

USINDO Economy, Trade, and Business Open Forum Series

**Washington Political Perspectives
on the Trans-Pacific Partnership (TPP):
Day Dream or the Next Big Thing?**



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On April 16, 2013, USINDO hosted an Open Forum with Prof. Gary Clyde Hufbauer, Reginald Jones Senior Fellow at the Peterson Institute for International Economics, and Mr. James Carouso, Counselor for Economic Affairs at the U.S. Embassy in Jakarta. The purpose of this forum was to discuss Washington's political perspective of the Trans-Pacific Partnership (TPP). Dr. Arifin M. Siregar, USINDO Indonesia Co-Chair and former Indonesian Ambassador to the United States, moderated the discussion.

Prof. Gary Clyde Hufbauer's slide presentation can be viewed [here](#).

Summary of Prof. Hufbauer's Key Remarks

Prof. Hufbauer talked about U.S. attitudes towards the TPP negotiations. Many Americans, in recent years, have become skeptical about globalization, he said. They do not see it as a force for economic equality and prosperity. Rather they blame globalization for America's high unemployment rate and economic inequality. But according to economists, technological advances are responsible for the U.S.'s economic plateau, not globalization. Cutting off trade links, the economists believe, will cause more economic uncertainty—not less.

The TPP faces other obstacles, Prof. Hufbauer noted. The Obama administration does not have Trade Promotion Authority (TPA). In fact, the legislature does, according to the U.S. Constitution. Usually, Congress gives the president's administration the authority to negotiate on its behalf.

However, President Obama has not received TPA. Obama, so far, has been reluctant to select a trade representative—who is needed to get TPA status from Congress—because he wants to avoid a fight with Congress, which has to approve his nominee. Rather, Obama and his administration have tried to get trade concessions from other countries first. Once Obama gets those concessions, he will try to get the TPA from Congress.

Prof. Hufbauer said another problem is “sacred cows” or protected markets and goods. The sugar industry, for example, is a “sacred cow.” Since the 1930s, the U.S. government has protected sugar producers. Even today that government protection continues. The dairy industry also is a “sacred cow.” Each U.S. state has a milk-watershed system. Many milk farmers and producers worry that if the milk market is liberalized the system—which their livelihoods depend on—will collapse. Other “sacred cows” include the oil and gas industry, the maritime industry, textiles and apparel, H-1 B and L visas, and government procurement contracts.

Recently, Japan decided to participate in the TPP negotiations. That will have a huge impact, according to Prof. Hufbauer. Previously, the U.S. was negotiating with smaller countries. But with Japan's entry, the world's third-largest economy becomes involved. Japan, like the U.S., has many trade barriers. Japan's service

industry, in particular, is protected. Many U.S. firms hope the TPP reduces service-sector barriers, so they can compete in the Japanese market.

Also, Japan loosened its monetary policy, reducing the value of the yen from ¥80 to ¥100 per U.S. dollar. As a result, negotiators may want to include a passage, preventing excessive currency devaluation, in the TPP agreement. While Prof. Hufbauer said that such a passage would be beneficial, it would make an agreement harder to reach, possibly pushing back the TPP Agreement until 2015.

Some economists, Prof. Hufbauer said, believe that the TPP is part of a strategy to contain China. But it is more likely a strategy to strengthen U.S. economic and diplomatic ties with other Asian countries. China's President Xi Jinping should not see the TPP as a threat. Rather, Prof. Hufbauer said that China's president should view the TPP as an opportunity to develop trade ties with other countries.

Summary of Mr. James Carouso's Key Remarks.

The TPP, Mr. Carouso said, will address a broad range of topics, including tariffs, supply chain connectivity, and state-owned enterprises. Many multi-national companies are excited. The TPP, they believe, will address many of their concerns and open up new markets for their goods.

Many countries, at various stages of development, are participating in the TPP negotiations. That is, according to James Carouso, a positive sign. It shows that more and more countries recognize the benefits of free trade.

The TPP, despite what some outside observers may think, is not a U.S.-led effort. In fact, Chile, New Zealand and other countries initiated it. Only later did the U.S. want to join.

TPP is not an exclusive agreement. All Asia Pacific countries can join, including China and Indonesia, Mr. Carouso concluded.

Question and Answer Session

Q: In February 2013, the U.S. trade imbalance reached US\$ -43.6 billion. Meanwhile, between 1984 and 2003, total productivity only grew 0.74% in the U.S. In Indonesia, total productivity actually declined 5.65%. How would Indonesia benefit from joining the TPP? Would Indonesia have access to technological innovations? And would the TPP help to reduce poverty in Indonesia?

Prof. Hufbauer: I do not believe that trade imbalances hurt the U.S. economy. Rather import competition, like export competition, spurs economic growth. U.S. policymakers cannot focus on trade imbalances. By doing so, innovation and

productivity will not improve. I'm a believer in competition. More is better; it spurs economic growth and innovation.

