwan resistance to joining the TPP. A contentious issue continues to be Taiwan’s ban on imports of American pork using the leanness enhancer ractopamine. While the U.N. has established scientifically-proven safe maximum residue limits (MRLs) for ractopamine in pork, Taiwan’s Ministry of Health and Welfare has yet to adopt such standards. Pork imports remain a politically sensitive issue in Taiwan, and any talk of lifting the ban brings a backlash based on what is perceived to be public health concerns. Others argue, however, that this is a smokescreen by Taiwan’s domestic pork producers to force the government to continue to protect it from foreign competition.¹⁴

Depoliticizing the pork issue and adopting international standards based on scientific evidence would demonstrate Taiwan’s seriousness in advancing trade talks with the United States, would strengthen U.S.-Taiwan relations, and could be a major symbolic step forward towards gaining U.S. support for Taiwan’s TPP accession. Taiwan’s Ministry of Economic Affairs and other relevant agencies need to engage further with the loci of resistance in Taiwan to provide trade adjustment assistance and to promote the benefits that access to new export markets under the TPP could bring. The Taiwan government also needs to craft policies that help upgrade these industries to better withstand foreign competition.¹⁵

Beyond convincing the Taiwan public and business communities that preparing unilaterally for TPP accession is necessary for future economic success, the Taiwan government will also have to actively engage with all 12 founding members of the TPP whose unanimous approval will be necessary for Taiwan to join the trade agreement. To do so, Taiwan should emphasize the importance of its current trade with TPP members, and highlight the benefits that improved trade with Taiwan will bring to their economies if Taiwan joins the trade bloc. To demonstrate the seriousness of its intentions, Taiwan should establish bilateral trade discussions with all TPP members in order to understand what reforms it must enact to make it a more attractive trading partner. Meanwhile, it would allow Taiwan to emphasize to TPP members that their economies would be worse off if Taiwan were to be excluded.¹⁶

Gaining Support from the United States and Japan

Taiwan should give priority to working with the TPP's two largest members, Japan and the United States. Japan is one of Taiwan's top trading partners, and has already expressed support for Taiwan joining TPP negotiations. Additionally, Japan can share its experience in dealing with many of the same issues that Taiwan faces in preparing for TPP accession, especially in the agricultural sector.¹⁷

Yet gaining public support from the trade bloc's biggest and most influential member—the United States—has to be Taiwan's primary priority. Taiwan currently conducts trade discussions with the United States through a Trade and Investment Framework Agreement (TIFA), a venue that has made Taiwan aware of the many issues—including agricultural, pharmaceutical, and intellectual property rights—that it must address to possibly gain U.S. support for TPP accession. AmCham Taipei's 2016 Taiwan White Paper highlights the many current rules and regulations that discourage international trade and raise the cost of doing business for foreign companies in Taiwan, and it therefore serves as an excellent primer for the Taiwan government in identifying—from a U.S. perspective—areas in need of reform. The White Paper makes a special call on the Taiwan government to reform the Administration Procedure Act (APA). Under the current APA individual government agencies set their own rules for feedback on new regulations, creating an often chaotic business environment. APA reform would provide for a more consistent and predictable regulatory

process, and would further prove Taiwan's commitment to preparing for the TPP.¹⁸

Taiwan should then pivot to those nations that do not have reasons to reject Taiwan's accession, particularly economies within the ASEAN, who are more likely to have both political and economic ties with Taiwan. China will likely voice its opposition to Taiwan's participation by focusing on individual countries and exerting their influence, and China may focus in particular on Malaysia, Peru, Chile, and/or Brunei. These nations are less tied to Taiwan politically, and may have little interest in trade with the island. Additionally, they are not necessarily concerned with the development of cross-Strait relations, and would benefit from a stronger China—on whom they are much more economically reliant. Ultimately, the “China problem” comes down to players that can exert the most influence on these “swing” countries, the votes of which are required for Taiwan accession.

While there is much for Taiwan to do to prepare itself to join the TPP, it is encouraging that the Taiwan government appears to be taking steps toward actually making those preparations. The administration of former President Ma Ying-jeou undertook a “gap analysis” of the current barriers preventing Taiwan from meeting TPP standards, and in 2015 the Bureau of Foreign Trade released a policy agenda with recommendations on preparations for entering the TPP.¹⁹ Newly elected President Tsai Ing-wen has continued the momentum, announcing her intention to establish a Cabinet-level office to focus on negotiations for the TPP and other trade agreements, and making inclusion in the TPP one of the cornerstones of her economic policies.²⁰

Francis Kuo-hsin Liang—Chairman of the government-affiliated Taiwan External Trade Development Council, Taiwan's premier trade promotion organization—recently stated that Taiwan has prepared a list of about 45 legal changes (ranging from intellectual property to food safety) that would bring it into compliance with the TPP trade deal.²¹ President Tsai has also said that the government will be implementing new measures to increase public trust in the integrity of Taiwan's pork industry, potentially a part of the process of preparing the public for the opening of the Taiwan pork market.²²

Conclusion

There are concerns in some quarters that the TPP will end up being a casualty of a general dissatisfaction with and reduced lack of interest in global trade deals. Nevertheless, Taiwan must proceed as if all 12 founding members will indeed ratify the agreement in the near future. If Taiwan wants to position itself as a prime candidate to join, and if it wants to participate in shaping the future economic order in the Asia-Pacific, there is no time left to take a wait-and-see attitude.

There is no question that Taiwan is qualified economically to be included in the TPP, but the question becomes if Taiwan is “open for business” given its numerous existing barriers to international trade. President Tsai Ing-wen is uniquely positioned to deal with this important question, given her past as a trade negotiator, and she knows that it may be easier to make wholesale changes rather than undergoing piecemeal reforms. Joining the TPP could be the most significant chance for liberalization in Taiwan since WTO accession, and preparing early for the negotiations could lead to comprehensive reform that would bring Taiwan fully into the modern global economy.

