Trans-Pacific Trade and Investment Relations
Region Is Key Driver of Global Economic Growth

Summary

Background
The Asia-Pacific region is a key driver of global economic growth, representing nearly half of the earth's population, one-third of global gross domestic product (GDP) and roughly 50% of international trade. Since 1990, Asia-Pacific goods trade has increased by 300%, while global investment in the region has increased by more than 400%. Two-way U.S. trade in goods with Asian countries totaled more than $1.3 trillion in 2015. The large and growing markets of the Asia-Pacific already are key destinations for U.S. manufactured goods, agricultural products, and services suppliers.

Association of Southeast Asian Nations (ASEAN)
The Association of Southeast Asian Nations (ASEAN) was established in 1967 with the signing of the ASEAN Declaration by Indonesia, Malaysia, Philippines, Singapore and Thailand. Since then, Brunei Darussalam, Vietnam, Lao People's Democratic Republic, Myanmar and Cambodia have joined, making up what is today the 10 member states of ASEAN.

The ASEAN Vision 2020, adopted by the ASEAN leaders on the 30th anniversary of ASEAN, agreed on a shared vision of ASEAN as a concert of Southeast Asian nations.

Asia-Pacific Economic Cooperation (APEC)
The Asia-Pacific Economic Cooperation (APEC) was formed in 1989. It serves as a multilateral forum in which Asian and Pacific economies can solve economic problems, and cooperate in developing key economic sectors.

Collectively, the 21 economies of APEC, which touch the Pacific Ocean, represent a large consumer market—40% of the world's population, half of all world trade and approximately 60% of total GDP (APEC Statistics).

The APEC economies are: Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Republic of the Philippines, Russia, Singapore, Chinese Taipei, Thailand, United States and Vietnam.

In 2015, the U.S. exported $935.7 billion to APEC economies. California exported approximately $112.7 billion to APEC in 2015, 12% of the national total. Of this, 27.7% consisted of computer and electronics ($31.2 billion).

Greater China
According to the U.S. State Department, China has been one of the world's fastest-growing economies over the last several years, and its efforts to reform and modernize have helped transform China into a large trading economy.

U.S.-China trade has risen rapidly over the last several decades. Total trade between the two nations has increased from $4.8 billion in 1980 to slightly more than $598.1 billion in 2015. U.S. exports to China in 2015 were approximately $116.2 billion, a steady increase from previous years.

Hong Kong GDP per capita is comparable to other developed countries. The United States has substantial economic ties with Hong Kong. A report done by the U.S. State Department in February 2016 indicates that there are some 1,400 U.S. firms and approximately 85,000 U.S. residents in Hong Kong. Another 1.2 million people visited Hong Kong last year from the United States. The latest available figures on U.S. direct investment in Hong Kong show investment at about $64 billion, making the United States one of Hong Kong's largest investors.

Trade between the United States and Hong Kong has been increasing in the last few years, with a growth in U.S. exports from $26.6 billion in 2010 to $37.2 billion in 2015. Total trade between the United States and Hong Kong totaled $43.9 billion in 2015, according to the U.S. Department of Commerce.

California exports to Mainland China were $14.4 billion in 2015, making it the state's third largest export destination. California exports to Hong Kong were $8.8 billion. California exports to Taiwan topped $7.8 billion.

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U.S.-Korea Free Trade Agreement

After a year and a half of negotiations, the U.S.-Korea Free Trade Agreement (FTA) was signed on June 30, 2007. The FTA is the biggest free trade pact the United States has reached since it entered into the North American Free Trade Agreement (NAFTA). This comprehensive agreement was approved by the U.S. Congress and Korean government in 2011.

The U.S. International Trade Commission estimates that with full implementation of the U.S.-Korea FTA, U.S. goods exports to Korea will likely increase by $9.7 billion–$10.9 billion, and U.S. imports of goods from Korea will likely increase by $6.4 billion–$6.9 billion, enhancing the already-balanced trade partnership.

Korea is California's sixth largest export destination. In 2015, California exported more than $8.6 billion to Korea. Korea is a significant market for U.S. small and medium-sized companies, which make up a majority of U.S. businesses exporting to Korea.

Korea is a $1.38 trillion economy and is the United States' seventh largest goods export market. Korea's commercial relationship with the United States is largely complementary. In 2015, two-way trade between the two countries totaled nearly $115.3 billion. In 2015, U.S. goods exports to Korea were $43.5 billion.

