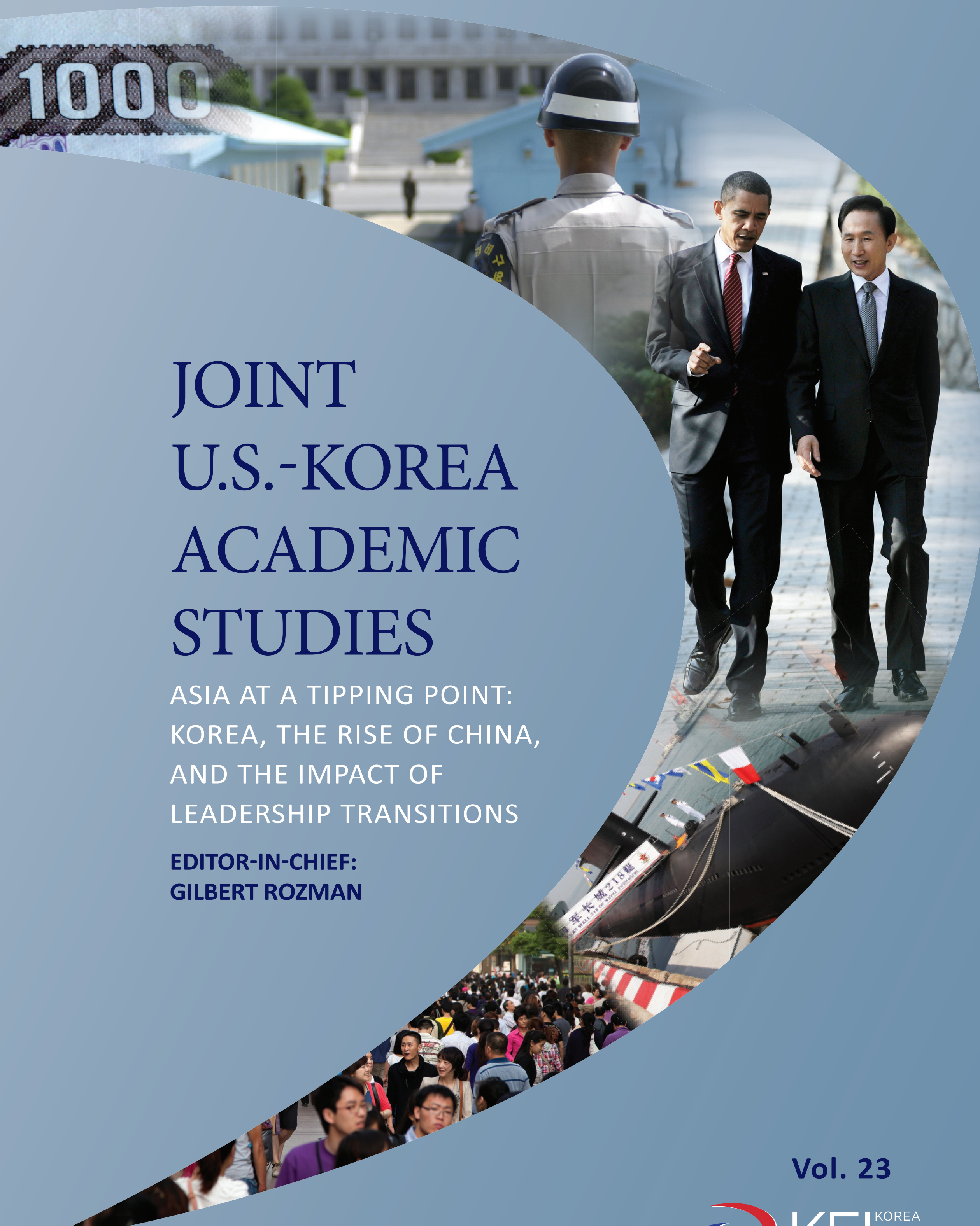
2012



JOINT U.S.-KOREA ACADEMIC STUDIES

ASIA AT A TIPPING POINT: KOREA, THE RISE OF CHINA, AND THE IMPACT OF LEADERSHIP TRANSITIONS

EDITOR-IN-CHIEF:
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Vol. 23

KEI KOREA ECONOMIC INSTITUTE
한 미 경 제 연 구 소

Joint U.S.-Korea Academic Studies

2012

Volume 23

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TPP or ASEAN+3: Alternative Plans for Asian Regionalism and Free Trade Pacts

The U.S. Approach to Regional Trade Agreements Involving East Asia

EDWARD J. LINCOLN

The U.S. government has had a long and convoluted approach to the issue of bilateral or regional trade agreements involving East Asian countries. This paper focuses on three key aspects of this history: the intellectual battle between global and bilateral or regional approaches to trade agreements, the relationship of trade policy to U.S. security policy, and the rising importance of trade in services. Fundamentally, American economic policy toward East Asia is rooted in the strategic involvement of the United States in the region, which leads to a preference for trans-Pacific trade agreements rather than the intra-Asian alternative. But the U.S. approach to regional trade issues was complicated over the years due to the strong belief among economists and government officials that the global approach to trade and investment issues is more efficient than a bilateral or regional approach. Nonetheless, the rising importance of international trade and investment in service industries has helped push the U.S. government away from its commitment to the global approach since the World Trade Organization has made relatively little progress yet on covering these issues. This chapter explores the evolution of American policy in the context of these factors.

