Recent years have seen a proliferation of activity promoting free trade agreements in the Asia-Pacific region. The recent push by the US to give greater weight to the Trans-Pacific Partnership, however, could help to reshape the course of trade liberalization and big power politics in Asia, writes Takashi Terada.

THE TRANS-PACIFIC Partnership (TPP) agreement, established in 2006, was an obscure trade pact among the four small economies of Singapore, Chile, New Zealand and Brunei until 2008, when President George W. Bush signaled the intention of the United States to join the accord. Australia, Peru, Vietnam and Malaysia subsequently decided to become members, adding momentum to the TPP’s emergence as a potentially important free trade forum. But it has been the recent vocal support of US President Barack Obama’s administration for the TPP that has catalyzed it to the forefront of debate about trade liberalization in Asia and given momentum to its institutional development. The consequences of this could be far-reaching.

To be sure, US interest in an Asia-Pacific free trade area is not new. At a meeting of the Asia Pacific Economic Co-operation (APEC) forum in Hanoi in 2006, the United States proposed the establishment of a Free Trade Area of the Asia-Pacific (FTAAP) — in effect, an APEC-wide free trade agreement. Although the idea received a cold shoulder from many APEC members, and negotiations have not gotten off the ground, the proposal did help generate greater interest in an idea that was first mooted by business leaders in 2004. The motive behind US support for the FTAAP and now the TPP is clear. As Kurt Tong, a senior official in the US State Department’s Bureau of East Asian and Pacific Affairs, testified before Congress in 2009: “America risks becoming disadvantaged economically if we do not participate...”
constructively in the process of economic integration that is already under way in the region.”

The US push for the FTAAP and TPP has five major implications for economic integration and strategic balances within the region. First, these initiatives by the US have significant consequences for the course of functional co-operation within APEC, the only multilateral economic framework in Asia in which the US officially participates. APEC has long adopted an approach to trade liberalization based on the concept of “open regionalism,” which applies the benefits of liberalization agreements entered into by members to outsiders in the form of non-discriminatory, most-favored-nation status. The TPP, however, requires a discriminatory approach to trade liberalization and thus represents a substantial change in APEC’s norms. If the TPP were to establish itself as a way of realizing the FTAAP, it would represent a victory for the Americans, because a discriminatory and legally binding mechanism would thus become an APEC norm. In other words, the US would finally succeed in transforming the organization into a regional institution of the type it has long desired — an outcome-oriented, trade-liberalizing institution.

Second, the US embrace of the TPP also entails political motives. Under Obama, the US commitment to multilateral regional institutions has mainly been aimed at constraining behavior by China that is not in line with US national interests or those of other like-minded states, as seen in growing tensions between China and some ASEAN members, such as Vietnam and the Philippines, over maritime territorial disputes in the South China Sea. The US played a key role in placing territorial disputes on the ARF agenda in 2011, a move that could be viewed as confrontational, because China has traditionally insisted on bilateral negotiations with other claimants rather than multilateral forums to resolve disputes. Of significance was the US insistence that all parties in dispute should provide “legal evidence” to support their territorial claims. This legal-based approach, initially promoted by the Philippines, is something China had previously not taken seriously. Obama repeated this call for legal evidence at the East Asian Summit (EAS) in November 2011 in Bali, a move that was seen as boosting the role of the EAS as a more results-oriented institution capable of tackling hard issues.

Some in China view the American commitment to the TPP as also motivated by a desire to check China’s growing influence on regional economic integration. The TPP is generally considered a high-standard trade arrangement suitable to the American template for FTAs, which aims to have no exceptions to tariff elimination. This is an approach that China cannot accept. What makes it politically impossible for China to join the TPP are provisions relating to labor standards and the environment, which potentially require members to abide by standards set by the International Labor Organization, including freedom of association and collective bargaining. Even the prohibition on forced and child labor would not be acceptable to China, since these “gold-standard” items have not been included in any of China’s FTAs. Given the size of its market, Japan’s entry would greatly enhance the prospects that the TPP will lead more quickly to the establishment of a region-wide FTA. China has been urged to accelerate the pace toward the establishment of a regional FTA framework in which China can set up its own standards for economic integration with its own schedule.

American policymakers, for their part, have been frustrated by criticism that the US has been disengaged from the proliferation of East Asian FTAs, while China has enjoyed credit for promoting so-called low-quality FTAs in the region that include numerous exceptions to tariff elimination. oping countries following the 2008 collapse of Lehman Brothers and the ensuing global financial crisis. The rivalry and tensions between the US-led capitalist model and the Beijing Consensus have been symbolically intensified in the debate surrounding the TPP.

**WILL JAPAN JOIN?**

A third implication of US support for the TPP is that it has encouraged Japan to seriously consider participating. On Nov. 11, 2011, the day before the US hosted the APEC Leaders’ Summit in Honolulu, Prime Minster Yoshihiko Noda announced, “I have decided to enter into consultations toward participating in the Trans-Pacific Partnership negotiations with the countries concerned.” Noda’s announcement was less than a forceful statement of intent, but given that Japan’s economy is twice the size of the eight countries currently participating in TPP negotiations with the US, Japan’s potential entry is critical to the pact’s emergence as the preeminent trade agreement in the Asia-Pacific. This process represents the first step in Japan’s bid for official membership in the TPP, and the first move toward the realization of the FTAAP, which the Japanese cabinet endorsed as a government goal in both 2010 and 2011.

