

Jakarta, April 16, 2013

American Perspective on TPP: Day Dream Next Big Thing?

Gary Clyde Hufbauer

Reginald Jones Senior Fellow

Peterson Institute for International Economics



**Peterson
Institute for
International
Economics**

When will Obama ask for TPA?

- Current strategy: get concessions from partners; show juicy prizes to Congress; then ask for Trade Promotion Authority (TPA/“fast-track”) in 2014, or even in 2015, after the mid-term elections.
- Big question: how dumb are US trade partners? Being tops in drones, doesn’t make the US tops in negotiating strategy.
- Why not TPA in 2013? Fiscal gorges; guns; immigration; and the president’s skeptical political base.

What's wrong with globalization?

- ▶ **Nothing: it's a great engine of world prosperity.**
- ▶ But many Americans wrongly see globalization as the number one cause of inequality, flat wages, and unemployment.
- ▶ IT writ large is far and away the biggest cause of inequality: one skilled woman can now replace 2 or even 5 semi-skilled men.
- ▶ The core reason both for 7%+ unemployment and flat wages is a national failure to invest heavily in productive assets: infrastructure, P&E and R&D.
- ▶ **Another big question: if President Obama can't change the facts on the ground, can he change the political perception?**

Everything on the table? Gold standard?

- ▶ Remember the Australia–US FTA!
- ▶ And don't forget sugar, rice, H1–B, energy, maritime and other “untouchables” of past FTAs.
- ▶ As for the gold standard, reach for the stars, but keep your feet on the ground.
- ▶ The TPP prize is a 21st century template that can be flexibly expanded in the decades ahead.

Seven sacred cows: time for slaughter?

- ▶ Sugar: the eternal problem of Florida's oversized role in presidential elections.
- ▶ Dairy: national industry protected by complex marketing sheds. Can little New Zealand tip the mighty dominos?
- ▶ Textiles & apparel: a "must" for Vietnam, and a "must not" for several states. Can rules of origin deliver a compromise?
- ▶ Maritime cabotage: will the Jones Act finally report to Davy Jones Locker?
- ▶ Government procurement: "Buy America" -- the politician's answer to unemployment. Can the USTR bind states, cities, and the feds to liberalize procurement of both services and goods?
- ▶ H1-B & L visas: Will the immigration and amnesty brawl close the door to easier terms and larger quotas for H1-B and L visas in the TPP? Or will it provide cover?
- ▶ Oil & gas exports: Environmentalists are fighting to kill the Keystone pipeline. Will LNG and oil exports be their next victim?

Japan + TPP: Marriage made in heaven or hell?

- ▶ Rice falls off the table, and “sensitive” agriculture goes on a 15 year glide path, but when will negotiators say so?
- ▶ Will the Detroit Three insist on a currency chapter if Japan joins the talks?
- ▶ Will the Obama team welcome Japan and then– surprise! – announce that negotiations will continue in 2015 and possibly beyond?
- ▶ The big payoff of Japanese membership: service liberalization, not agriculture.

TTIP and TPP: friends or foes?

- ▶ Together TTIP and TPP would change the landscape of international trade and investment.
- ▶ Making the WTO the negotiating room for leftovers and left outs.
- ▶ And writing Obama into the history book of globalization.
- ▶ But if TPP alone will require major political effort, is the combination too much to ask?
- ▶ TTIP cuts deeper, because regulatory convergence is at its heart; but TPP has a faster payoff because US partners in Asia are growing faster.

China: always a looming presence

- Geopolitics, not economics, warmed Obama to TPP – asserting America's role in Asia, even as China rightfully rises. Critical signal from Lee Kuan Yew; forceful implementation by Kurt Campbell.
- The big question: does Xie Jinping primarily see TPP as strategic containment, or as a model for economic reform?
- If TPP equals strategic containment in Beijing eyes, then the response will be a China bloc with very different commercial rules: tolerance for SOEs, managed trade, little IPR protection, no investor–state dispute provisions.
- If TPP is seen as a model for domestic reform, then the response might replay the 1990s, when Chinese leaders used WTO accession to open the economy to market forces on a grand scale.
- One outcome points to ideological and commercial rivalry that could last a generation; the other points to Peter Petri's vision of FTAAP. The difference is critical. Watch for clues!