THE INTELLECTUAL DEBATE OVER TRADE POLICY

For at least the past century, American undergraduate students have been taught about the virtues of free trade. The theory is rooted in the work of Adam Smith's concept of absolute advantage (1775) and David Ricardo's (1820s) concept of comparative advantage. In the 1930s, Heckscher and Ohlin extended the theory to explain why nations have a comparative advantage in particular products (based on varying economic resource endowments across countries), and shortly after World War II, Paul Samuelson added mathematical rigor to the theory. As taught today, comparative advantage theory is often called the Heckscher-Ohlin-Samuelson theory. The basic conclusion of all versions since the late 18th century is that nations benefit from being open to international trade. There are few, if any, concepts in theoretical economics on which virtually all economists (at least in the United States) agree.[1]

Newer theories of trade, such as differentiated products and intra-industry trade, the product-cycle theory, or external economies of scale and clustering, emerged in the 1960s and 1970s, but none of them counter the belief that open international trade is the best policy. For a time, the concept of internal economies of scale led economists to suggest that protectionism to permit a domestic industry to grow to a sufficient size to achieve lower production costs might justify temporary protectionism. Dubbed strategic trade policy, the basic idea was that developing countries could grow industries in which they did not currently have a comparative advantage, but in which they could become competitive in the future once the scale of production grew behind protectionist barriers and as wages rose to a level giving them a comparative advantage in the protected industry. Japan's export success in the first three decades after World War II was often used as the example of how such a policy might succeed, as it protected industries such as automobiles in which it had no comparative advantage in the 1950s. However, the weak economic performance and inefficient industries of most countries that followed such policies (such as India) caused this concept to be largely abandoned by economists. Today, most economists support the notion that even developing countries will perform better (that is, grow faster) with greater openness to international trade and investment. That conclusion has characterized American trade policy for the past two decades—developing countries should lower their barriers for their own good.

The point of this discussion is that any American taking an introductory economics course in the past century has been taught the value of free trade. Economic welfare of the society rises when consumers can purchase products from the most efficient producers in the world. Nonetheless, the concept of free trade remained unpopular politically through the 19th and early 20th centuries. Only the economic disaster of the 1930s (during which politicians in many advanced countries raised tariffs) and the subsequent devastating war led toward political acceptance of reducing or eliminating trade barriers. For the Americans, the concept gained additional desirability due to the strong position of many manufacturing industries in the immediate aftermath of the war (industries that would benefit if barriers in other countries were lowered). The result was the General Agreement on Tariffs and Trade (or GATT, now the World Trade Organization, WTO), created in 1947. One of the hallmarks of the GATT agreement was a principle of "most favored nation," which states that any member nation that permits a lower tariff on a product coming from another member must extend that lower tariff to every other member of the GATT. The goal was to end the discrimination that had been rampant in the 1930s in which nations had high tariffs in general, but applied lower tariffs to products from some "favored" trade partners.

The principle of most favored nation became the bedrock for American trade negotiators for the next several decades, and energized an international bargaining process that lowered trade barriers around the world in a series of multilateral "rounds" of negotiations among GATT member countries. However, Article 24 of the GATT (and the follow-on WTO) allowed one exception to the most favored nation principle. If two or more members were willing to remove "substantially all" trade barriers among themselves, then the agreement would be permitted.[2] Presumably, this exception had been included in 1947 to accommodate the Imperial Preference System of the British Empire (a large free trade area among all the members of the empire). Little used by other GATT members, this exception finally became popular around the mid-1980s, and the number of such agreements (free trade agreements, or preferential trade agreements) has exploded since that time. As of 2011, the WTO reports 319 bilateral and regional preferential agreements in active use.[3]

As these agreements began to proliferate, economists were deeply divided on their impact. Economists have had three principal objections to free trade agreements. First, any agreement between two countries that eliminates tariff and other barriers implies that some imports will be switched from the globally efficient manufacturer to one located in the partner country. In that case, the government of the importing country no longer receives the revenue from collecting the import tariff. This loss of revenue is called the trade diversion effect, and is a net economic loss for the importing country. Trade diversion also implies an inefficient allocation of productive resources as less efficient firms benefit from exporting to a partner country at the expense of more efficient firms not located in the trade bloc. Second, every bilateral agreement is negotiated separately, so that the coverage and rules will be different, creating what leading trade theorist Jagdish Bhagwati dubbed the "spaghetti bowl" effect, creating confusion and extra costs for firms as they attempt to keep track of the mass of differing rules.[4] Third, every preferential agreement must include rules on what is legitimately a product manufactured within the partner country by specifying the share of local value added in a product necessary to qualify as being manufactured within the exporting member country. These "rules of origin" open the way for challenges and the necessity for adjudication of disputes, adding another layer of cost that does not exist when a tariff applies to all imports.