Whether it is good or bad for Indonesia to join the TPP negotiations, I cannot say. That is for Indonesia to decide.

Q: How does the TPP differ from ASEAN, APEC, and the East Asia Summit, regarding free trade negotiations in the Asia Pacific? What criticism has the TPP drawn from governments and advocacy groups? What clauses in the TPP have caused controversy?

Prof. Hufbauer: I think the TPP is more ambitious than ASEAN. The TPP will go further towards liberalizing both trade and investment. Also, TPP negotiations aim for zero tariffs, opening countries' service industries to outside competition, and lessening the power of state-owned enterprises.

The most contentious clause regards intellectual property. Clauses focused on the environment also will cause debate.

Mr. Carouso: The TPP is not the usual exclusive free trade agreement. The U.S., I hope, will stop protecting its "sacred cows." Regarding individual clauses and how contentious they are, I do not know. The clauses are not public information.

Q: I work in the textiles industry, and we have to compete with Vietnam. The Indonesian government, it seems, is not very interested in the TPP negotiations. What or who can encourage the Indonesian government to show more interest in the negotiations?

Amb. Arifin: Indonesia already has been involved in a number of free-trade deals, including the ASEAN-China Free Trade Area (ACTFA). But many Indonesian businessmen do not support Indonesia's involvement in the TPP. Indonesia's economy, they complain, is not competitive, particularly after the 1997-1998 Asian Financial Crisis. Indonesia's infrastructure, logistics and interest rates make manufacturing in Indonesia more expensive. The government must improve the investment climate in Indonesia, so the cost of manufacturing is not so high.

However, we are not against free trade in Indonesia. We just have to be realistic. Many companies would rather import a Chinese-made product than produce it themselves, so many economists and businessmen want the government to think carefully about joining another free trade association.

Mr. Carouso: I do not want to tell the Indonesian government what to do. But the government must realize that times have changed. Indonesia has a US\$ 8 billion trade surplus with the U.S, and it is almost out of the developing-country category. Trade patterns are changing, and Indonesia must be ready.

Prof. Hufbauer: If you want to get the government's attention, you should start lobbying. You can bring your issue directly to government officials, rather than waiting for them to investigate the matter. To compete with Vietnam, you must be more productive and produce higher-quality goods. You cannot compete with their low wages.

Q: Recently, Indonesia's government unveiled a policy to protect Indonesian agriculture. But it will hamper trade and competition. What is the future of free trade and investment in Indonesia?

Prof. Hufbauer: Indonesia, it seems to me, has become more nationalistic. The government wants farmers to export more high-value fruits and vegetables. However, it may not trust market mechanisms, and as a result the government may impose protective barriers.

Amb. Arifin: The government must study the trade agreement and its possible effects on the Indonesian economy. The cost of production in Indonesia is much higher than in neighboring countries, such as Malaysia. And the cost of transporting goods between Indonesia's islands is very expensive. For instance, transporting oranges to Jakarta from China is cheaper than from Kalimantan.

The government has done nothing to help the situation. Infrastructure and electricity are worse than before. So if the government does not do its homework on the agreement and its effects, the business community will suffer.

Q: My company—Sinar Mas and our subsidiary Asia Pulp & Paper—is investing in firms that sustainably produce pulp and paper. However, the U.S. still criticizes our industry, even though U.S. firms damage the environment as well. Why is the U.S. so critical about environmental issues in Asia?

Mr. Carouso: Environmental concerns are important in the TPP negotiations. And to be frank: Asia Pulp & Paper is a very controversial company. Many people, including those from NGOs and foreign governments, criticize your practices. I believe progress is being made, but the critics do not see it.

Prof. Hufbauer: Today's trade negotiations look at PPM (Production Process Method). Previously, negotiations focused on the product, not the method of production. That era is over. Now each country can examine other countries' production systems, including labor practices and environmental impacts. The TPP, I hope, looks at individual companies, not just national industries.

Q: How does the TPP affect tax regimes?

Prof. Hufbauer: I think the tax regime issue is not part of the current TPP negotiations. However, in 10 years, it will be a legitimate topic of negotiation.

Q: What will happen if the negotiations finish but the U.S. administration still does not have TPA?

Prof. Hufbauer: I think if the negotiation succeeds, it will be an “evergreen” agreement (which is a contract that automatically renews). There will be new members in the Asia-Pacific, such as Colombia and maybe Indonesia.

Q: What do you think is the future of the WTO, which has been deadlocked since 2002-2003? How will the TPP affect the future of APEC?

Prof. Hufbauer: APEC and TPP are both stepping stones, leading to more free trade in the region.

When the WTO meets in Bali, I think there will be a breakthrough. Indeed, for the WTO, there has to be. If no agreement is reached, the WTO will no longer be a negotiating body. It will become, rather, a source for research and information and a forum for settling trade and commercial disputes.