U.S.-Singapore Agreement

The U.S.-Singapore FTA went into effect in January 2004. Under the agreement, most tariffs were eliminated immediately, with the remaining tariffs phased out over a three- to 10-year period.

A major strategic trading partner of the United States and one of the nation's closest friends, Singapore has one of the most open, well-regulated, safe and secure investment climates in the world. It is consistently rated among the most competitive economies in the world. The FTA is making this remarkably productive relationship even closer. In 2015, the U.S. State Department estimated that approximately 3,600 U.S. companies are established in the country, a large number of which use Singapore as their regional headquarters. Additionally, a large number of Americans live in Singapore.

Since implementation of the U.S.-Singapore FTA in 2004, U.S. exports to the nation have increased. New market opportunities also have been created, including those for pharmaceutical products and organic chemicals, according to the Office of the U.S. Trade Representative.

Singapore is the 12th largest foreign market for California. In 2015, California exported nearly $3.9 billion to Singapore.

The U.S.-Singapore FTA enhances mutual interests in a stable, prosperous ASEAN and East Asia, and will further strengthen the partnerships across the Pacific. With 5.54 million people, Singapore, one of the busiest port cities in the world, already has free trade pacts with New Zealand and Japan, according to the World Bank and the CIA.

The U.S.-Singapore agreement represents the new economy, focusing on removing Singapore restrictions on a wide range of services, including high technology sectors, such as engineering, medical, information technology, environmental, legal, financial, education and distribution. Investment in Singapore can strengthen the region as an integrated production space and help anchor U.S. leadership in the global manufacturing operations of Southeast Asia.

With the bilateral relationship, the United States and Singapore can put in place systems and procedures to ensure that only legitimate goods can claim preferential treatment under the FTA. The exchange of information will be increased so that both sides can use risk management techniques to block illegal trade.

U.S.-Australia Agreement

On January 1, 2005, the U.S.-Australia FTA came into effect. The agreement eliminated tariffs on 99% of U.S. manufactured goods exported to Australia, accounting for 93% of all U.S. exports to the nation.

The comprehensive FTA combines more than 345 million consumers in a market of over $19.3 trillion annually. The agreement has improved the business climate between the two nations. This was the first FTA between the United States and a developed country since the U.S.-Canada FTA in 1988. Some of the industries that benefit the most from the increase in exports include coal, oil, gas, machinery and equipment.

The United States and Australia share impressive economic growth and productivity growth. Both have a strong commitment to trade and investment liberalization. With the legal, regulatory and ideological similarities between the United States and Australia, Australia is an ideal trading partner.

The United States and Australia have major interests in each other's economies. The United States has long had a large trade surplus with Australia and is the largest investor there, while Australia is a major investor in the United States.

Transportation equipment, nonelectrical machinery, computer and electronic products, and chemicals are the strongest U.S. exports to Australia. Australia's strength as a producer of agricultural crops has made it a magnet for U.S. exports of related products, including machinery, fertilizers and chemicals.

U.S. consumers, including manufacturers of products in the United States, import a wide variety of goods from Australia. Manufactured food products, including meat products and transportation equipment, are the largest U.S. imports from Australia. Other key imports are primary metal manufacturing products, beverages (including wine) and chemicals. More than half of U.S. imports from Australia are inputs or capital goods used to manufacture products in the United States.

Australia is California's 13th largest export market. California is the largest state exporter to Australia, with approximately $3.4 billion in exports from California to Australia in 2015.

Trans-Pacific Partnership (TPP)

On February 4, 2016, after more than five years of negotiations, trade ministers representing Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, and Vietnam, signed the Trans-Pacific Partnership Agreement (TPP) in Auckland, New Zealand. Leaders of the current 12 TPP countries successfully concluded the negotiations of the TPP on October 5, 2015. On November 5, 2015, the TPP agreement became publicly available by the U.S. Trade Representative.

The Trans-Pacific Partnership is a landmark, 21st-century trade agreement that sets a new standard for global trade and incorporates next-generation issues that will boost the global economic competitiveness of the TPP countries. The TPP contains 30 chapters of trade, labor, intellectual property, and environmental regulations. Those chapters will eliminate 18,000 foreign taxes on U.S. products, boost exports, protect intellectual property rights, and strengthen labor rights and human rights abroad.