Free trade agreements do, however, have some advantages, not all of which are strictly economic. First, in an era when membership in the WTO exceeds 150 countries, global agreements have become very difficult to negotiate. The current Doha Round began in 2001 and remains uncompleted eleven years later. A bilateral or small group agreement can typically be completed within a year or two. The long wait for progress at the global level means that achieving pockets of progress around the world might be better than no progress at all.

Second, these agreements involve trade creation. Consumers now have access to imported products at a lower price (since the imports from the partner country enter paying no import tariff), even if the product is not coming from the globally efficient producer. Lower prices (and expanded consumption of the imported product) increase economic welfare (even if not all the way to the maximum level possible with global free trade). Economists argue that if a nation had relatively low import barriers to begin with, the trade expansion benefit will likely outweigh the trade diversion loss discussed earlier.

Third, if the number of members in the trade group is greater than two, the possibility of a globally efficient producer being a member of the group increases, lessening the global inefficiency from switching to products from less efficient producers. Therefore, economists generally prefer groupings with several members.

Fourth, even if an agreement introduces distortions, the envy of countries not part of the agreement might lead them to participate. Optimists concerning this possibility see free trade agreements as building blocks toward the eventual goal of global free trade.[5] Or the countries left out might move to re-energize WTO negotiations (and the creation of such a movement at the WTO level was a specific goal of the U.S. government in negotiating the North America Free Trade Agreement at a time when the Uruguay Round of GATT negotiations were stalled at the beginning of the 1990s).

Finally, as the process has evolved, FTAs often include agreements on both trade in services and direct investment, two areas in which the WTO has made relatively little progress. The Uruguay Round agreement of 1994 did include a General Agreement on Trade in Services (GATS), but it is relatively weak. This chapter argues that barriers to trade and investment in the service sector have gained increased attention and importance over time.

Where does the debate stand today? It is fair to say that economics textbooks generally present a far more favorable view of FTAs than was the case twenty-five years ago when such agreements began to proliferate. The concerns raised by Jagdish Bhagwati remain, but may not be as serious as once thought. The overall level of tariffs is relatively low, even for many developing countries; so that it is more likely that trade creation will outweigh trade diversion in bilateral or regional blocs. Firms are not complaining loudly about the legal burden due to litigation over rules of origin, or about the administrative cost of tracking the relevant agreements and rules when making trade or investment decisions. Finally, firms have discovered that if they are disadvantaged by the creation of a free trade area to which their home government does not belong, they always have the option of locating a factory within the area, thereby benefiting from the lack of barriers within the region. This option may still mean a distortion in the global location of production facilities relative to a world of no barriers, but it is likely that this efficiency loss is relatively modest.

Why does this discussion of the theoretical argument about free trade and global versus bilateral or regional agreements matter? American officials were initially skeptical of free trade areas, but attitudes have shifted over time, especially with the disappointment in making progress with the current Doha Round of WTO negotiations. Ideas and theories do matter, and in this case the theoretical ground about how to proceed with lowering or eliminating trade and investment barriers around the world has shifted over the past several decades.

THE STRATEGIC CONTEXT AND THE EVOLUTION OF APEC

Since the end of World War II, the United States has regarded itself as having strong strategic interests in East Asia. The Communist victory in the Chinese civil war in 1949, plus the Korean War, helped to create the belief that East Asia was a crucial battleground in the Cold War, especially as Southeast Asian nations were emerging from colonial rule. The story of failure to establish a regional counterpart to the North Atlantic Treaty Organization in Asia is well known. With the failure of the Southeast Asia Treaty Organization (SEATO), the U.S. government opted for a hub- and-spoke strategy of bilateral security agreements. This strategic posture matters for trade and other economic policy as well.

Since the late 1960s, various Asian governments (and particularly Japan and Australia) were interested in building a trans-Pacific regional economic organization to discuss trade and other business and economic issues.[6] The U.S. government initially resisted this idea. The original proposal for an organization resembling the eventual Asia Pacific Economic Cooperation (APEC) group was presented as a report to the U.S. Congress in 1978, but elicited no interest in Washington. As a partial step toward an official organization, the Pacific Economic Cooperation Council (PECC) was established in 1980, a group in which some government officials, including from the U.S. government participated unofficially in their private capacity.[7]

Why was the U.S. government reluctant to participate in a trans-Pacific organization? One factor was the strategic context. The U.S. government was used to dealing with East Asia on all issues in the bilateral framework that had come to dominate strategic policy toward the region. Why should the U.S. government endorse a regional body, even if it was to be ostensibly for economic discussions, which might interfere in the carefully crafted hub-and-spoke strategic approach to the region? In addition, the U.S. government at that time had deep misgivings about any regional organization that might end up including participants from the other side of the cold war divide (i.e. China, Vietnam, or Laos). Finally, economic officials in American administrations remained firmly committed to a global approach on major trade and investment policies.

When APEC finally emerged, it was the initiative of Australia, with quiet prodding by the Japanese government. With two regional allies making the request for participation, the U.S. government reluctantly agreed to participate. But soon the U.S. position on regionalism and APEC changed, for four important reasons.

