

Plan B for TPP by Daniel Bob

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On Friday, Japan became the first country to ratify the Trans-Pacific Partnership trade agreement, which includes the United States and other countries representing almost 40 percent of global GDP. As a group, Japan and those other nations represent the largest market for US exports of goods (44 percent) and services (27 percent) in the world. If the agreement were to go into effect, it would boost American growth and job creation, spur Japan's structural reforms, enhance regional confidence in America's commitment to the Asia Pacific, bolster US-Japan relations, and reinforce US and Japanese regional leadership.

Yet Washington is poised to withdraw from the agreement with no ready alternative available. On that holds great promise, however, is a bilateral free trade agreement between Japan and the United States.

Both presidential candidates opposed TPP, of course, so the chances of the trade deal's passage were always slim. On November 21, 2016, that slim chance effectively disappeared when President-elect Donald Trump announced in a video message that he would withdraw the United States from the agreement on his first day in office, and instead seek "fair bilateral trade deals."

Key members of Congress, including Senate Finance Committee Chairman Orrin Hatch and House Ways and Means Committee Chairman Kevin Brady, have responded by stressing the need for US engagement in Asia and new trade initiatives that enhance US global competitiveness, while others, such as Senate Armed Services Chairman John McCain, have focused on a new US trade agenda for the Asia Pacific for national security reasons. Some TPP member countries have called for a revision to the agreement that would allow it to come into force without the United States, but Japanese Prime Shinzo Abe has labeled such plans "meaningless."

The concern over the President-elect's decision on TPP reflects the agreement's economic and geopolitical significance for the United States, Japan and the broader Asia Pacific. TPP would have constituted a major advance in eliminating or reducing tariff and non-tariff barriers to trade in most goods and services as well as barriers to cross-border investment, and would have addressed such challenges as the rise of the digital economy and state-owned enterprises, even as it included economies in widely different stages of development. Moreover, the agreement would have been open to new members able to meet its high standards, thus providing the best platform for regional economic integration.

For the United States, TPP also represented the majority of the non-military rebalance to Asia; and so the US withdrawal has exacerbated existing skepticism in the region over America's true commitment to Asia.

For Japan, TPP served as a centerpiece both for the country's regional economic agenda and its domestic economic reform. The Regional Comprehensive Economic Partnership (RCEP), which is led by China and includes Japan but not the United States, provides an alternative regional trade agreement for Tokyo, but one with lower standards that neither furthers Japan's interest in playing a leading role in writing the rules for twenty-first century trade in Asia nor provides impetus for the reforms the country needs to sustain its economy.

China is pushing for RCEP's early completion; Beijing is also seeking a Free Trade Area of the Asia Pacific that will align with its ambitious One Belt, One Road initiative, which aims to bolster its economic influence across Asia into Europe and Africa, and its new Asian Infrastructure Investment Bank, which stands ready to help finance many of the projects Beijing needs to achieve its goals.

Meanwhile Japan is pursuing an economic partnership agreement with the EU – and aiming for its completion by the end of the year – as well as a trilateral Japan-ROK-China trade agreement. None of these trade deals, however, would advance Japanese interests in ways comparable to TPP, and none include the United States. Indeed, in the absence of a credible alternative to TPP that includes both Washington and Tokyo, China will have a clear path toward undisputed regional economic leadership – with follow-on political and security repercussions for the United States, Japan, and the rest of the Asia Pacific.

Are there alternatives to TPP for the United States and Japan? One that holds most promise, as Sen. Hatch has suggested, is a bilateral trade deal between Japan and the United States. The two countries represent four-fifths of the total GDP of TPP's member states, and many of the elements of such a deal could be drawn from the existing TPP text. A bilateral pact would also demonstrate that the US commitment to the region remains intact, provide impetus for the structural reforms Japan seeks, and reinforce critical bilateral ties.

Tokyo has responded warily to the idea, however, fearing the anti-trade sentiment that took center stage during the US presidential election would find a single target in Japan. The country's leaders have not forgotten the bilateral trade tensions of the late 1980s and early 1990s, particularly as recent anti-Japan rhetoric appeared unexpectedly—and untenably—eerily similar to that of a quarter century ago.

Japanese concerns cannot be dismissed, but they can be allayed to some extent if the incoming Trump economic team

acknowledges the enormous strides made in US-Japan trade relations over the past quarter century. Just as important, the President-elect should revisit his statements about Tokyo not providing a fair share of the costs of US troops based in Japan by acknowledging the benefits America derives from their forward deployment and by recognizing that Japan contributes more toward the costs of the US troops it hosts, by far, than any other US ally.

More broadly, the incoming administration and leaders in Congress should address some of the legitimate concerns Americans have over trade. The benefits of trade easily outweigh the costs, but even as many gain from jobs created by increased exports and even more from lower prices of goods and services, some will lose out. We must not ignore their plight. Indeed, we must take steps to help them develop new skills and find new opportunities in an ever more interdependent world.

At the same, the American public needs to understand that the number of manufacturing jobs eliminated because of free trade agreements pales in comparison to those lost due to technology and new, less labor-intensive manufacturing techniques.

A US trade agreement with Japan, coupled with responsible and effective trade adjustment assistance, would support growth and job creation in both countries, reinforce US and Japanese economic leadership in Asia, enhance regional integration, and provide a viable alternative, not just to TPP, but also to China's mercantile approach to trade and zero-sum view of international affairs.

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