Joining the TPP would expedite a rebalancing in cross-Strait relations, as Taiwan is currently overly dependent on the Chinese economy. Yet China views economic integration as a pathway to political unification, and it is therefore crucial for Taiwan to pursue trade diversification if it wants to stave-off a change in the political status quo. Taiwan also must not join the TPP in the same manner as when it joined the WTO, where China’s accession was a precondition. While Chinese inclusion in the TPP could certainly benefit Taiwan, the path to accession should be independent of China as waiting for China to join may result in costly delays and could result in political imbalance.

Importantly, there is also a geostrategic dimension to the question of Taiwan’s accession to the TPP. Excluding the island from participation would present an existential threat to Taiwan, both economically and politically. Continued marginalization of Taiwan undermines the stability and security in the Taiwan Strait, and that is not in the best interests of the United States.

NOTES

- 1 Meltzer, Joshua, "Taiwan's Economic Opportunities and Challenges and the Importance of the Trans-Pacific Partnership" January 2014, East Asia Policy Paper Series, 2 of 9, The Brookings Institution, at www.brookings.edu/research/papers/2013/09/30-taiwan-trans-pacific-partnership-meltzer.
- 2 "Top Trading Partners - December 2015 Year to Date" U.S. Department of the Census, at www.census.gov/foreign-trade/statistics/highlights/top/top1512yr.html.
- 3 "Trade Statistics" Taiwan Bureau of Foreign Trade, at <http://cus93.trade.gov.tw/ENGLISH/FSCE/>.
- 4 "2016 National Trade Estimate Report on Foreign Trade Barriers" Office of the U.S. Trade Representative, March 23, 2016, at ustr.gov/sites/default/files/2016-NTE-Report-FINAL.pdf.
- 5 Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership (ASTEP) and Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu on Economic Cooperation (ANZTEC).
- 6 Nealer, Kevin G. and Margaux Fimbres, "Taiwan and Regional Trade Organizations: An Urgent Need for Fresh Ideas" Report No. 21, January 2016, The National Bureau of Asian Research.
- 7 Meltzer, Joshua op.cit.
- 8 Chow, Peter C. Y. and Dan Ciuriak, "The FTA Music Is Playing in Asia: After ECFA, Will Taiwan Join the Dance?" Volume 26, Issue 1, 2012, The International Trade Journal.
- 9 Petri, Peter A., and Michael G. Plummer, "The Economic Effects of the Trans-Pacific Partnership: New Estimates" Working paper 16-2, January 2016, Peterson Institute for International Economics, at piie.com/publications/wp/wp16-2.pdf.
- 10 Lee, Roy Chun, "The Importance of TPP for Taiwan" October 12, 2013, Taiwan WTO and Regional Trade Agreement Center, the Chung-Hua Institution for Economic Research (CIER).
- 11 "Taiwan's Policy Agenda for Joining the Trans-Pacific Partnership (TPP) - Supporting Economic Growth through Trade" January 22, 2015, Taiwan Ministry of Economic Affairs, at www.trade.gov.tw/App_Ashx/File.ashx?FilePath=../Files/Doc/80b9bf5f-5a1a-4aab-975e-e2c27e20b1e8.pdf
- 12 "Trade Statistics" op.cit.
- 13 Rich, Timothy and Lucas Knight, "Support for Taiwan's TPP Bid: It's All in the Framing" March 22, 2016, Thinking Taiwan, at thinking-taiwan.com/support-for-taiwans-tpp-bid-its-all-in-the-framing/.
- 14 Guo, Yung-hsing, "Editorial: DPP should set the rules for TPP" June 7, 2016, The Taipei Times, at www.taipeitimes.com/News/editorials/archives/2016/06/07/2003648050.
- 15 Lin, Sara Yi-ying, "TPP from Taiwan's Vantage Point: Political, Trade, and Strategic Considerations" July 2015, Project 2049 Institute, at www.project2049.net/documents/Lin_TPP_Taiwan_Political_Trade_Strategic_Considerations.pdf.
- 16 Bush III, Richard C. and Joshua Meltzer, "Taiwan and the Trans-Pacific Partnership: Preparing the Way" January 2014, : East Asia Policy Paper Series 3 of 9, The Brookings Institution, at www.brookings.edu/research/papers/2013/10/taiwan-transpacific-partnership-bush-meltzer.
- 17 Nealer, Kevin G., op.cit.

- 18 American Chamber of Commerce in Taipei “2016 Taiwan White Paper” Taiwan Business Topics, June 2016, Vol. 46, Issue 6, at amcham.com.tw/wp-content/uploads/2016/06/2016-AmCham-White-Paper.pdf
- 19 “Taiwan’s Policy Agenda for Joining the Trans-Pacific Partnership (TPP) - Supporting Economic Growth through Trade” op.cit.
- 20 Tsai, Ing-wen, “Editorial: Taiwan Can Build on U.S. Ties” June 1, 2015, The Wall Street Journal, at www.wsj.com/articles/taiwan-can-build-on-u-s-ties-1433176635.
- 21 “Taiwan Making a List, Checking It Twice” Politico Morning Trade, June 22, 2016, at www.politico.com/tipsheets/morning-trade/2016/06/commerce-overhauls-export-control-enforcement-214954.
- 22 Chen, Wei-han, “Pork Traceability System to Help Buyers: Council” June 14, 2016, The Taipei Times, at www.taipeitimes.com/News/taiwan/archives/2016/06/14/2003648591.

Expanding Trade Alliances and U.S.-Korea Relations

Tami Overby

This is an important time to have discussions about the future of U.S. trade in Asia. But before we can discuss expanding U.S. trade alliances in Asia, we have to discuss the elephant in the room—the overall deteriorating atmosphere about trade in the United States, and many other countries.

All one needs to do is listen to the U.S. presidential campaign rhetoric about trade, or contemplate the Brexit vote to get a sense of the deep dissatisfaction about globalization—and trade is one element of that—which some people hold around the world.