First, Prime Minister Mahathir of Malaysia began to speak of forming an East Asian Economic Caucus (EAEC), a grouping that would include the ASEAN countries plus Japan, China, and Korea (but not Australia or New Zealand). His rhetoric was explicitly anti-Western and racist (hence the Australia and New Zealand exclusion), which worried the U.S. government. The U.S. Secretary of State when this idea was first proposed, James Baker, responded by declaring that it would be imprudent for Asian nations to draw a line down the middle of the Pacific to exclude the United States. A regional economic organization in Asia excluding the United States would cause American firms to suffer from trade diversion (especially losing out to their Japanese rivals) and potentially jeopardize American strategic involvement in the region. Therefore, for strategic reasons it now behooved the U.S. government to promote APEC as the appropriate regional organization in order to stymie the creation of the EAEC. If the region was to form new institutions anyway, the trans-Pacific format was better from the U.S. strategic standpoint than the East Asian alternative.

Second, in the late 1980s and early 1990s, the U.S. government remained wary of the regional aims of Japan. Mahathir's EAEC would, in this view, provide an organization in which Japan could wield power to the detriment of American firms, especially if the outcome were a regional free trade bloc. To be sure, Japan was an ally of the United States, but it was also viewed as economic rival. The Japanese government had been somewhat more active at that period of time in indicating dissatisfaction with American trade policy and in expressing interest in a stronger relationship with Asia as an alternative to close economic ties with the United States. This tilt to Asia was somewhat contradictory to the Japanese efforts to bring about the creation of APEC in the 1970s and 1980s, but reflected the growing disenchantment with American trade policy (either attempting to limit Japanese exports to the United States, or to open Japanese markets to imports) by the early 1990s. Since Japan was a key American strategic ally, it served American strategic interests to keep Japan engaged with APEC rather than drifting toward a new EAEC, a drift that could undermine the alliance.

Third, the overarching strategic preference for a hub-and-spoke approach to the region in a Cold War context was turned on its head in the economic sphere. That is, APEC presented the opportunity to get China and Taiwan into the same regional organization (accomplished in 1992). This accomplishment enabled the beginnings of a more productive relationship between the two governments, at least in the realm of trade and economics, and thereby potentially reducing the possibility of armed conflict.

Fourth, several years after APEC was formed as a ministerial-level meeting, a new president, Bill Clinton, with little foreign policy experience saw an opportunity shortly after coming into office to show his positive personal engagement with the world by adding a leaders' meeting to APEC (enabled by the fact that the United States was hosting the meeting in 1993). Making APEC more visible also created an imperative to show that APEC was actually a useful organization.

The effort to make APEC a vehicle for significant reduction in trade and investment barriers, though, soon bogged down. A 1996 APEC agreement eliminated tariffs on information technology products (the Information Technology Agreement, ITA), which was then adopted by many WTO members. But an attempt to do something similar the following year in nine different product areas, the Early Voluntary Sectoral Liberalization (EVSL) failed, largely because of Japanese opposition to inclusion of some agricultural fishery products. That failure signaled the end of American enthusiasm for APEC as an organization to create a more open region. To be sure, APEC has continued a modest agenda aimed at greater openness, but "modest" is the operative term.

The EVSL failure might have led to renewed concern that the Asian members of APEC would proceed to construct a regional trade bloc, as had been feared by the U.S. government in the late 1980s. In fact, at the same time that the EVSL went down to defeat, the EAEC came into existence in the form of the ASEAN+3 group. But the disappointment with APEC appears to have led to a conclusion by U.S. government officials that the Asian governments would be no more successful in an ASEAN+3 setting to achieve a robust open trade and investment area than had APEC. The lack of American official concern was borne out by subsequent developments, since ASEAN+3 has accomplished little more than APEC. From the late 1990s, therefore, the U.S. government ceased its trans-Pacific versus East Asia strategic concern for institutional settings.

For much of the first decade of the 2000s, the U.S. government nudged APEC toward a more strategic focus, using it as a venue to urge East Asian governments to pursue various anti-terrorism initiatives. The region-wide trade agenda with East Asia languished with APEC. Bilaterally, the activism in dealing with Japan faded by the late 1990s, and few substantive negotiations to further open Japanese markets occurred. At the global level, the U.S. government pushed for the start of the Doha Round of WTO negotiations, but then failed to bring those negotiations to a conclusion. Instead, the U.S. government continued to pursue bilateral and regional free trade agreements. Table 1 provides a complete list of the twenty agreements successfully negotiated as of the end of 2011.

Table 1. U.S. Free Trade Agreements	
Country	Year Implemented
Australia	2005
Bahrain	2006
Canada**	1994
Chile	2004
Colombia*	2011
Costa Rica***	2004
Dominican Republic***	2004
El Salvador***	2004
Guatemala***	2005
Honduras***	2005
Israel	1985
Jordon	1996
Korea*	2011
Mexico**	1994
Morocco	2004
Nicaragua	2005
Panama*	2011
Peru	2006
Singapore	2004

Notes: *Ratified by Congress but not implemented.
**Originally a bilateral agreement with Canada in 1987, incorporated into NAFTA (with Mexico) in 1994.
***These countries are members of the regional Central American Free Trade Agreement (CAFTA).
Source: Office of the United States Trade Representative, "Free Trade Agreements," http://www.ustr.gov/trade-agreements/free-trade-agreements (January 15, 2012).

