

EXECUTIVE SUMMARY

THE RECENT U.S. WITHDRAWAL FROM THE TRANS-PACIFIC PARTNERSHIP (TPP) SHOOK THE ASIA-PACIFIC REGION. It has prompted governments and stakeholders across the region to question why the United States walked away from an agreement offering substantial economic and strategic benefits. But it was not entirely unexpected. Indeed, the U.S. presidential election illuminated widespread skepticism about the benefits of trade agreements, as well as a broader backlash against trade and globalization—perceived causes of job losses, stagnant wages, and income inequalities. Meanwhile, global growth remains slow and uneven—both between and within countries. According to the International Monetary Fund, the global economy is projected to grow only 3.4 percent this year, with growth having stagnated in recent years. Similarly, according to the World Trade Organization (WTO), global trade is slowing, growing only by 1.7 percent in 2016, down from 2.7 percent in 2015.

Nevertheless, the Asia-Pacific is a bright spot amid global uncertainty and tepid growth. In 2016, nine of the fifteen fastest-growing economies were in this region.³ Historically, trade has been one of the strongest contributors to growth and stability, particularly in Asia. The number of trade agreements

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in the Asia-Pacific has quadrupled since 2000, which has enabled these countries to grow their economies, introduce much-needed reforms, and provide better livelihoods for their citizens.⁴ Meanwhile, key economic, technological, and institutional developments are rapidly changing the very nature of trade and investment. The emergence of global value chains (GVCs), the increasing importance of services in trade, the growth of digital commerce, the link between trade and foreign direct investment, and the rise of small and medium-sized enterprises' (SMEs) engagement in the global economy are creating new economic opportunities for businesses of all sizes.

With the TPP's future uncertain as a result of the withdrawal of the United States, its largest member, and with the Regional Comprehensive Economic Partnership (RCEP) negotiations entering their fifth year, Asia's trade landscape is at a critical juncture.

TRADE POLICY COMMISSION FINDINGS AND RECOMMENDATIONS

The Case for Regional Trade Agreements

In evaluating the trade and investment trends and prospects in the region and around the world, the Commission Members arrived at a central finding: regional trade agreements offer the best path forward to liberalize trade, raise standards, and promote broad reforms. Regional agreements allow countries to simultaneously tap into a number of markets at scales often unattainable through bilateral deals. Moreover, regional agreements lend themselves to greater utilization. Having the same standards and rules for all participating countries reduces confusion and encourages businesses, especially SMEs, to take advantage of the benefits of these agreements. Further, regional trade deals, with the advent of GVCs, better reflect the way business is actually conducted. In addition, regional agreements allow more countries to be on the same page regarding complex and emerging issues, such as data flows.

Recognizing that bilateral trade agreements will remain an important feature in the global trading system, the Commission Members urge that all deals, including bilateral agreements, be comprehensive, incorporate high standards, be WTO consistent, and enumerate clear accession provisions to encourage greater regional integration. This finding serves as a central thesis around which the Commission recommends action in four areas.

1. The Commission affirms that policy makers should, in light of the U.S. withdrawal, advance the TPP's high standards in the Asia-Pacific region. As such, the Commission Members:

- Urge the United States to reconsider its position on the TPP, even with possible adjustments;
- Encourage countries to advance the high standards found in the TPP through unilateral reforms, other trade negotiations, and WTO activity; and
- Welcome the potential for TPP countries to bring the agreement into force without the United States, including inviting additional Asian economies to join.

2. The Commission concludes that member countries should work hard to raise RCEP's standards. To accomplish this, the Commission Members:

- Advise RCEP members, in line with RCEP's own principles and objectives, to negotiate a high-quality agreement and not be tempted to adopt the lowest common denominator approach; and
- Recommend RCEP parties seek substantially stronger outcomes, particularly for SMEs.

3. The Commission concludes that countries should pursue complementary opportunities for liberalization in the Asia-Pacific region. Accordingly, the Commission Members:

- Advocate that countries collaboratively intensify multifaceted capacity-building efforts to help developing countries raise standards, to be included in their trade agreements;
- Urge multilateral trade fora to focus their work on emerging trade issues such as digital trade, state-owned enterprises, and GVCs, noting that the Asia-Pacific Economic Cooperation (APEC) is particularly well positioned to do so; and
- Recommend countries that are interested in pursuing regional trade agreements consider establishing a stand-alone SME agreement, based largely on the relevant provisions in the TPP.

4. The Commission affirms that policy makers must rebuild support for trade amid growing skepticism about globalization. To this end, the Commission Members:

- Counsel governments and multilateral bodies such as the Group of 20, WTO, and APEC forum to more effectively communicate the benefits of trade agreements, using concrete terms that are meaningful to the everyday interests and concerns of ordinary people, rather than explaining broad macroeconomic impacts;
- Urge countries to proactively pursue appropriate domestic policies, including robust adjustment assistance, retraining, and education programs—which are too-often viewed as after-thoughts—in parallel with trade agreements; and
- Advocate that multilateral fora serve as hubs for policy makers to exchange ideas and collaboratively generate best practices on how to help those impacted by trade and globalization.

CONCLUSION

In addition to slowing trade worldwide, an emerging rebuke of trade and globalization threatens the potential for growth and liberalization. While trade has been a fundamental driver of global growth, raised standards, and created opportunity—particularly in the Asia-Pacific region—its potential is not yet fully realized. These recommendations encourage countries to promote high standards in trade agreements that go well beyond WTO rules and address emerging issues; build support for trade by tapping into underutilized areas, such as SMEs; and urge multilateral fora to elevate the discussion on requisite domestic policies to help those adversely affected by trade and globalization. As the global landscape changes, so too must trade policy. The Commission Members urge policy makers not to allow today's uncertainties to overshadow tomorrow's opportunities. With global growth lagging and global trade inching along, bold action is needed.