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469A Bukit Timah Road
#07-01, Tower Block, Singapore 259770
Tel: 6516 6179 / 6516 4239
Fax: 6776 7505 / 6314 5447
Email: isassecc@nus.edu.sg
Website: www.isas.nus.edu.sg



Asia and Obama's New Trade Initiative

Shahid Javed Burki¹

Abstract

The United States, under President Barack Obama, has taken the initiative to revive an old idea: to create a free trade area encompassing the European Union and the United States. According to the timeline accepted on both sides of the Atlantic, negotiations aimed at creating such a bloc will begin in late-spring of this year and conclude in two years. José Manuel Barroso, President of the European Commission, described this effort as a “game-changer”. This will unite two trading partners that account for nearly half of the world economic output and 30 per cent of world trade. The stock of shared investment adds up to \$3.5 trillion. “Together, we will form the largest trade zone in the world...It is a boost to our economies that does not cost a cent of taxpayer money,” he said.² If the returns on the creation of the trading bloc are so large and the cost so little, why has this idea taken so long to mature? If such a trading bloc does emerge how will it impact Asia? This paper attempts to answer these two questions.

¹ Mr Shahid Javed Burki is Visiting Senior Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at sjburki@yahoo.com. The views expressed in this paper are those of the author and do not necessarily reflect those of ISAS. During a professional career spanning over half a century, Mr Burki has held a number of senior positions in Pakistan and at the World Bank. He was the Director of China Operations at the World Bank from 1987 to 1994 and the Vice President of Latin America and the Caribbean Region at the World Bank from 1994 to 1999. On leave of absence from the Bank he was Pakistan's Finance Minister, 1996-97.

² Quoted in Joshua Chaffin and James Politi, “US and EU set deadline of ‘game-changing’ trade pact”, *Financial Times*, 14 February, 2013, p. 1.

Introduction

One sentence in President Barack Obama's State of the Union address on 12 February 2013 took almost 20 years to write. In a speech that lasted more than an hour, a minute or two were devoted to the hope that the European Union and the United States would finally agree to a broad trade agreement that would remove some of the hurdles that remained. "And tonight, I'm announcing that we will launch talks on a comprehensive Transatlantic Trade and Investment Partnership with the European Union – because trade that is fair and free across the Atlantic supports millions of good-paying American jobs", said the US President.³ Those in the administration who worked on the speech told the press that the sentence was a last-minute insert, put there after a working group of the European Union and the United States sent recommendations to Washington on the morning of the day the speech was delivered. The working group's report also provided some indication of the economic benefits that would result if an agreement were reached. It could add about 0.5 per cent to national income on either side of the Atlantic. This would double the rate of growth expected in Europe in the next five years and substantially increase that of the United States.

Why Now?

There are two reasons why the idea of a comprehensive trade deal between the United States and the European Union began finally to attract the attention of the policymakers on both sides of the Atlantic. The first was the rising prominence of Asia in the global economy. It did not escape the notice of Washington and Brussels that trade was by far the most important driver of economic growth in Asia. This was not the case only in East Asia but was also true for India which was now witnessing an expansion in its international trade much faster than the rate of growth in its GDP. The Asians had adopted an incremental approach, starting first with the Association of Southeast Asian Nations (ASEAN) and then adding more countries to that bloc of nations. They were initially prompted by the United States to come together for security reasons. The ASEAN was meant to contain the Chinese influence in Southeast Asia. There is some irony in the fact that China, although not an ASEAN member, is now part of the expanding ASEAN arrangement. There are now various "ASEAN-plus" arrangements that are likely to converge into a large free trade area.

Asia had been at work diligently to create a free-trade area that might encompass the entire continent. But political differences such as those among the South Asian nations stand in the way of creating a pan-Asian trading bloc. There is no effort at the moment aimed at bringing the ASEAN and SAFTA (or, South Asian) arrangements together into a large and comprehensive arrangement. The second reason for the revival of hope in creating a large trans-Atlantic trading bloc was the sluggishness of the economies on both sides of the ocean.

³ www.whitehouse.gov/the-press-office, 13 February 2013.

As indicated above, significant increases can be expected in the national products of both Europe and the United States as a result of a trans-Atlantic trading bloc.

