

## **Will the U.S. Remain the Essential Country in the Asia Pacific?"**

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Much has been said in recent months about free trade and the damage that trade deals have inflicted on the US economy. To contextualise these arguments, it is important to reflect on three key points that help define and enunciate the role of free trade in the US economy.

1. The first point concerns the distribution of the benefits and costs of free trade. It is self-evident that the benefits of free trade are significant and they outweigh the costs. While the benefits land on us all and have broad effects in the economy, at the individual level those benefits appear small. On the other hand, the costs of free trade significantly impact on narrow parts of the economy. Broad, but seemingly small benefits; narrow, but deep costs.

It is unusual to see people protesting on the streets to leap to the defence of cheaper food and clothing, but when steel plants close you see worker protests and deep seated community unease.

As political, business and community leaders we need to recognise that reality and that is why adjustment assistance is important and also why, in the long run, a high quality education system is so important.

2. The second point relates to the so-called "China Shock". The first thing to note is that the United States does not have a free trade agreement with China. The entry of China into the world trading system occurred in 2001 when the world agreed that it could join the World Trade Organisation. The rise of China as a global manufacturing power took off when it entered the world trading system and subscribed to the most basic of international trade rules. The WTO members could have vetoed China's membership, but the outcome in terms of global geopolitical and economic security would have been unthinkable.

Some contend that the manufacturing jobs lost in the developed world, including the United States, have been due to China's rise. However it is arguable that the "Technology Shock" has had a much bigger impact than the "China Shock" in terms of destroying manufacturing jobs.

In 1996 The Weyerhaeuser Company took me to visit two timber plants: one in Oregon and the other in Washington. The Oregon facility had 30 staff and utilised scanning technology, laser reading and automatic equipment. The Washington facility employed 600 workers using older technology. The Oregon plant produced twice as much product as the Washington plant.

Despite what you read or hear on cable news channels, in the last five years, manufacturing jobs have been increasing in relatively high cost economies like New Zealand and the United States. But they are jobs in manufacturing plants full of robots and automated processes employing far fewer, more productive, more highly skilled employees.

Since 1998, the number of jobs supported by exports in the United States has increased by 15% from 10.2 million jobs to 11.7 million jobs in 2014. But the number of jobs per one billion dollars of export has fallen by 50 percent, implying an increase in export prices and labour productivity

3. The third and final point is that there is free trade that is unfair and there is free trade that is fair.

The TPP is a fair agreement and it is the most advanced agreement negotiated in world trade history because it contains rules that ensure a level playing field for competition and the requirements for the rule of law.

For example, the TPP addresses the impact of state owned enterprises and curbs the kinds of behaviours that lead to dumping. It addresses the causes of the problem, not the symptom which is product dumping. The cause is often state-led, state-subsidised, or state-funded production in industries.

The TPP agreement sets out disciplines aimed at ensuring a level playing field between state owned or controlled companies and private competitors. Providing non-commercial assistance to a state owned or controlled enterprise that has adverse effects on TPP member countries is not allowed under TPP.

For all the criticism of free trade, ultimately the removal of trade barriers is about competition. If you are an economist or a businessperson you know it is competition which makes you strong. It is competition that makes you innovative and more adaptive.

Competitors seek out value for customers that no-one ever knew existed. Competition is the engine room of growth and wealth creation in our societies. Ultimately it is competition which delivers job security. We need to protect and grow competition, and at the same time we must also protect the people that suffer from the effects of a changing economy.

It is internal competition that is driving the greatest amount of economic upheaval in the United States today. It is the young Carnegie Mellon robotics engineer fresh out of college who is upending the economics of manufacturing. That internal competition is what has made the United States the greatest economy in history. It is what has made America great.

## **About the TPP**

The TPP had its seeds in 2001 when two small countries – Singapore and New Zealand – agreed to a free trade strategic partnership called the New Zealand / Singapore Closer Economic Partnership

It was a remarkable agreement because its focus was much broader than normal trade agreements at the time. The agreement included chapters covering intellectual property protection, environmental protection, labor standards, human trafficking and the free movement of data.