It is important for those of us in the private sector, government and think tank communities to engage in this discussion in ways that help deepen understanding among the public and policymakers about the importance of the United States staying ahead of the curve on trade.

Moreover, we have to help avoid damaging our future by not allowing critics to misrepresent the causes of job loss or economic stagnation on our economy.

It will not come as a surprise that I am a fervent believer that trade is good for the United States—for our workers, our companies and agricultural producers, and our economy overall.

TAMI OVERBY is the senior vice president for Asia at the U.S. Chamber of Commerce.

However, we must have an honest conversation; there is no question that some industries, some communities, and some workers have been hurt by some of these trends, including from trade.

We are more mindful of this than ever, and are actively exploring new ways to assist workers in transition as we continue to make the public case for trade. As a nation, we absolutely must do a better job helping those who are hurt or threatened.

But trade is not the sole, or even the main, source of dislocation and job loss. There are many other factors—technology and automation, the development of disruptive new business models, a changing work environment that requires different skills and more education, tighter regulations and higher taxes that hinder investment or expansion. All of these are serious challenges, and the Chamber is working on all of them.

Also, regardless of how one feels about globalization, it is here and is not going away anytime soon. And if the United States decides to look inward and build walls that prevent us from selling to the 95percent of the world that lives outside the borders of the US, our trading partners will find other countries willing to take our place. They already are, in fact. Many countries are ahead of us in forging these agreements. That leads to long-term damage to our competitiveness as our goods and services are locked out of more open markets.

So we are also keenly focused on doing everything we can to advance U.S. trade agreements around the world. And, in shaping these agreements to bring about the greatest advantages for American workers. Whether it is the trade in services agreement (TISA), the Environmental Goods and Services Agreement, the Transatlantic Trade and Investment Partnership (TTIP), or the TPP, the Chamber is actively supporting these initiatives. We are also pushing hard to secure permanent funding for the Ex-Im Bank, another key tool in the trade kit.

The costs and risks of not doing this are high—slower economic growth and job-creation at home, competitive disadvantage for U.S. goods and services abroad, and declining U.S. influence and leadership everywhere.

In short, if we do not continue to trade and engage with the world, our

future will be worse, not better. The world is not standing still. America cannot afford to—and we definitely cannot afford to go backwards.

The Importance of TPP

Nowhere is this imperative more critical than in Asia—still the most dynamic and competitive region in the global economy despite a lower growth trajectory in China and other regional economies. And no trade agreement is more important for the United States—or Asia—than the TPP. However, one must not put cart before the horse. There is still work to do here and the other countries before the TPP goes into effect. We see encouraging signs from other TPP partners about their ratification procedures and prospects. A number of countries are on track to ratify this year.

Here in the United States., we are working hard to get things aligned for a vote this year. There have been a few premature notices about the death of TPP, but the administration and Congressional leaders are working very hard on some outstanding issues, and there are a number of procedural steps required under Trade Promotion Authority. The reasons to support TPP are clear to us: TPP is the most advanced, highest-standard trade agreement negotiated to date. It would do more to advance U.S. economic and geostrategic interests in Asia than any other step we could take for the foreseeable future. Failing to take this step would have significant and lasting downside effects.

Why Is the TPP So Good For America?

First, it will eliminate thousands of remaining tariffs on U.S. industrial and agricultural goods.

Second, the TPP goes farther than any agreement in addressing non-tariff barriers—the thicket of rules, regulations, product standards, and other measures that either make it impossible or exceedingly difficult and costly to export into some markets.

Third, the TPP will establish new rules and disciplines in areas critical for all American businesses in the 21st century. These include groundbreaking measures in digital trade, intellectual property protection, and competition with state owned enterprises.

So in our view, the TPP is the best template for trade agreements in the 21st century—the best combination of provisions that address both traditional trade barriers such as tariffs, the more pernicious non-tariff measures, and emerging areas such as the digital economy.

That is why the Chamber is so engaged in working with Congress and other stakeholders to bring this so successful conclusion.

This is why we want to see the TPP enter into force, and other countries join on. The TPP will set the high standards and strong rules needed for fair competition in the 21st century.

TPP, Korea, and Future Alliances

It is fair to say that Korea missed an opportunity to be part of the original TPP agreement.

The TPP contains many provisions that are part of the U.S.–Korea FTA. But TPP goes beyond KORUS in a number of areas, but I do not think having to meet higher standards was the reason the Government of Korea showed no interest in joining until recently.

It had more to do with “FTA fatigue” after the EU-Korea and KORUS FTAs went into effect in 2011-2012. Korea also had, or was pursuing FTAs with other countries, including China, so there was a sense that Korea did not need to be part of this broader agreement.

Korea well understands how important the TPP is, but will need to queue up for the next group once the original agreement is ratified and entered into force. That will take some time, maybe 2018. Countries like Vietnam and Malaysia need to change laws and regulations to come into compliance with their TPP commitments.

Korea, like other countries in the region, must demonstrate a willingness and commitment to meet the comprehensive terms and high standards of the TPP. Most of those comprehensive terms and high standards were proposed by the United States to help our companies, workers and farmers get a level playing field.

The fact that the TPP will not be open right away for additional members—the so-called second tranche of members—is fine. It will give Korea time to address some issues that have come up with regard to

KORUS implementation and the business environment.

And it will give Korea time to prepare to meet new standards in areas that were not covered in KORUS, such as the robust chapter on digital trade or the state owned enterprise provisions, or areas such as intellectual property in which the TPP standards are higher.

Korea must also face its own internal challenges and pressures that are fostering a more negative business environment for foreign and domestic companies.

All governments face pressure to throw up protectionist barriers when domestic growth slows.

The challenge is resisting calls for new forms of protection, or falling back into old habits.

Korea has so many assets and so much to offer companies. But it seems there have been some steps back as its growth has slowed.

The KORUS agreement has led to increases in some U.S. goods exports to Korea in areas in which tariffs were lowered immediately. That is good news.

