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Picking Up the Pieces: What Next for Asia-Pacific Trade Policy

By Evan Rogerson

Synopsis

The Trans-Pacific Partnership negotiations have been a primary focus for trade negotiators in Southeast Asia and the wider region. Now that the Trump administration has rejected TPP, the outlook for trade policy is uncertain. Can TPP be revived in some form? Can RCEP step in? Do bilateral deals become the new norm? And is there any future in multilateral negotiation?

Commentary

THE TRANS-Pacific Partnership (TPP) agreement is in trade jargon a high-quality agreement. That is, it goes further than the World Trade Organisation (WTO) and most existing regional or plurilateral trade agreements in several respects, such as standards and intellectual property protection. Its market access provisions offer the prospect of significant benefits for exporters and efficiency gains for supply chains. And its standards and rules-setting provisions in growth areas such as e-commerce are significant.

Even allowing for the usual hyperbole, there is justification for the claim that it is the first 21st century trade agreement. Not only governments but also business have invested much energy and political capital in it. It is unlikely, therefore, that it will simply be allowed to fade away.

TPP-11 Solution

At the moment there are contacts going on among the 11 countries that are still on board for TPP with the aim of seeing whether a way can be found to save it in this reduced form. Many are looking to Japan, as the largest remaining economy, to

provide some leadership in this direction. Recent indications from Tokyo have been encouraging.

The more activist external outlook of the Abe government may help the Gaimusho, the Japanese foreign ministry, prevail over the more protectionist positions of other ministries, even without the immediate incentive of improved access to the United States market. Unwillingness to leave the field to China could also provide impetus.

For other TPP partners such as Australia and New Zealand, maintaining the access gains from the negotiations, even without the US, is important. They can be expected to press for early confirmation of renewed momentum.

Southeast Asia has a significant role in this debate: if some regional economies, Vietnam for example, push for renegotiation of aspects of the deal, this could undermine any potential Japanese initiative and derail prospects for a TPP-11 solution.

There is a lot at stake. A TPP-11 would still provide real economic benefits to its members; it would also create a new set of trade and economic alignments in the region that could become a useful balancing factor. Renewing the momentum of TPP could also contribute to drawing in others who have previously shown some interest, such as Korea, Thailand and Colombia.

Looking well beyond the region, there could even be a pathway to the eventual inclusion of post-Brexit Britain. And it is not impossible that a revived TPP, provided the existing level of commitments is maintained, could eventually prove attractive again to the US. The demonstration effect of the 11 pressing on should not be underrated.

Singapore's Role in Preserving TPP

Singapore's pivotal role in Southeast Asia could make it an important player in this effort, as it was at the inception of TPP. There is often a tendency in trade negotiations to a kind of fatalism that assumes that unless the big powers lead nothing can be achieved. This may be one occasion when smaller economies acting together can nudge events in a positive direction.

A TPP-11 would not be an alternative or a rival to RCEP any more than the original was; perhaps less, without the US/ China tension that was associated with it. RCEP is a different sort of project. Considered purely as a trade deal, it is obviously not as far-reaching as TPP and cannot substitute for it. Its ambition and its value lie more in the broader co-operative framework it envisages across South and East Asia.

Governments in the region will continue to be sought-after partners for bilateral trade deals, too. These offer the politically alluring prospect of quicker results, but this has sometimes been at the expense of the value of those results. Furthermore, with the US turning to bilateralism the question of how smaller economies can hope to negotiate on anything like an equal footing also becomes more important.

There are structural weaknesses in a bilateral approach. The so-called spaghetti

bowling problem of overlapping commitments and regulatory requirements is the best-known. The policy coverage of bilaterals is also usually limited, especially when it comes to subsidies.

Multilateral System Must Also Be Reinforced

Only in the multilateral WTO system has it been possible to reduce or eliminate trade-distorting subsidies. The December 2015 agreement to eliminate agricultural export subsidies was a big win for Asia-Pacific producers and exporters. Fishery subsidies are now a major focus. In this and some other areas plurilateral agreements may be all that are possible in the short term. As stepping stones to full multilateral deals these can be positive – provided, of course, that the membership coverage is sufficiently broad to make them effective.

Despite political backlash in several countries, globalisation is not going away, any more than the global value chains that embody it and the business logic that underlies it. Interconnectedness is a fact of life, and one that seems generally to be better accepted in the Asia-Pacific region than in the old industrial economies.

There is a clear need to tackle a widespread sense of exclusion among swathes of the population in these economies. The trade challenge is to prevent this from disrupting the flow of goods, services and skills on which we all rely for trade, growth and employment. This is why consolidating the shared achievement and keeping up the momentum of TPP is important for this region, even without the US. It is also why it is at least as important to maintain the effectiveness of the only global system of trade rules, the WTO.

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