

October 1, 2012 Monday

US Puts SE Asia Trade Arena Front and Center; With China's presence in the region surging, the U.S. presses ahead with talks to forge a Trans-Pacific Partnership

BYLINE: ALAN M. FIELD

SECTION: MARITIME; Pg. WP

LENGTH: 1265 words

When U.S. Trade Representative Ron Kirk traveled to Cambodia in August to meet with leaders of the Association of Southeast Asian Nations, it was a strong symbol of the growing importance of that region for U.S. exporters and importers. Noting the U.S. wants "a more comprehensive relationship" with the bloc, Kirk said, "If we collectively take the 10 ASEAN members, they would represent a far larger trading partner (than any one of its members), but we (still) have a lot of room for growth."

In 2011, U.S. exports of goods to ASEAN nations totaled \$76.2 billion, up 8.2 percent from 2010, while U.S. imports increased 9.8 percent to \$118.3 billion.

For all that, the U.S. trade presence in ASEAN nations has been largely overshadowed by the growing profile of China in Southeast Asian markets. China-ASEAN trade reached \$292 billion in 2010, the same year that China and the ASEAN bloc enacted their long-anticipated free trade agreement. That relationship was truly a two-way street. Driven by China's growing appetite for imports of Southeast Asian raw materials such as copper and rubber, Chinese imports from ASEAN countries in 2010 amounted to \$154.7 billion, compared with only \$138.2 billion in Chinese exports that year. In 2011, bilateral trade between China and the ASEAN bloc grew 24 percent, enabling the ASEAN bloc to surpass Japan as China's third-largest trading partner. During the first quarter of 2012, the volume of such trade increased another 9.2 percent. Over the same period, U.S.-China trade increased only 2.6 percent in value.

With a combined population of 1.9 billion, the ASEAN-China Free Trade Area is the world's largest. It's also the third-largest free trade zone in terms of aggregate GDP, trailing only the European Union and the North American Free Trade Agreement. The ASEAN-China deal eliminated tariffs on 7,881 product categories, or 90 percent of all goods traded between China and Brunei, Indonesia, Malaysia, Thailand and Singapore.

Beginning in 2015, those provisions also will cover trade between China and the other four members of ASEAN — Cambodia, Myanmar, the Philippines and Vietnam. The government-run China Council for the Promotion of International Trade recently estimated the total value of trade between China and the ASEAN states could surpass \$500 billion by 2015.

Longer-term prospects for U.S. exporters in Southeast Asia will depend significantly on the progress of the Trans-Pacific Partnership, an ambitious free trade and foreign investment agreement being negotiated between the U.S. and other Pacific Rim countries, including Brunei, Malaysia, Singapore and Vietnam. If all goes according to plan, the TPP will open the economies of these countries to U.S. exporters and investors in more comprehensive and binding ways than in any previous trade agreements.

For now, China is not involved in negotiations for the TPP. But the question of China's eventual role hangs over the talks, which continued in Virginia in early September. "The TPP is really important for U.S. business," said Shaun Donnelly, vice president of investment and financial services at the **U.S. Council for International Business**. "Although China is not a potential member, we would still support the TPP."

Not surprisingly, the Southeast Asian participants in the TPP have developed extensive trade and investment ties with China, and they "expect those flows to increase markedly in the future," said Jeffrey Schott, senior

fellow in international trade policy at the Peterson Institute for International Economics. In addition, "China has a vested interest in maintaining good access to TPP markets."

China has committed itself to the long-term strategy of economic integration endorsed by leaders of the Asia-Pacific Economic Cooperation, an international economic forum that regularly brings together leaders from the region. China's "participation is essential to the long-term viability of such an initiative" by APEC, Schott said.

Longer term, China could become involved in negotiating its own membership in the TPP countries. But China is not yet willing or able to meet the high standards that will be strictly imposed on every member of the TPP, analysts agree.

That does not necessarily mean the U.S. is trying to prevent China from joining the TPP in the future, as some critics have suggested. "By crafting a high-standard, 21st century trade accord that is far more comprehensive and legally binding than the trade arrangements forged among Asian countries, some observers have concluded that TPP participants actually intend to exclude China from their integration arrangement," Schott said. "They contend that the bar would be set too high in terms of transparency of domestic policies and the rigor of disciplines on government interventions in the marketplace."

What kind of rigors? For example, TPP negotiators could agree to set standards that require the "coherence" of government regulations in various countries. Establishing coherent, rigid standards is important, TPP supporters say, because in the absence of rigid common standards governing the regulations of every TPP-member government, China might impose its own health and safety standards that have little to do with health or safety, only with keeping out those products that don't meet its unique standards.

Another much-discussed TPP topic is common rules governing the behavior of state-owned enterprises, which in many cases operate with preferential status in China and elsewhere. "The TPP is really critically important for U.S. businesses," Donnelly said. "The quality of the agreement is more important than the speed at which it will be done."

Charges the U.S. seeks to contain or surround China by securing a comprehensive trade accord with its neighbors "seem to ring true to those accustomed to hearing U.S. officials berate unfair Chinese trade practices," Schott said. That's because U.S. trade officials obviously prefer to talk about U.S. trade-enforcement measures against China, rather than include China in any free trade talks for the Asia-Pacific region, including the TPP. Schott calls such a critique of U.S. policy misguided.

First, he argued, "a trade agreement simply cannot 'contain' a large country, either economically or politically." Second, "U.S. officials need a cooperative China to confront the myriad problems facing the world economy and the security challenges posed by new and aspiring nuclear nations in Asia," such as North Korea, Pakistan and Iran. China and the U.S. "need to work together and therefore must manage the inevitable frictions that arise as the breadth and scope of their commercial relations expand," Schott said.

Third, he argued, no nation in Southeast Asia wants to contain China either because the nations of the region all recognize that "the trade and investment integration in the Asia-Pacific region achieved over the past few decades benefits all the TPP participants, even as it poses competitiveness challenges for their manufacturing industries."

From a strategic perspective, China's absence in the initial talks that establish the TPP may help establish a significant advantage for U.S. and other non-Chinese companies over the longer term. "This is an opportunity to write the rules that establish a high-standard organization that China will have to join as a partner," one person who sat in on recent TPP talks said. "It is a lot easier to do that now, rather than having to negotiate with China at the table after the rules have already been written."

Contact Alan M. Field at alanfield0@gmail.com .