But we are hearing more about new regulations, standards and other measures that, while not necessarily KORUS-related, are nevertheless making it more difficult, costly and unpredictable for U.S. companies doing business in Korea.

For Korea to join TPP, it will have to embrace fully the spirit of the agreement, and be committed to ensuring that the terms are met without constant need for pressure to do so.

Just as Korea prospers from its exports to the United States and other markets, it will prosper from having more imports, foreign investment and involvement in Korea by companies that will provide jobs, technology, new business models and a sense of dynamism in an economy that is growing more slowly now.

TPP can help provide that boost—if Korea is prepared to take it. In advising TPP aspirants such as Korea, Taiwan, the Philippines, Thailand, and Indonesia

- Pick a couple of current, long-standing, politically difficult issues and resolve them now to show you are willing and able to do politically difficult things.
- Start building political support domestically for the challenging changes that will be needed to meet the comprehensive rules and high standards.
- Start building political support among stakeholders in the United States and in other founding TPP countries, whose support will be necessary when the time comes to push for membership.
- Began consulting with the other 11 TPP founding governments now.

When the United States ratifies TPP this year and joins the other 11 partners to move towards Entry into Force, it will be a huge pivotal moment for Asia and the world as other countries scramble to do the hard things required to join. FTAs by their nature are preferential agreements. Only the partners in the agreement benefit so the 12 countries who have committed to creating this new comprehensive, high standard agreement that addresses new 21st century issues like the cloud, state owned enterprises, and a chapter designed to facilitate the sharing of information to help all TPP partner country SMEs. TPP will change the trade landscape across Asia and that potential investors will gravitate towards TPP member economies because there will be a higher level of predictability and rule of law.

Economies not currently in the TPP are now working on pathways to TPP, and so when we look back in 20 years, we will see that TPP was the game changer that helped lift millions out of poverty and was responsible for underpinning economic growth and prosperity for the 21st century.

Expanding the Trans-Pacific Partnership: Prospects for ASEAN—Indonesia, the Phillipines, and Thailand

Pek Koon Heng

With the United States leading the Trans-Pacific Partnership (TPP) negotiations beginning in March 2008, the 12 parties finally reached a successful conclusion, and on February 4, 2016, signed the world's largest mega-regional free trade agreement, one that comprises 40 percent of world GDP and 37 percent of total U.S. goods and services trade.¹

Portraying the TPP as the economic centerpiece of the U.S. Asia rebalance policy, United States Trade Representative Michael Froman argued that the trade pact's strategic value parallels its economic value in serving as "the avenue through which the United States, working with nearly a dozen other countries...is playing a leading role in writing the [trade] rules of the road for a critical region in flux."² Froman also stressed the TPP's role in promoting U.S. trade policies in the 21st century at a time when the rules and norms underpinning the U.S.-led neoliberal global system are being challenged by "alternative models based on more mercantilist visions for trade and investment."³ A clear response to the competition posed by the trade policies associated with China's dramatic rise and its One Belt One Road initiative, the TPP promises countries of various levels of development and political systems an unprecedented opportunity to join Washington in shaping the world's movement towards freer trade.

PEK KOON HENG is an assistant professor and director of the ASEAN Studies Initiative at American University.

When implemented, the TPP's provisions, organized under 30 chapters, will cover trade and trade-related issues: with trade in goods and continuing through customs and trade facilitation, sanitary and phytosanitary measures, technical barriers to trade, trade remedies, investment, services, electronic commerce, government procurement, intellectual property, labor, and environment. In addition to updating traditional approaches to issues covered by previous free trade agreements (FTAs), the TPP incorporates new and emerging trade issues. Examples include issues related to the Internet and the digital economy, the participation of state-owned enterprises in international trade and investment, and the ability of small businesses to take advantage of trade agreements.⁴

While prospects for the TPP's ratification by the U.S. Congress do not appear hopeful under the current anti-free trade positions taken by the presidential candidates, in particular presidential candidate Donald Trump,⁵ forward momentum for the trade deal outside the United States continues on two levels: first, all 11 partners are finalizing ratification of the agreement and actively making preparations to implement its required domestic reforms; second, in addition to the two ASEAN founding members—Malaysia and Singapore—together with Brunei and Vietnam, which have successfully concluded and signed the agreement, the three remaining ASEAN founding members—Indonesia, the Philippines and Thailand—have announced their intention to join the second wave of expansion of the trade pact. South Korea, Taiwan and Colombia have also expressed similar interest in joining the TPP.

When considering the positions of Indonesia, the Philippines and Thailand, the immediate question that arises is: why did they not join the initial phase of negotiations? An examination of the political, economic and strategic elements in the foreign policy calculations of those countries suggests that the national leaders did not initially recognize the economic advantages of TPP membership. They appeared more concerned about the high political and social costs of implementing tough domestic reforms required by the TPP's 30 chapters. The cost-benefit analysis of liberalizing and deregulating protected economic sectors, which required challenging the vested interests and rent seeking behavior of powerful political and economic elites, did not, at the time, seem to be worth the political pain of membership.