The TPP, moreover, has emerged as the most important issue on the US trade agenda and is vitally linked to Washington’s new “rebalancing” strategy toward the Asia-Pacific. Japan’s potential entry into the agreement has thus become a focal point of the US-Japan relationship, with important implications for the future of that relationship and the region’s broader economic architecture. Japan’s decision on the TPP likely will also be viewed as an indication of the country’s direction as its population ages and decreases in size, its economy declines relative to that of China and much of the rest of East Asia and it seeks to rebuild in the aftermath of the devastating earthquake and tsunami of March 2011. Without the US pushing for the TPP, Japan would not have viewed it as a catalyst in helping to restore a sluggish Japanese economy.

Yet Japan’s decision to join the TPP comes with difficult political challenges related to its powerful domestic agricultural sector, because current TPP members include big agricultural exporters such as Australia and the US and there will be few exceptions to the tariff elimination program in the TPP. Japan has established FTAs with ASEAN as a whole and with individual ASEAN member nations, but given its dominant trade and economic position it has greater bargaining power over partner countries such as Thailand or the Philippines. As a result, in most cases Japan has been able to shelve the elimination of its agricultural tariffs and the FTAs have instead offered other benefits in the form of economic co-oper-
The development of the TPP will surely damage the WTO process; it would mean the world’s largest and third-largest economies would be integrated in a discriminatory trading arrangement.

Growing Interest
A fourth major implication of the US push for the TPP, which in turn encouraged Japan to consider joining, is that it stimulated growing region-wide attention on the TPP and helped cause Mexico and Canada to follow Japan’s lead. Furthermore, after recognizing Japan’s seriousness in looking at the TPP, China has become more active in urging Japan to conclude a trilateral FTA with it and South Korea, an agreement that China had proposed in 2002, but which has not gotten anywhere for years. China also moved away from its almost exclusive pursuit of an ASEAN+3 regional arrangement toward greater interest in ASEAN+6 (which adds India, Australia and New Zealand to China, Japan and South Korea), Japan’s preferred arrangement. By signaling its interest in joining the TPP and thereby spurring other significant trade initiatives, Japan advanced a broader strategy of engaging in multiple regional integration schemes. More to the point, Japan has been able to keep its FTA options open in case it does not gain entry into the TPP.

To this end, Noda engaged in intensive Asian diplomacy at the end of 2011, holding meetings with South Korean President Lee Myung-bak, Chinese President Hu Jintao and Indian Prime Minister Mamohan Singh. Noda’s summit diplomacy partly served to blunt criticism that Japan’s pursuit of the TPP, which currently excludes major Asian economies such as China, South Korea, India, Indonesia and Thailand, would not come at the expense of Tokyo’s continued pursuit of greater economic integration with these dynamic Asian economies. Indeed, Noda sought to use summit diplomacy to show his commitment to strengthening economic and business links between Japan and other Asian economies as both a complement and possible alternative to the TPP.

Frameworks and the WTO
Finally, US engagement in the FTAAP and TPP, as well as its official participation in the East Asia Summit, has helped settle a significant debate over Asian regionalism: arguments over the most effective framework for regional co-operation. The options available include ASEAN+3, the EAS and APEC. Finding an answer requires clarification as to what “co-operation” implies, but US regional engagement has contributed to reducing competition and clarifying the division of labor. As mentioned earlier, the US push for the FTAAP and initiatives for the negotiation of the TPP have given APEC its status as the most advanced trade-oriented institution for market integration. The global financial crisis has resulted in increased calls for regional financial co-operation. In this area, ASEAN+3, which has developed the Chiang Mai Initiative (CMI) with bilateral swap arrangements since 2000, is considered the most effective regional financial co-operation mechanism as a result of recent efforts to multilateralize the Chiang Mai Initiative (CMI). With regard to regional security issues, the EAS — the stature of which was boosted after the US and Russia joined in 2011 — has emerged as the most useful framework. Symbolically, it is the US that acted as the critical mover behind the development of both APEC and the EAS — in the former case by turning it into a more effective trade-oriented organization through FTAAP/TPP, and in the latter case by making the EAS a more useful security-oriented dialogue through the introduction of hard issues such as the maritime disputes in the South China Sea. ASEAN+3 is the only forum from which the US is excluded. Given the substantial influence the US has on regionalism, that fact is crucial as the US decides how to view the development of regional financial institutions in ASEAN+3. The CMIM can be viewed as a move toward a de facto realization of the Asian Monetary Fund that Japan proposed in the wake of the 1997-1998 Asian financial crisis — and which the US quickly shot down out of fear that it would erode the US-dominated International Monetary Fund and create a moral hazard in the global financial system. Will history repeat itself in the case of CMIM?

A New World Trade Order?
In conclusion, while the TPP and EAS have been spotlighted recently by the regional and global media thanks to the confrontations between China and the US, the ministerial meeting of the World Trade Organization in December 2011 passed virtually overlooked. The result was that prospects for a successful conclusion of the Doha Round were gloomy, pushing trade ministers and other senior officials to talk more about the alternative of bilateral and regional free trade agreements outside the conference hall. The development of the TPP, especially with the possible participation of Japan and the influence of this on China’s trade strategy, will surely damage the WTO process; it would mean the world’s largest and third-largest economies would be integrated in a discriminatory trading arrangement, while China would be consigned to pursuing the trilateral FTA with South Korea and Japan, thus integrating the world’s second- and third-largest economies in yet another arrangement. In this scenario, the WTO would have few levers of influence to promote an open and non-discriminatory global trading system, and smaller economies would have few options but to follow the trends set by competition among the major powers. One can only wonder what sort of world trading order could then be delineated when the larger economies are more engaged in regional rather than global integration.

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