This table indicates that the U.S. government did maintain an agenda of pursuing bilateral and regional agreements even as the global Doha Round negotiation in the WTO remained uncompleted and APEC proved disappointing as a vehicle for negotiating open trade. Note that the United States had created trade agreements with a number of individual APEC members by 2011 (Australia, Canada, Chile, Korea, Mexico, and Singapore).

Efforts to push forward on bilateral and regional agreements might have been more vigorous over the past decade without the 9/11 attack and the subsequent preoccupation of American foreign policy with the war on terrorism, and specifically the invasions of Afghanistan and Iraq. The head of USTR in 2001, Robert Zoellick, pushed for the start of the Doha Round in the fall of 2001 by casting it into the framework of the war on terror. That is, terrorism may be fostered by poverty and envy. Economists (like Zoellick) believe that open trade and investment fosters economic growth, providing the mechanism to reduce poverty and disparities between rich and poor countries. However, this line of argument did not become a major element in the administration's rhetoric or policy during the war on terrorism. President Bush, for example, did not press other leaders for a successful conclusion to the Doha Round negotiations nor did he include references to Doha very often in public statements.

The Obama administration did not develop any clear trade agenda in its first two years in office—even getting the already negotiated bilateral agreements with Korea, Colombia, and Panama submitted to Congress was delayed until 2011. The global recession and the negative political image of losing jobs (by lowering trade barriers at home as the price for getting other nations to lower their barriers), combined with the importance of union support for the Democratic Party makes the reluctance to pursue an activist trade policy understandable. Nor did the administration have an overarching policy toward East Asia. Like the Bush administration before it, much of the foreign policy energy was absorbed by Iraq and Afghanistan. Relations with Japan, Korea, and China were governed more by reactions to specific events without an overall agenda.

By 2011 the Obama administration was ready to focus on Asia. With troops withdrawn from Iraq and the beginning of the endgame in Afghanistan, the administration could refocus on East Asia, a shift in the fall of 2011 dubbed the "pivot."[8] Concerns about China provided a major motivation for the strategic policy pivot. China continued to grow rapidly (making it increasingly important to the United States economically). But a series of incidents, such as the ramming of a Japanese coast guard ship by a Chinese fishing vessel in the fall of 2010 (and subsequent angry pressure on Japan when the captain was detained in a Japanese jail), the embargo that same fall on exports of rare earth metals for which China is the major world supplier, and China's unhelpful stance at the United Nations Security Council on developments in the Middle East during 2011 all indicated that policy toward China and East Asia needed more attention.

The Obama administration's embrace of TPP, therefore, should be seen in light of this strategic policy history. The reinvigorated strategic approach to East Asia in 2011 provided a renewed opportunity to include economic policy as part of overall policy, much as earlier economic policy toward the region was influenced by strategic concerns. Unlike the 1980s, the economic concerns had shifted largely from Japan to China. How and why TPP specifically fit the new strategic focus on East Asia in 2011 is considered later in this chapter.

SERVICES TRADE

One of the most significant developments in international trade over the past half-century has been the rise of international trade in services. Furthermore, trade in services is generally more closely linked to foreign direct investment than is the case for merchandise trade, since the provision of many services requires a physical presence in the market where the service is offered. The original GATT agreement concerned only merchandise trade. Creation of the WTO in 1994 brought with it a first step toward inclusion of services, in the form of the Agreement on Trade in Services. That agreement remains limited in scope and applicability to many specific service sector issues. Nor does the WTO address issues related to foreign direct investment. As services trade has expanded, therefore, bilateral and regional free trade negotiations have provided a vehicle for pursuing these increasingly significant issues that have been largely unanswered in the WTO.

Service sector trade is of particular interest for the United States, for three important reasons. First, like all advanced countries the structure of the economy has shifted away from manufacturing toward services. Second, like the world in general, services trade has become relatively more important for the United States over time. Third, unlike merchandise trade, the United States maintains a surplus in trade in services. Assuming that surplus to represent an American comparative advantage in services (relative to manufactures), it is understandable that the U.S. government would have a particular enthusiasm for reducing barriers to services imports in other countries (much like the enthusiasm the U.S. government had in the earlier post-World War II era when the United States had a surplus in merchandise trade and pressed for global reductions in tariffs).

Using World Bank data, manufacturing was 23% of GDP in the United States in 1981, falling to only 13% by 2010. Services, on the other hand, were already 63% of GDP in 1981, rising to 78% by 2010.[9] The shift in employment over a longer time period is even more dramatic. In 1950, the share of total employment in manufacturing was 32% while services were 42%; by 2010 manufacturing was down to 11% while services were up to 68%.[10] With the rise of services as a share of both output and employment over time, and with an overwhelming share of jobs and output in the service sector, it should be no surprise that issues related to that sector would draw more attention from government.