However, projections on the economic impact of the TPP as well as the release of the TPP texts, which had been negotiated in secrecy, led to a change of heart in Manila, Bangkok, and Jakarta. Cost-benefit analyses of the TPP invariably show that a diversion of trade and foreign direct investments (FDI) away from non-members would have negative impact on real income, exports, and FDI flows by 2030. As seen in the latest findings compiled in January 2016 by Peter Petri and Michael Plummer, using the Computable General Equilibrium model working from a 2015 baseline to projected growth in 2030, slower growth rates are projected for Indonesia, the Philippines and Thailand in all of those three categories, compared to projected higher gains in the four ASEAN TPP countries. The studies indicate that Vietnam will enjoy the highest gains in real income effects (8.1 percent), followed by Malaysia (7.6 percent), Brunei (5.9 percent), and Singapore (3.9 percent). In the category of exports, Vietnam also leads with 30.1 percent, followed by Malaysia 20.1 percent, Brunei 9.0 percent, and Singapore 7.5 percent. With regard to inward FDI stock, Malaysia is projected to lead with a 17.2 percent rise, compared to Vietnam at 14.4 percent, Brunei at 11.3 percent, and Singapore at 1.8 percent.⁶

With regard to the TPP's diversionary impact on trade, services and FDI on Indonesia, the Philippines and Thailand, the study shows the following trends: for real income, Thailand would be the most negatively affected, standing at -0.8 percent, followed by the Philippines and Indonesia at -0.1 percent. Thailand is also projected to experience the slowest export growth, standing at -1.6 percent, followed by Indonesia at -1.0 percent and Philippines at -0.4 percent. All three countries would also experience downturns in FDI inflows, with Thailand at -0.2 percent, Philippines -0.5 percent and Indonesia -0.8 percent.⁷

That study, as well as an earlier one also co-authored by Fan Zhai in 2011,⁸ have been widely cited and respected by most trade analysts. However, analysts employing different computable models, such as a Tufts University study by Jeronim Capaldo, Alex Izurieta and Jomo Sundaram, former UN Assistant Secretary-General for Economic Development, who used the United Nations Global Policy Model, argue that the gains on income and job creation projected by Petri and Plummer are overly optimistic. Instead they highlight the negative effects on growth in the TPP's mainstay pillars—the United States and Japan—and increasing inequality and job losses in all participating

economies. It projects an overall loss of 770,000 jobs by 2025, with the largest occurring in the United States, with 450,000 jobs lost.⁹ Projections for non-TPP members are even worse, with China, India and Indonesia and other developing non-TPP countries projected to lose approximately 4.5 million jobs. Non-TPP countries are also projected to lose their competitive advantage and market shares to TPP members.

The two studies cited here represent different ideological and philosophical approaches to free trade. Proponents argue that the TPP is in the national interest of all participating partners and has the potential to boost economic growth and jobs through expanding exports and FDI inflows. By contrast, free trade skeptics argue that the TPP “increases the risk of global instability and a race to the bottom, in which labor incomes will be under increasing pressure.”¹⁰ It would also limit the government’s ability to regulate in areas such as health, food safety, and the environment. However, and most importantly, both studies share the common conclusion that non-TPP members have more to lose than TPP members.

The prospect of becoming less competitive and having slower economic growth compared to their ASEAN TPP partners led the Philippines Thailand and Indonesia to reconsider their original misgivings about TPP membership. As early as September 2010, President Benigno Aquino signaled his interest in bringing the Philippines into the TPP. In Thailand, before she was removed from office by a military coup in May 2014, former Prime Minister Yingluck Shinawatr announced in 2012 that she would initiate TPP negotiations. That position was re-iterated by the military-led government, and most recently re-affirmed by Prime Minister Prayut Chan-o-cha during a major speech in Washington, D.C. in March 2016. President Joko Widodo of Indonesia unexpectedly announced his interest in seeking membership for Indonesia during his state visit to the United States in October 2015.

Another major factor that was absent from the initial calculations of the three countries was Japan’s late acceptance into the TPP negotiations in July 2013. The inclusion of the world’s third largest economy, and a leading trade and FDI partner of every ASEAN country, not surprisingly raised concerns among ASEAN non-TPP countries about the negative impact of the diversion of Japanese trade and

FDI to their ASEAN TPP neighbors. In February 2016, Indonesian Trade Minister Thomas Lembong expressed concerns over reports that Japanese companies such as Panasonic and Toshiba planned to reduce their operations in the country.¹¹ An additional key factor that went into the economic-political calculation of TPP membership of ASEAN countries is how membership would affect their relationship with both the United States and China. Although China is currently studying the pros and cons of future membership, it has not entirely abandoned its initial negative perception of the trade pact as part of a China containment strategy in America's Asia rebalance policy.¹² However, the current strategic assessment in Manila, Bangkok and Jakarta apparently is that TPP membership would strengthen bilateral economic and strategic ties with the United States and Japan, with little negative cost to their economic and political relations with China.

When evaluating the prospects of success for Indonesia, the Philippines, and Thailand in seeking TPP membership, President Joko Widodo, President Rodrigo Duterte, and Prime Minister Prayut Chan-o-cha will each have to overcome considerable economic and political challenges in accomplishing their respective goals. All three countries will have to make fundamental and far-reaching economic reforms to comply with the TPP's requirements. That economic and policy restructuring will substantially weaken, if not entirely remove, long-entrenched protectionist measures and expose vulnerable economic sectors to new competition. With comprehensive cost-benefit analyses yet to be completed, it remains uncertain how the TPP's benefits and losses will be distributed among the different economic sectors and how vested interests, rent-seekers, workers, consumers, and NGOs would react in each economic sector of the three countries.

Manila has moved further along than Bangkok and Jakarta in identifying the necessary reforms the country has to make in its existing policy framework to comply with the TPP's requirements. In March 2016, the U.S. Chamber of Commerce released a Philippines "TPP readiness assessment" for six key chapters: competition policy, telecommunication, rules of origin, investor-state dispute settlement, intellectual property, and modalities for scheduling service commitments. The report also examined remaining TPP provisions pertaining to textile and apparel trade, sanitary and phytosanitary measures, technical barriers to trade, investment and services, electronic commerce, government procurement, state-owned

enterprises, labor, environment, small and medium enterprises, and regulatory coherence. The report concluded that while the Philippines appears “TPP ready” in key respects, membership will “demand further significant adjustments in the policy environment, as embodied in administrative measures, laws, and the Constitution itself” with “[p]erhaps the biggest hurdle to TPP accession [being] the Constitutional provision restricting foreign ownership and participation in Philippines businesses,” such as in public utilities and other services.¹³ The report’s findings reflect the country’s unprecedentedly strong economic growth since 2012, when it grew faster than Indonesia, Malaysia, Thailand, Singapore and Vietnam. The country’s real GDP grew at 6.8 percent in 2012, 7.2 percent in 2013, 6.1 percent in 2014 before slowing down to 5.8 percent in 2015 due to the El Nino impact. However, it is projected to reach 6.4 percent in 2016, when the government ramps up spending primarily through the accelerated implementation of public-private partnership projects and the continuing effect of lower food inflation and declining oil prices.^{14,15} In order to prevent trade and FDI diversion from impeding its economic growth as well as to capitalize on its current dominant position in digital commerce, a sector that will expand even more rapidly under the TPP’s commitment to promote the free flow of data. A particularly strong argument for the Philippines to join the TPP is that it has overtaken India as the call-center capital of the world and holds a leading position in the business process outsourcing industry.¹⁶

