



US exit from Trans-Pacific Partnership paves way for greater PRC influence in Asia-Pacific

Protectionism is rearing its head following the global trade slowdown of 2016 and the collapse of a key multilateral trade pact. But forecasts are for a rebound in merchandised trade this year to 2.4% from 1.3% last year, and as much as 4% in 2018. Geethanjali Nataraj, of India's Institute of Public Administration, told a recent Asian Development Bank Institute seminar that the outlook was good.

The world trade scenario looks positive for this year and the next year. Even though there are a lot of developments which are anti-trade, a lot of rising protectionist tendencies in the world in a lot of countries are moving toward protectionism. But even then, the global trade scenario looks positive for this and the next year.

Protectionism is evident in the United States and in the European Union, Ms. Nataraj said, blaming aggressive nationalism; BREXIT, by which the United Kingdom will withdraw from the European Union; and the election of Donald Trump as president of the United States. This has led to uncertainty in emerging economies of Asia.

The US, since pulling out of the long-negotiated Trans-Pacific Partnership or TPP initiative of former President Barrack Obama, is looking more at bilateral deals than multilateral agreements. The outcome of Mr. Trump's strategy is uncertain, Ms. Nataraj said.

The TPP, which took seven years to negotiate, involves Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States—until January 2017—and Viet Nam. It was the largest trade agreement in history.

She said that while the People's Republic of China (PRC) was regaining growth, world trade might contract if the US doesn't change its stance and continues to build protectionist walls. Protectionism makes alternative trade pacts such as the Regional Comprehensive Economic Partnership agreement in the automotive sector more attractive as countries take steps to revive the now defunct TPP. The partnership is led by the Association of Southeast Asian Nations or ASEAN.

Is bilateralism the way ahead for the US and many other countries? We don't know whether the US can sustain this. The US administration focus clearly is on

the UK and Japan, followed by Russia; Viet Nam; Taipei,China; and India.

The TPP was signed in February 2016 by 12 countries. Ms. Nataraj called it “one of the most comprehensive regional agreements,” involving long and painful negotiations toward compromise on a wide range of trade and trade-related issues. The PRC was not involved, the US preferring to wait until the rules were established before inviting it to join, so it would not dominate the talks. And then, one of the first acts of President Trump was to quit the deal.

In spite of the US withdrawal from the TPP, you see that many countries, the other member countries, 11 of them are demanding to salvage the benefit of the agreement and are working to develop alternative approaches just to bring the trade deal into force. It’s a very high-standard agreement, probably the first of its kind in the world, covering the whole gamut of areas, including competition policy, government procurement investment issues, intellectual property rights as standards in various sectors. Unfortunately, the agreement hasn’t gone through because the United States had withdrawn from it. So, what is going to be the effect of this many countries banking on the TPP? What are they going to do? For instance, Viet Nam is one of the smallest economies in the TPP. What is it going to do without the TPP? It was depending on it very much. And now it has to focus on its relationship with the United States headed by Trump to continue its successful growth, trade, investment, and reform policies.

Japan has picked up the baton and is trying save the TPP, without the US, and is open to inviting the PRC and the Republic of Korea, initially excluded from the negotiations, to join late-stage talks. Some members are shifting back to bilateral deals with the US.

The remaining 11 members appear to agree with Japan’s position and are now seeking to revive the TPP, which has a clause that would allow the United States to rejoin the agreement when it is ready to do so. Other countries are very keen to go ahead with the TPP without the US, and of course they will make a provision in the TPP that if the United States wants to join at the later date it could do so.

The Asian economic region is scrambling to build alternative multilateral and bilateral trade agreements, but none will have the consensus of or be as comprehensive and expansive as the TPP.

One that is growing in popularity is the PRC’s “One Road One Belt” initiative, a 21st century land and sea Silk Road linking Asia through Central Asia to the European Union, and expected to involve 60 economies accounting for 40% of global GDP.

It is a centerpiece of the PRC’s foreign policy and timed to be in place by 2049, the country’s centenary.

Economists say it will relieve the pressure of overcapacity on the PRC's economy by allowing it to spread its production base and bypass protectionism by importing and exporting finished products.

Of concern is how much the PRC will benefit from getting around protectionist measures, the main question for participants being: "What's in it for us?" The PRC is dangling investment in fledgling sectors and technology transfer, leveraging its massive foreign reserves against future shared growth.

But it lacks the transparency of the TPP, which has Japan and others worried about fair competition practices and legal structures. Talks are continuing throughout this year.

Ms. Nataraj says it is evident that "the US exit from the TPP has paved the way for the PRC to dominate and have a greater influence in the Asia-Pacific region."

Geethanjali Nataraj of India's Institute of Public Administration was talking to a recent Asian Development Bank Institute seminar.

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