The TPP was the best chance to ensure that the United States is in the game in Asia. As the lame duck Congress did not approve TPP in 2016 as hoped, the new administration must decide how to move forward in 2017.

Impact

The United States is falling behind in the Asia-Pacific, the world's most dynamic economic region. During the last decade, growth in U.S. exports to Asia has lagged overall export growth. The United States is gradually losing market share in trade with Asian countries, which have negotiated more than 160 trade agreements among themselves, while the United States has signed only three with regional countries (South Korea, Singapore and Australia).

Many U.S. manufacturers and farmers are being displaced by local competitors or firms based in the European Union or Australia, which are forging their own preferential trade deals across the region. As Asian production chains have expanded to meet booming regional demand, U.S. suppliers of intermediate goods are being left behind. In short, Asian nations are designing a new architecture for trade in the global economy's most dynamic region—threatening to draw "a line down the middle of the Pacific."

The TPP was negotiated as a single undertaking that covers all key trade and trade-related areas. In addition to updating traditional approaches to issues covered by previous free trade agreements, the TPP includes new and emerging trade issues. TPP puts American workers first by establishing the highest labor standards of any trade agreement in history, helping small and medium-sized businesses benefit from trade, promoting anticorruption and transparency, and protecting U.S. workers from unfair competition. All of the negotiating 12 countries also had agreed to adopt high standards in order to ensure that the benefits and obligations of the agreement are fully shared.

U.S. goods exports to TPP nations totaled $680.1 billion in 2015, representing 45.2% of total U.S. goods exports. California goods exports to TPP nations were $68.9 billion, making up 41.6% of California's goods exports.

Anticipated Action

Trans-Pacific trade negotiators now understand that following the November 2016 U.S. election, TPP will not be approved by the U.S. Congress in the near future.

Regional Comprehensive Economic Partnership

As an alternative to the TPP, the Regional Comprehensive Economic Partnership (RCEP) is a proposed Free Trade Agreement with 10 ASEAN member states—Brunei, Burma (Myanmar), Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, Vietnam—and the six states with which ASEAN has existing FTAs—Australia, China, India, Japan, South Korea and New Zealand. RCEP negotiations were launched in November 2012 and could conclude in 2017. If TPP fails and the RCEP succeeds, then it will become the sole foundation for economic integration in the region.

The RCEP includes more than 3 billion people—45% of the world's population with a combined GDP of about $21.3 trillion, accounting for about 40% of world trade.

The RCEP would be expected to grow to more than $100 trillion by 2050, roughly double the project size of TPP economies. It would be the biggest free trade agreement in the world, but without the United States or any membership from the Americas.

Possible U.S.-Japan Agreement

In the interim, it may be that a U.S.-Japan Free Trade Agreement will be negotiated between the two administrations. Japan is one of the biggest export opportunities for the United States.

The United States is a large supplier of chemicals, transportation equipment, and computer and electronic products to Japan. Japan is also one of the largest U.S. foreign markets for agricultural products. U.S. exports to Japan were $62.5 billion in 2015, making it the fourth largest export destination for the U.S. Imports from Japan to the United States were $131.1 billion, with transportation equipment accounting for 43.2%. According to the most recent figures, U.S. direct investment to Japan totaled $108.5 billion in 2015, largely in financial, software and Internet services. Foreign direct investment from Japan into the United States was $411.2 billion in 2015.

California continues to be the top exporting state to Japan, accounting for 18.8% of total U.S. exports. Japan has remained California's fourth largest export market since 2010, after Mexico, Canada and China. California exports to Japan, the world's third largest economy, totaled $11.7 billion in 2015. Computers and electronic products accounted for 20.5% of total exports. California imports from Japan were $38.3 billion, with transportation equipment accounting for over half of total imports. California is currently the top importing state in the United States for products from Japan. In addition, California buys more products from Japan than any other country besides China and Mexico.

CalChamber Position

The California Chamber of Commerce, in keeping with long-standing policy, enthusiastically supports free trade worldwide, expansion of international trade and investment, fair and equitable market access for California products abroad and elimination of disincentives that impede the international competitiveness of California business. New multilateral, sectoral, regional and bilateral trade agreements ensure that the United States may continue to gain access to world markets, resulting in an improved economy and additional employment of Americans.

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