President Duterte, who assumed power on July 1, 2016, holds the key to his country’s TPP membership. Should he decide that the Philippines would be better off inside rather than outside the TPP, and that the agreement would serve his populist economic agenda, make the country a powerhouse in digital commerce, and strengthen strategic ties with Washington under the Enhanced Defense Cooperation Agreement (EDCA), he will be expected to continue Aquino’s pro-TPP policy. Unlike Aquino, Duterte currently commands the political backing to bring the Philippines into the TPP. With the Nationalist People’s Coalition (NPC) allying with his party, the Partido Demokratiko Pilipino-Lakas ng Bayan (PDP-Laban), and half of the Liberal Party members in Congress defecting to his coalition, Duterte’s “supermajority” in the Senate and House of Representative will assure support for his legislative agenda.¹⁷ Should he decide to add the TPP to his top political goals, his populist standing with the country’s population will be critical in overcoming anticipated NGO

and labor opposition to the country's corporate backing of the TPP, which is widely viewed as primarily benefitting the country's corporate interests.

Prime Minister Prayut holds even stronger control over the current political environment in Thailand than Duterte does in the Philippines. Commanding the military-dominated government, former General Prayut will be able to push the TPP through a military-dominated parliament as well as resort to strong arm measures to neutralize populist opposition from NGO, consumer groups and other anti-free trade groups that had earlier strongly opposed the proposed bilateral U.S.-Thai FTA initiated by former Prime Minister Thaksin in 2003. That backlash was fuelled by provisions requiring Bangkok to undertake politically sensitive and administratively complex domestic regulatory reforms on investment, services, government procurement, intellectual property competition policy and other areas.¹⁸ Thaksin, however, was deposed in the 2006 military coup d'état before negotiations were concluded. Having failed to complete the bilateral U.S.-Thai FTA, Thailand at present is deeply concerned that it would suffer the highest level of trade and FDI diversion under the TPP, with lower-end manufacturing going to Vietnam, and higher-end value added production and services going to Malaysia. The Prayut government has commissioned cost-benefit studies to identify the reforms the country would have to make under the TPP and to assess the impact of such structural adjustments on each economic sector. The military regime will no doubt make preparations to overcome the anticipated protests, particularly from sectors that will become less competitive, such as the rice, automobile, electronic, computer, garment and textile sectors, when the TPP takes effect for the initial 12 members.¹⁹

A potential external hurdle might be U.S. Congressional opposition to Thai membership in the TPP on human rights grounds, an issue arising from the requirement that a country's membership application in the second phase of TPP expansion must be approved by each of the 12 existing members. However, lack of democracy and human rights protection has not disqualified any country from membership to date, as witnessed by the successful conclusion of talks with Vietnam's authoritarian communist regime, Brunei's absolute Muslim monarchy, and U.S. accommodation of Malaysia's Prime Minister Najib Abdul Razak's worsening human rights performance. Malaysia's problematic

treatment of migrant workers and refugees, which earned it a Tier 3 country ranking in the State Department's 2014 Trafficking in Persons (TIP) report, was upgraded to Tier 2 Watchlist in the 2015 Report, a move that enabled Malaysia to side step a Congressional provision that disqualifies Tier 3 countries from signing free trade pacts with the United States.²⁰ With the upgrading of Thailand from Tier 3 in 2015 to Tier 2 Watchlist in the 2016 Report, membership for Thailand in the TPP now appears open.²¹

Of the three prospective members, Indonesia has the highest political and economic hurdles to overcome. Given that country's rise in economic protectionism in the wake of the Asian Financial Crisis, which reached worrisome dimensions under former President Susilo Bambang Yudhoyono's administration, President Jokowi's announced intention to join the TPP apparently took his own administration officials by surprise. Jokowi's ability to free Indonesia's private sector from what he called "poorly conceived policies, excessive permitting and misguided protectionism" that had caused its companies to suffer²² was met with skepticism by trade and legal analysts in Indonesia, with most seeing more disadvantages than advantages for Indonesia in the TPP. Many argued that negotiating the TPP would force Indonesia to revise many laws and regulations that underpin the constitutional guarantee of state stewardship of the national economy as stipulated in Article 33 of the Constitution.²³ On the other hand, one of Indonesia's foremost think tanks, the Center for Strategic and International Studies, has argued for TPP membership on the grounds that the country faces a gradual and continuous drop in the country's exports in the years ahead, as its exports become more expensive, compared to those of TPP ASEAN members such as Malaysia and Vietnam.²⁴

Like Duterte and Prayut, Jokowi is keenly aware of the dislocation and considerable pain that economic restructuring would inflict on long-protected sectors and state-owned enterprises. The nay-sayers might also be right in assuming that the costs, at least in the short term, will not be compensated by the benefits accruing to private sector corporate interests and more competitive export-oriented industries. Nonetheless Jokowi's current pro-TPP measures, led by Trade Minister Thomas Lembong, are proceeding apace.²⁵ It is unclear if Jokowi's fears that Indonesia will be better off inside the TPP and hence must

undertake painful economic and policy reforms, are equally shared by the national, regional and local officials who would be tasked to undertake the reforms. In addition, unlike the Philippines and Thailand, where Duterte and Prayut have the political leverage to bring their countries into the TPP, Jokowi lacks a strong institutional political base of his own. It is also unclear if he will even succeed in garnering a pro-TPP parliamentary majority among the power brokers in his coalition government and opposition parties.