Decades ago, economists thought of international trade predominantly in terms of merchandise trade. Most services, the thinking went, must be consumed where they are created, limiting possibilities for international trade (as in the case of the ever popular introductory economics course example of haircuts). However, an increasing array of services has been traded over the years, ranging from architectural, legal, and accounting services to showings of Hollywood films (which generate royalty payments that are counted in the balance of payments data as part of services trade). But it is true that some services must be delivered where they are created. The increasingly international nature of activity in those industries shows up more in increased foreign direct investment.

Figure 1 shows U.S. services trade relative to the size of U.S. trade in merchandise. Services exports were just over 30% of the size of U.S. merchandise exports in 1960, expanding to over 40% by 2010 (after a decline in the ratio during the 1970s). Although this increased relative size of services exports is not a dramatic change, it is certainly sufficient to explain why services have claimed more attention on the part of trade negotiators. Figure 1 also indicates that the rising relative importance of services trade applies only to American exports; measured as a percentage of the size of merchandise imports, services have declined over the past half-century. From a large 50% in 1960, services imports were only 20% the size of merchandise imports by 2010.

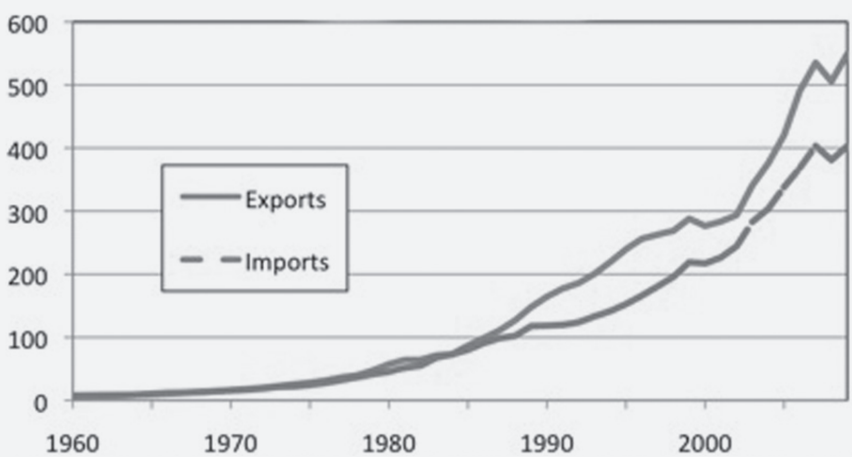
Figure 1. U.S. Services Trade Relative to the Size of Trade in Manufactured Goods (as a %)

Source: Bureau of Economic Analysis, United States Department of Commerce, "U.S. International Transactions, 1960-present," http://www.bea.gov/international/index.htm (January 22, 2012).

Figure 2 shows the trend in the dollar value of services exports and imports. As might be expected given the opposite movements for exports and imports in figure one, figure 2 shows a rising trade surplus of the United States on trade in services. Beginning in the 1980s, the U.S. surplus on trade and services reached $146 billion by 2010. Although this surplus was far smaller than the U.S. deficit in merchandise trade ($646 billion), the surplus is large enough to attract attention as a partial offset to the deficit on merchandise.

Similar trends are evident in American direct investment abroad. Direct investments (FDI) are those in which the investor has managerial control of the asset. That is,

Figure 2. U.S. Trade in Services (in US$ billions)

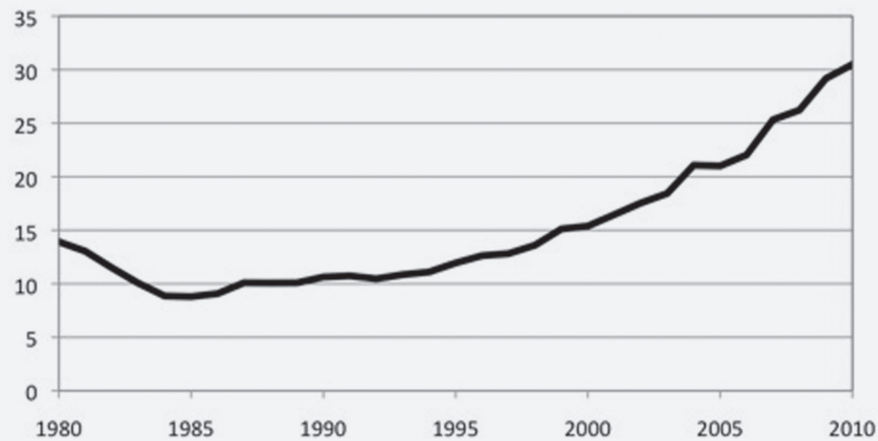


Source: Bureau of Economic Analysis, United States Department of Commerce, "U.S. International Transactions, 1960-present," http://www.bea.gov/international/index.htm (January 22, 2012).

FDI represents partial or complete ownership and effective control of corporations in other countries. They can include partial or complete purchases of existing firms, or creation of new joint ventures or wholly owned firms. Figure 3 shows what has happened to the stock of FDI owned by Americans, expressed as a share of GDP.