Our two countries didn't need those chapters for our own bilateral trade in goods and services, but it was our aim to develop an agreement that would be the gold standard for agreements in the 21<sup>st</sup> century – a free trade agreement based on the rule of law and principles of fairness.

In 2006, the New Zealand / Singapore Closer Economic Partnership gave way to the “Pacific Four” or P4 Agreement. In fact, it was officially called the Trans-Pacific Strategic Economic Partnership to reflect its regional ambition.

The “Pacific Four” linked Asia and the Americas together for the first time in a regional trade agreement through the addition of Chile and Brunei.

In 2008, the United States Trade Representative, Susan Schwab opened discussions with the P4 about the United States joining. From that moment onwards it has been US leadership and a US dominated TPP agreement. With US interest, Australia, Malaysia, and Peru joined, and then Canada and Mexico came on board, followed finally by Japan.

The strategy of developing a comprehensive, 21<sup>st</sup> century, goods and services, rule of law agreement had achieved two of New Zealand's goals. The first was a free trade agreement with the United States, and the second goal was a regional trade agreement backed by the United States.

The second goal was crucial because as China, South Asian and South East Asian economies rise, small countries, like New Zealand, depend on a rules-based framework for trade. And in this regard, the United States is the essential nation.

After the Second World War, the United States led the creation of a financial and trading framework which has supported the peaceful rise of economies in the Asia Pacific and across the world. At least the ones prepared to be part of the global system.

The US Navy has provided the security in the sea lanes which has guaranteed trade throughout the Pacific, the Indian Ocean and the Atlantic.

However, since the rules were created at the end of the Second World War the world has changed. Trade has changed.

We need new rules that protect the kinds of trade that until recently were never envisaged before like the flow of data across borders. Likewise we need rules for trade that create fairness, a level playing field, and minimum standards for labor, the environment and rules that stop human trafficking.

We need rules that are backed up by courts so that the rule of law prevails across all these fields and to protect intellectual property and investment across borders.

In the Asia Pacific US power was instrumental in establishing the new order after the Second World War. At the beginning of the new century that trading system must be refreshed and the US is essential for it to happen.

Here is how the TPP does that. To illustrate this point I will not cover the reductions in tariffs that countries are committing to. Instead I will focus on what makes the TPP unique.

The TPP is the first major trade agreement that protects the interests of workers. To be a member country of TPP you must allow workers to form a union and for that union to be established with or without the permission of the government. Think about what that means in terms of the freedom of association and individual freedom.

The TPP is the first major trade agreement that protects the flow of data across borders. Think about what that means for Facebook, Google, Uber but also all companies undertaking electronic delivering to customers around the globe. Governments cannot stop or censor that data. With freedom of data comes freedom of ideas.

The TPP is the first major trade agreement that requires the companies of member countries to not sacrifice their environments to gain an unfair trade advantage, as well as requiring them to commit to not trade in endangered species listed under the CITES agreement.

The TPP is the first major trade agreement that requires countries to harmonise intellectual property standards to increase protection. Copyright protection is increased across all countries from 50 years to 70. Patents gain additional protection if examination periods exceed certain periods. Likewise new rules for biologic pharmaceuticals will be introduced to harmonise patent protection. The TPP also includes rules on geographic indications which are practical.

The TPP is designed to protect labor, to protect the environment, to protect data freedom, to protect investment, and to protect intellectual property.

The region needs TPP. No other trade agreement will deliver these standards in a rule of law system and without the United States it cannot be achieved. Without the United States regional trade negotiations will remain focused on “old-fashioned” tariff reductions and the opportunity to refresh the trading system in the Asia Pacific will be missed.

Japan, Australia, New Zealand and all other ASEAN countries continue negotiating free trade agreements, particularly with China in the Regional Comprehensive Economic Partnership (RCEP). We need to continue to trade in the region and we will.

If RCEP becomes the bedrock agreement for our region we jeopardise the chance of creating a 21<sup>st</sup> century trading platform for the Asia Pacific. And the US is not part of RCEP. This is why the United States is the essential country and why the United States needs to lead in our region.