The public disclosure of the TPP final provisions will help all three leaders to sell the trade pact in their respective countries. Notably, every one of the United States' 11 partners succeeded in gaining concessions from the United States and from each other for politically and economically sensitive sectors. Under negotiated periods of varying lengths for obligations to be gradually phased in, and initial exemptions to be phased out, the full impact of the TPP will not be felt in some countries for up to 20 years after its ratification. In the case of the ASEAN TPP members, key exemptions were successfully negotiated. For example, Malaysia successfully negotiated concessions to continue its Malay affirmative action policy, based on different levels of thresholds and exemptions pertaining to the chapters on government procurement, national treatment, competition policy and state-owned enterprises, thus safeguarding the interests of Malay-owned enterprises and Malay contractors.²⁶ Vietnam, for its part, obtained considerable policy space in operating its state-owned enterprises.²⁷ Malaysia's and Vietnam's success in getting such concessions sets a precedent for the other three ASEAN countries to seek compromises regarding their thorniest concerns.

In short, as the TPP faces an uncertain fate in the United States, three additional ASEAN countries are now preparing for the second phase of TPP expansion. At this time, one can only speak to the certainty of Prayut and Jokowi's political will to join the trade pact, and the likelihood that Duterte will seek the same for the Philippines. Each leader will be tested by the hard realities of the required economic and policy reforms, as well as the political dynamics that must be successfully managed for eventual ratification.

The essential features of the TPP will survive even if Congress fails to ratify it during the upcoming lame duck session. If elected, and persuaded on strategic and economic grounds that the TPP, buttressed

by strong legislative action to ameliorate its effects on U.S. jobs and disadvantaged sectors, presidential candidate Hillary Clinton may regain her earlier enthusiasm for America's TPP accession. From a geo-strategic standpoint, most U.S. government and private sector analysts contend that it is imperative that the United States ratifies the TPP for the Asia rebalance policy to remain credible. Moreover, from the economic standpoint, trade liberalization under the TPP will deepen the ASEAN Economic Community as well as the ASEAN-led Regional Comprehensive Economic Partnership (which comprises the 10 ASEAN countries together with their FTA partners of China, Japan, Korea, Australia, New Zealand and India). A lower quality FTA than the TPP aimed primarily at tariff removal and streamlining and harmonizing the FTAs between ASEAN and its six dialogue partners, RCEP is expected to be concluded by the end of the year.

In order to push the TPP momentum forward for Indonesia, the Philippines and Thailand, and to lay the groundwork for eventual membership for the remaining less developed non-TPP ASEAN countries—Cambodia, Laos and Myanmar—the next U.S. president and Congress should continue to fund resources to build a robust U.S.-ASEAN Strategic Partnership announced during the U.S.-ASEAN Summit held at Sunnylands in February 2016. The new U.S.-ASEAN Connect initiative, conceived at the summit and underpinned by four economic policy pillars—Business Connect, Energy Connect, Innovation Connect and Policy Connect—should serve as the economic lynchpin in facilitating a deeper rules-based economic integration between the United States and ASEAN, as well as among the 10 ASEAN nations. An economically dynamic ASEAN, which is supportive of global rules and norms embodied in the TPP, will in turn advance United States political and strategic interests in a region, which has served, and will continue to serve, as a key driver of the world economy during an era when recovery in the United States and other high-income economies remains gradual or uncertain.

NOTES

- 1 The United States' 11 partners are: Australia, Brunei, Canada, Chile, Japan, Malaysia, New Zealand, Peru, Singapore and Vietnam. For the most comprehensive study of the TPP to date, see Ian Fergusson and Brock Williams, *The Trans-Pacific Partnership (TPP): Key Provisions and Issues for Congress*, Congressional Research Service R44489, June 14, 2016.
- 2 Michael Froman, "Remarks by Ambassador Michael Froman at the Council on Foreign Relations: The Strategic Logic of Trade," June 16, 2014. <http://www.ustr.gov/about-us/press-office/speeches/transcripts/2014/June/Remarks-USTRFroman-at-Council-Foreign-Relations-Strategic-Logic-of-Trade>.
- 3 Michael Froman, "Remarks by Ambassador Michael Froman at Stanford University: Shaping the Global Trading System in the 21st Century," February 16, 2016. <https://ustr.gov/about-us/policy-offices/press-office/speechestranscripts/2016/february/remarks-ambassador-michael>.
- 4 United States Trade Representative, "Summary of the Trans-Pacific Partnership Agreement," October 2015. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2015/october/summary-trans-pacific-partnership>.
- 5 Chicago Tribune, "Trump blasts trade deals, declares era of 'Americanism,'" June 28, 2016. <http://www.chicagotribune.com/news/nationworld/ct-trump-economy-speech-20160628-story.html>.
- 6 Peter A. Petri and Michael G. Plummer, "The Economic Effects of the Trans-Pacific Partnership: New Estimates," Peterson Institute for International Economics, Working Paper Series, January 2016, Table 2.
- 7 *ibid.*, Table 3.
- 8 Peter A. Petri, Michael G. Plummer, and Fan Zhai, "The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment," East-West Center Working Papers, Economic Series, No. 119, October 24, 2011.
- 9 Jeronim Capaldo, Alex Izurieta, and Jomo Kwame Sundaram, "Trading Down: Unemployment, Inequality and Other Risks of the Trans-Pacific Partnership Agreement," Tufts University, Global Development and Environment Institute, Working Paper No. 16-01, January 2016, pg. 18.
- 10 *ibid.*, pg. 1.
- 11 Indonesia Investments, "CSIS: Indonesia benefits when joining the Trans-Pacific Partnership," March 29, 2016. <http://www.indonesia-investments.com/news/news-columns/csis-indonesia-benefits-when-joining-the-trans-pacific-partnership/item6649>.
- 12 Shannon Tiezzi, "Will China Join the Trans-Pacific Partnership?" *The Diplomat*, October 10, 2014. <http://thediplomat.com/2014/10/will-china-join-the-trans-pacific-partnership/>
- 13 United States Chamber of Commerce, *The Philippines in the Trans-Pacific Partnership: A Readiness Assessment*, March 2016, pg. 3.
- 14 International Monetary Fund, *Regional Economic Outlook Asia and Pacific: Stabilizing and Outperforming Other Regions*, April 15, 2015, Table 1.1 "Asia: Real GDP." <https://www.imf.org/external/pubs/ft/reo/2015/apd/eng/pdf/areo0415.pdf>
- 15 World Bank, *Philippines among Top Performers in East Asia and Pacific*, Says World Bank Report, October 5, 2015. <http://www.worldbank.org/en/news/press-release/2015/10/05/growth-in-east-asia-pacific-likely-to-moderate-but-still-remain-solid-says-world-bank-report>.
- 16 Los Angeles Times, "The Philippines has become the call-center capital of the