From the mid 1980s, the stock of FDI owned by Americans has risen sharply as a share of GDP, from only 9% in 1985 to 30% by 2010. Some of that investment is in manufacturing, but the majority of American direct investment abroad is in services. In 2000, 22% of the stock of American direct investment abroad was in manufacturing and 66% in various service industries (with the remainder in mining, construction, and agriculture). Just ten years later, only 14% was in manufacturing and 80% in services. Some of the international "trade," in services, therefore,

Figure 3. Stock of Foreign Direct Investments Held Abroad by Americans as a Share of GDP (as a %)



Source: Bureau of Economic Analysis, U.S. Department of Commerce, "International Investment Position, Yearend position, 1976-2010," http://www.bea.gov/international/index.htm#iip (January 22, 2012).

shows up as repatriated earnings from service-sector direct investments abroad rather than through actual cross-border trade. These data on trade and investment provide a clear picture of the rising importance of international engagement of American firms in exporting services or selling them locally abroad.

The international issue for these industries is not tariffs, as in the case of manufactures, but regulations governing entry and competitive behavior in each service industry. As noted earlier, the WTO has still made relatively little progress in working out robust agreements covering service industries. Therefore, the rising importance of services to the U.S. economy and the increasing export of those services push the U.S. government in the direction of negotiating bilateral and regional free trade agreements in which service industry issues can be included.

TPP

After more than a decade of minimal focus on APEC, drift with the Doha Round, and a preference for bilateral trade agreements, the U.S. government has now embraced the TPP negotiations. TPP fits well with the evolving U.S. global and regional strategy in the second decade of the century in several ways, reflecting the three issues discussed in this paper.

First, consider the strategic reengagement on Asia in 2011. Economic policy has always been intertwined with strategic policy. Therefore, TPP represented one possible way to bring economic relations with the region into the newly reenergized strategic approach to East Asia.

Second, and related to the first point, the decade-long single-minded absorption with military engagement in foreign policy faded, opening the way for trade and investment issues to gain a greater standing in the hierarchy of foreign policy issues to be pursued with East Asia. To be sure, the huge global macroeconomic/financial problems accompanying the global recession of 2008-2009 absorbed considerable government attention, but trade and investment issues did not, and the international policy dialogue related to the global recession implied little involvement for East Asia (other than the dispute over the exchange rate with China). Therefore, as the wars wound down, it was easier for the U.S. government to reengage on regional trade and investment issues. Perhaps the first evidence of that reengagement was the effort by the Obama administration to submit to Congress (successfully) bilateral trade agreements with Korea, Peru, and Panama. Those agreements were actually left over from the Bush administration (with some additional tweaking by the Obama administration). In terms of new engagement at the regional level, though, joining the TPP negotiations was a convenient vehicle for reengagement.

One probable reason for the embrace of TPP specifically was the fact that the concept of a Free Trade Area of the Asia-Pacific (FTAAP) had been discussed in Washington for several years. C. Fred Bergsten, the respected founder and head of the Peterson Institute for International Economics (a major think tank in Washington), was vigorously pushing the concept of the FTAAP.[11] Bergsten had been a voice for using APEC for this purpose in the mid-1990s when that organization had been the focus of American trade policy toward the region. Bergsten did not take a position in the Obama administration, but his presence in the city, contacts, and convocation of meetings on trade issues gave him a considerable role in shaping discussion of trade policy ideas. TPP is not the FTAAP, since it includes only a subset of the governments that belong to PAEC. Nonetheless, it represented a start in that direction if one believes in the notion of building blocks. The chapter by Peter Petri specifically considers the possibility of a movement toward an FTAAP driven by TPP and other sub-regional agreements. To the extent, therefore, that the concept of FTAAP was in play in Washington policy discussions, joining the group of countries already engaged in the TPP process was a rather logical step to take.

Third, TPP fit well into the increased importance of dealing with China as part of the strategic engagement with East Asia. The Obama administration is adamant that the TPP negotiations are not an attempt to isolate or surround China, and they may be correct. Perhaps it is better to see TPP as a response to Chinese interest in either an ASEAN+3 or China-Japan-Korea free trade area. Either of those combinations involves both the straightforward trade diversion losses that would negatively affect American firms, and a strategic gain for China in the region (pulling other East Asian nations closer to itself). Neither outcome is in American economic or strategic interests. Therefore, TPP can be viewed as a defensive move to counter rising Chinese influence in the region. In the world of proliferating FTAs, the U.S. government cannot stop East Asian governments from forming agreements among themselves (and China already has an FTA with the ASEAN nations as a whole), but creating an additional trade group that includes the United States sends a signal of U.S. engagement in the region to counter the rising influence of China.

Furthermore, despite administration protestations, there can be no doubt that TPP provides a convenient pressure point on China. U.S. entry into the TPP negotiations came at a time when it was convenient for the U.S. government to show some displeasure toward China, due to the increasingly nationalistic and aggressive nature of Chinese policies at home and abroad noted earlier.

Fourth, in the context of reengagement on trade and investment issues, the U.S. government was confronted with the continuing stalemate on the Doha Round. Begun in late 2001, those negotiations are now in their second decade. The dismal record of inability to bring these negotiations to a close increased the attractiveness of regional and bilateral approaches to trade and investment from the perspective of the U.S. government. The alternative analysis would be that governments have become so enamored of regional and bilateral agreements that the energy was sucked out of the Doha Round negotiations. Given the generally tepid approach of the U.S. government to all trade negotiations in the past decade, this alternative interpretation of global versus regional approaches does not seem correct.