Likely Consequences for Asia

President Obama has been working on creating a larger trans-Pacific trade group. Before getting to the sentence in his State of the Union address quoted above, he referred to another effort in which his administration is involved. “To boost American exports, support American jobs and level the playing field in the growing markets of Asia, we intend to complete negotiations on a Trans-Pacific Partnership”, he told his audience.⁴ This attempt is to create a large bloc of the nations on either side of the Pacific. However China is excluded from TPP. It appears that America’s strategy is to box China in from both sides in order to compel it to play on a level field. Western policymakers believe that if Beijing were confronted with trade and market access issues it may be less inclined to throw its military weight around.

The idea of a trade pact with Europe that would go beyond the lowering of tariffs was raised first by President Bill Clinton after the North American Free Trade Area deal that squeaked through the US Senate by just one vote. President Clinton had to work hard to overcome the opposition of the labour unions in his country who feared that jobs would be lost to the low-wage Mexican economy. In the case of TPP, there are no such fears since all the economies that will be involved in this deal are high-wage ones.

The benefits from a free trade area that stretches across the Atlantic will come from both the lowered tariffs and rationalised regulatory systems. Tariffs now average about three per cent but the volume of trade between Europe and the United States totalled \$646 billion of merchandise in 2012. For a flow as large as this even a three per cent decline will produce considerable benefits. Potentially more important than reducing tariffs to zero – the central aim of all regional arrangements – would be an agreement to harmonise regulations on products like food, cars, toys and pharmaceuticals. According to the German Association of the Automobile Industry, “harmonising safety features would save several hundred dollars per automobile”.

There is considerable enthusiasm in both Europe and the United States about concluding a comprehensive deal. According to Karel De Gucht, the European Commissioner for Trade, the deal “will have a worldwide impact”.⁵ As the *Financial Times* wrote in an editorial following the speech by the American President, “even as it becomes commonplace to think the future belongs to the emerging world, the old economic powers can still pack a punch. The ambitious decision by the US and the EU to launch trade liberalisation talks promises a prize whose political value is even greater than its considerable economic benefits”. One important political consequence will be the message it will send to Asia’s rising economic

⁴ *Ibid.*

⁵ Nicholas Kulish and Jackie Calmes, “Obama bid for trade pact with Europe stirs hope”, *The New York Times*, 14 February, 2013, pp. A1 and A14.

powers. “The message – that the West remains a pole of attraction able to set terms for global economic interaction – will not be missed, least of all by China already feeling excluded from the Trans-Pacific Partnership, the US’s other less promising big trade project”.⁶ As one analyst suggests, the emphasis on forging a trade alliance among the world’s older economies is not simply because the economic rewards will be impressive. “The advanced nations are losing ground to the rising states. The flow of power to the East and the South puts a question-mark over the relevance of the West”. The challenge the West faces is not just economic. “The economics are a means to an end. The reward is the advance of the liberal political order that has recently seemed to be on the retreat”.⁷

Difficulties at Stake

The aim is to have the agreement negotiated within two years, before the expiry of the term of the current European Commission. The reason why it will take time to work out the deal is that some of the likely resistance of strong vested interests on both sides of the Atlantic will have to be overcome. Several of these are deeply entrenched in the culture and politics of the two continents. The European farming community would not like to see its sector exposed to the more competitive agriculture system in the United States. The Europeans are also deeply concerned about the possible health effects of genetically modified crops common in the United States. Both sides have their own systems of drug and health appliances’ certification. Various environmental regulations will also need to be harmonised.

There is, in other words, a great deal of work to be done. But the incentive is there. The proposed work with the European Union is a major move by the United States aimed in part to counter the growing influence of Asia on the global economy.

Conclusion

What we are witnessing at this time is a retreat from a multilateral trading order into the one that will have three major associations among nations, each setting its rules. As economic power and dynamism moves to the “rest”, the older economies that dominated the world for more than two centuries are fighting back by defining their terms for the conduct of trade among nations. Not only that, they will try and impose their own way of producing goods and marketing services to all parts of the globe. Ideally this should have been done in the context of a multilateral system. This was the reason why the Doha round of negotiations was launched almost a decade ago. That did not go anywhere since for the first time in multilateral trade discussions, the Asian economies asserted themselves. They tried hard to free up trade in products and services in which they had a clear advantage over the older

⁶ *Financial Times*, editorial, “A challenge worthy of US and Europe”, 14 February, 2013, p. 8.

⁷ Philip Stevens, “Transatlantic free trade promises a bigger prize”, *Financial Times*, 15 February, 2013, p. 11.

economies. This was not acceptable to the latter group of countries. They are responding by creating their own trading blocs from which the larger Asian economies will be excluded.

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