- world” LA Times, February 1, 2015. <http://www.latimes.com/business/la-fi-philippines-economy-20150202-story.html>.
- 17 Marc Jayson Cayabyab, NPC allies with Duterte’s PDP-Laban, backs Alvarez for Speaker, May 20, 2016. <http://newsinfo.inquirer.net/786684/npc-allies-with-dutertes-pdp-laban-backs-alvarezs-speakership-bid>.
- 18 Sally Razeen, “Thai Trade Policy: From Non-discriminatory Liberalisation to FTAs,” *The World Economy*, Volume 30, Issue 10, October 2007.
- 19 Kavi Chongkittavorn, “Thailand’s Challenges on TPP Framework,” *The Nation*, February 15, 2016.
- 20 Reuters, “Exclusive: ‘U.S. upgrades Malaysia in annual human trafficking report – sources,’” July 8, 2015. <http://www.reuters.com/article/us-usa-malaysia-trafficking-exclusive-idUSKCN0PJ00F20150709>.
- 21 Bangkok Post, “Thailand gets upgraded in US TIP report,” July 1, 2016. <http://www.bangkokpost.com/news/security/1024141/thailand-gets-upgraded-in-us-tip-report>.
- 22 Straits Times, “Indonesia wants to join TPP trade pact, says Jokowi,” October 28, 2015. <http://www.straitstimes.com/world/united-states/indonesia-wants-to-join-tpp-trade-pact-says-jokowi>.
- 23 Jakarta Post, “RI not ready to join TPP,” October 28, 2015. <http://www.thejakartapost.com/news/2015/10/28/ri-not-ready-join-tpp.html>.
- 24 Indonesia Investments, “CSIS: Indonesia benefits when joining the Trans-Pacific Partnership,” March 29, 2016. <http://www.indonesia-investments.com/news/news-columns/csis-indonesia-benefits-when-joining-the-trans-pacific-partnership/item6649>.
- 25 Wall Street Journal, “Indonesia opens more big businesses to foreign investment,” February 10, 2016. <http://www.wsj.com/articles/indonesia-opens-more-big-businesses-to-foreign-investment-1455185389>.
- 26 United States Trade Representative, TPP Full Text. <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>, Annex IV: Schedule of Malaysia, Headnotes, and Annex 15-A Schedule of Malaysia.
- 27 United States Trade Representative, TPP Full Text. <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>, Annex IV: Schedule of Vietnam, (2/14) and (3/14).

About The Contributors



Rupert Hammond-Chambers

is President of the U.S.-Taiwan Business Council based in Washington DC. He is also Managing Director for Taiwan at BowerGroupAsia. In addition, he is on the advisory boards of Redwood Partners International, the Sabatier Group, and the Pacific Star Fund, and is a member of the board of The Project 2049 Institute. He is a Trustee of Fettes College and a member of the National Committee on United States-China Relations. He received a BA from Denison University.

Pek Koon Heng is Director of the ASEAN Studies Initiative and Assistant Professor at American University's School of International Service. She is also a contract course coordinator of the Southeast Asia Area Studies Program, Foreign Service Institute, U.S. State Department. Her recent publications include "Malaysia and the United States: A Maturing Partnership," in Routledge Handbook of Contemporary Malaysia, 2015 and The 'ASEAN Way' and Regional



Security Cooperation in the South China Sea, European University Institute, Robert Schuman Center for Advanced Studies, EUI Working Paper RSCAS, 2014/121. She received her Ph.D. from the School of Oriental and African Studies, University of London, and her BA and MA from Auckland University, New Zealand.



Tami Overby is Senior Vice President for Asia at the U.S. Chamber of Commerce. She is responsible for developing, promoting, and executing programs and policies related to U.S. trade and investment in Asia, and was active in efforts to ratify the U.S.-Korea Free Trade Agreement. She was awarded the Korean Order of Industrial Service Merit, Silver Tower by President Lee Myung-Bak in June 2009. She has also been recognized with a Letter of Citation (Bronze Tower) from both President Roh Moo-

Hyun and President Kim Dae-Jung. In April 2007, Overby was awarded an Honorary Citizenship of Seoul from Mayor Oh Se-Hoon. She is a graduate of the University of Arkansas at Fayetteville.

Shihoko Goto is the Senior Associate for Northeast Asia with the Wilson Center's Asia Program. She is a contributing editor at The Globalist. Prior to joining the Wilson Center, she was a financial journalist focused on the international political economy with a number of publications including Dow Jones News Service and The National Journal. She received the Freeman Foundation's Jefferson journalism fellowship at the East-West Center and the John S. and James L. Knight Foundation's journalism fellowship for the Salzburg Global Seminar. She received a BA from Trinity College, University of Oxford, and an MA in international political theory from Tokyo's Waseda University.