Fifth, TPP includes the advantage of multiple participants in the Asia-Pacific region. As noted earlier, economists believe that regional free trade areas are more likely to produce benefits that outweigh the trade diversion liability of this approach. More important, TPP allows a regional approach that avoids the problems upon which APEC stumbled in the late 1990s. APEC provided the Obama administration with a venue at which to push the idea of TPP, but the negotiation itself is not an APEC initiative.[12] That is, TPP is simply a coalition of the willing (or supposedly willing). Those APEC member countries that are either disinterested in participating, or are not encouraged to participate (like China) can remain outside the negotiation. If those governments that are participating are serious about their commitment, the conclusion is that an agreement will be easier to reach.

Sixth, TPP fits the effort of the U.S. government to push lowering barriers to trade in services. All U.S.-negotiated bilateral and regional free trade agreements have included extensive agreements on trade and investment issues related to services. TPP will be no exception.

Seventh and finally, TPP has somewhat accidently become a vehicle for the Obama administration to engage Japan. Possible inclusion of Japan in the TPP negotiations arose when the prime minister of Japan expressed interest in participating (originally suggested by Prime Minister Kan Naoto, but then pushed formally by Prime Minister Noda Yoshihiko). Even though the Obama administration has officially welcomed Japan's decision to seek admission to the negotiations, the reality is that Japan's involvement remains somewhat problematical. Japan expressed interest in a bilateral free trade agreement with the United States in the late 1980s, but ever since that time, the U.S. government has been reluctant to pursue such a negotiation with Japan out of concern that the Japanese government is not ready to open up as much as would be necessary to create a successful agreement. Those concerns arose out of the years of difficult negotiations on a myriad of different trade issues related to opening Japanese markets from the 1960s to the mid-1990s. TPP, therefore, represents the first time in fifteen years that the United States would have to confront the problem of Japanese trade barriers and the reluctance of the Japanese government to take major steps to reduce them. Parts of agriculture (principally rice) are the most obvious examples of remaining barriers, but a variety of service industries (ranging from finance to provision of healthcare) and manufactured products also retain significant import barriers. Much depends, therefore, on the attitude of the U.S. government on the question of trade negotiations. If the decision is that after a virtual hiatus of fifteen years the time has come to once again deal with Japan's trade barriers, TPP offers a useful format to do so. The presence of other governments in the negotiation to mount pressure on Japan to make substantial offers in the negotiations helps to take some of the burden off the U.S. government. Furthermore, should negotiations with Japan in the context of TPP be successful, the economic importance of TPP would be greatly enhanced by the inclusion of two rather than just one large country. Japan's presence would also enhance the strategic importance of TPP, since Japan would be the big participant other than China in either an ASEAN+3 or China-Japan-Korea trade group.

CONCLUSION

Three decades ago, American trade policy was firmly rooted in a global approach centered on the GATT. Somewhat reluctantly, American policy shifted, as did that of most other countries around the world. While the Doha Round continues to be stalemated, the U.S. government has negotiated a number of bilateral and regional agreements. TPP now provides an opportunity to continue in that direction. This chapter has argued that TPP fits logically into the evolution of American foreign policy way in several ways.

First, the initial opposition to bilateral and regional agreements due to the dominance of theoretical support for the most-favored-nation principle of the GATT faded over time. For more than two decades, the U.S. government has pursued bilateral and regional free trade agreements. TPP is simply the latest initiative in this approach, especially given the continued stalemate on the WTO's Doha Round of global negotiations.

Second, TPP fits in the evolution of American strategic policy toward East Asia. Since the late 1980s, the U.S. government has embraced economic policy engagement with East Asia as a means of fending off narrower East Asian-only groupings that would be detrimental to American strategic and economic interests in the region. Initially the concern was a grouping that would include Japan, since Japanese firms were major global competitors to American firms. Japan pulling away from the United States economically to join an East Asia group would have been detrimental to American interests. Concern over Japan has faded, only to be replaced by concerns over China. Given both Chinese moves to pull the region toward itself economically through possible new regional or sub-regional trade blocs, plus China's more aggressive foreign policy stance in the region, TPP provides an opportunity to strengthen American involvement in East Asia.

Third, pursuit of trade negotiations (bilateral or regional) with East Asian partners fits with the strengthening resolve to address access issues affecting internationally competitive American service-sector industries. Given the global competitiveness of these firms, TPP would provide an opportunity for them to become more deeply embedded in East Asian markets, mainly through direct investment. That deepening has both economic benefits—for American firms and the economies of the host countries—and the strategic impact of increasing the visible presence of linkages to the United States.

For all these reasons, the U.S. government is likely to pursue the TPP negotiations with considerable effort. Whether TPP will serve as a stepping-stone toward an FTAAP, or simply a counter to either ASEAN+3 or China-Korea-Japan, a successful conclusion to the TPP negotiations would bring economic and strategic benefits.

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ASIA AT A TIPPING POINT: KOREA, THE RISE OF CHINA, AND THE IMPACT OF LEADERSHIP TRANSITIONS

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