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## TPP: An Agreement to Bridge the United States with ASEAN and Asia

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**Sanchita Basu Das**, Lead Researcher for Economic Affairs at the ASEAN Studies Center, ISEAS, Singapore, explains that “Without a TPP agreement, it is highly unlikely that US trade accords with major partners in Asia can be successfully concluded and enacted upon anytime soon.”

After already missing the deadline twice to conclude the Trans-Pacific Partnership (TPP) negotiations, the trade ministers of the twelve member negotiating economies met once again in Singapore in May 2014, pledging to “intensify engagement” and confirming a series of meetings in the months ahead to resolve outstanding issues. One is for the US administration to secure the Trade Promotion Authority (TPA), a “fast track” procedure that pre-commits the US Congress to vote upon legislation without amendment and within a specified time frame. Partner countries in the TTP negotiations are worried that absent TPA authority any finalized TPP agreement could face numerous roadblocks from Congress, especially on issues like intellectual property rights, and labor and environmental standards. A case in point is the US-Korea free trade agreement (FTA) known as KORUS, which had to be renegotiated to satisfy demands from Congress.

It should be noted however that for the United States TPP is a key foreign policy tool for future engagement with the Association of Southeast Asian Nations (ASEAN), the central hub for many FTAs in Asia. Although seven ASEAN economies and the United States already extend preferential treatment to each other through Asia Pacific Economic Council (APEC), that forum remains non-binding in nature, and having 21 member economies makes it difficult to attain consensus on contentious issues. In contrast, TPP is structured to be a binding agreement that will benefit the United States in both trade and foreign policy matters. This concerns not only those ASEAN member countries currently partaking in the negotiations, but also with ASEAN as a whole.

Indeed, the four economies of ASEAN that are currently negotiating the TPP agreement are at different stages of economic development. Vietnam, for example, is predicted to double its middle class to more than 30 million by 2020, and per capita income is expected to increase from almost \$1,800 in 2012 to \$3,000 by 2020. The country has been growing at an average annual rate of 7 percent since the early 1990s and complied with the rules of the world trading system after gaining membership to the World Trade Organization (WTO) in 2007. This has caught the attention of many investors, including American franchises Kentucky Fried Chicken, Coca Cola, Starbucks, Pizza Hut, Burger King, McDonalds, Procter & Gamble, Unocal, Conoco and Intel. All now have a presence in Vietnam, either directly or through their affiliates.

Likewise, Malaysia continues with its ambition of attaining developed-nation status by 2020. Its target of hitting \$15,000 per capita gross national income is calculated to be achievable through attracting over \$440 billion in overseas investment. The government is aiming not only to create 3.3 million new jobs but also increase private spending in healthcare, transportation, education, housing, consumer and luxury goods, and infrastructure.

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Finally, one cannot ignore the smaller, but wealthier, economies of Singapore and Brunei. Both have first world per capita GDPs at more than \$40,000. Brunei is the third-largest oil producer in Southeast Asia, with output averaging 180,000 barrels per day and it is also the fourth-largest producer of liquefied natural gas in the world. Major US banks, including Bank of America and Citigroup, have had substantial and lucrative operations in Brunei for more than three decades.

Singapore has established itself as the preferred destination for global businesses to headquarter their Asian operations. The city-state has a network of “avoidance of double taxation treaties” with more than 70 countries and is strategically located at the crossroads of the main trade and shipping routes of the world, including the major sea route between China and India. With first world infrastructure, travel to any ASEAN economy is only a short flight away. The country also has a sound intellectual property protection regime and trusted legal system. As a result, US-based firms are increasingly keen about investing in Singapore in a number of varied sectors, ranging from manufacturing to services industries, and the financial services sector.

The United States, in bringing together these four Southeast Asian economies under TPP, is well placed to strengthen its linkages with ASEAN. These four have the potential to become a gateway into ASEAN for US companies. Encompassing ten member states, ASEAN is one of the most diverse and rapidly growing regions in the world. It has a consumer base of 626 million with a combined GDP of almost \$2.5 trillion, and is also the third largest economy in Asia, and the seventh largest in the world. According to McKinsey, ASEAN is on track to be the fourth largest economy in the world by 2050. Its current 67 million middle class households are expected to increase to 125 million by 2025. Although intra-regional trade in ASEAN is half that of North America under NAFTA, it is likely to deepen significantly once the ASEAN Economic Community is in place to deliver on free movement of goods, services, investment, labor and capital.

ASEAN hosts 227 global companies which have more than \$1 billion in revenue creation or three percent of world’s total revenue. As highlighted in the East-West Center’s *ASEAN Matters for America/America Matters for ASEAN* publication, ASEAN countries, taken together, rank fourth after Canada, Mexico and China as a goods export market for the United States and America is the third largest trading partner for ASEAN. The total value of US-ASEAN bilateral trade has increased 71 percent since 2001—from \$137 billion—to \$234 billion in 2012.

Indeed, the United States has high stakes in the TPP agreement. For the past ten years, while America was occupied with wars in Iraq and Afghanistan, there have been significant developments in Asia: China and India’s economics have been continuing to grow, the smaller countries of ASEAN have been emerging as important economic hubs, countries have been easing trade and investment restrictions to support the regional production network, and China has been enlarging its military power. In encouraging political and economic activities in Asia, the TPP is definitely a key component in the US “pivot” or “rebalancing” strategy towards Asia. The US presence in the region through TPP is reassuring for ASEAN nations, and also a potential platform for economic integration across the Asia-Pacific region. This last factor of economic integration across the Asia-Pacific is in turn expected to increase US exports and investment in the region, which are critical for the creation and retention of jobs in the United States.

Despite the TPP being a potential win-win scenario for all, only time will tell how the US Congress will vote on this matter. Without a TPP agreement though, it is highly unlikely that US trade accords with major partners in Asia can be successfully concluded and enacted upon anytime soon.

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