Trans-Pacific Trade and Investment Relations

Region Is Key Driver of Global Economic Growth

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 2016. 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 according to 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 2016, the U.S. exported $905 billion to APEC economies. California exported approximately $110.3 billion to APEC in 2016, 12.1% of the national total. Of this, 27.3% consisted of computers 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 $578.2 billion in 2016. U.S. exports to China in 2016 were approximately $115.6 billion, more than twice as much as a decade earlier.

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 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 increased over the last decade, with a growth in U.S. exports from $26.6 billion in 2010 to $34.9 billion in 2016. Total trade between the United States and Hong Kong totaled $42.3 billion in 2016, according to the U.S. Department of Commerce.

California exports to Mainland China were $14.3 billion in 2016, making it the state's third largest export destination. California exports to Hong Kong were $9.66 billion. California exports to Taiwan topped $6.9 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 (KORUS) was signed on June 30, 2007. The trade agreement 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 the South Korean government in 2011. Since the 2007 KORUS, bilateral trade growth has been sluggish, although it should be noted the agreement's tariff liberalization in some import-sensitive areas was deferred, so the trade agreement has not yet been fully implemented.

Korea is California's sixth largest export destination. In 2016, California exported more than $8.2 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 $1.4 trillion economy and is the United States' seventh largest goods export market. Korea's commercial relationship with the United States is largely complementary. In 2016, two-way trade between the two countries exceeded $112 billion. In 2016, U.S. goods exports to Korea were $42.26 billion.

The Trump administration started negotiations on amendments and modifications on the KORUS FTA with South Korea in January 2018.

At the direction of President Donald Trump, in July 2017 U.S. Trade Representative Robert Lighthizer had initiated talks to consider matters affecting the operation of the KORUS FTA, including amendments and modifications to resolve several problems regarding market access in Korea for U.S. exports and, most important, to address the significant trade imbalance.

The California Chamber of Commerce reaffirmed support for the KORUS FTA in a letter sent September 5, 2017 to members of the Trump administration, including the Secretary of Commerce and the U.S. Trade Representative.

The U.S. business and agriculture community have received reports that the administration is concerned about the agreement, due to the imbalance of trade figures; however, these are based on macroeconomic issues and not the FTA.

Defending KORUS is a priority issue for the CalChamber and businesses across the country. The U.S. business community views KORUS as a strong agreement, and urges the administration to focus on more effective enforcement to solve issues as Korea's economy improves.

The provisions of the KORUS have been beneficial for U.S. industries, agricultural enterprises, farmers, ranchers, energy companies and automakers. Any renegotiation of KORUS must recognize the gains achieved and ensure that U.S. trade with South Korea remains strong and without interruption.

The CalChamber now urges a quick and efficient process, and one that does not hinder ongoing trade and investment between the U.S. and South Korea, which must be kept united in the same end-goal of a successful renegotiation.

The U.S.-Korea FTA sends a strong signal that the United States intends to remain heavily engaged in the region for a long time to come in business, economics, security and international politics. The FTA strengthens the 65-year-old alliance between the United States and South Korea, while reinforcing the economic and political reforms South Korea continues to make.

U.S.-Singapore Agreement

The U.S.-Singapore Free Trade Agreement (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 2016, AmCham Singapore estimated that approximately 3,700 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 2016, California exported nearly $3.94 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 5.6 million people, Singapore, one of the busiest port cities in the world, already has free trade pacts with several other nations.

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 347 million consumers in a market of more than $19.7 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, primary metal manufacturers, transportation equipment and chemicals, are the largest U.S. imports from Australia. 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 $3.37 billion in exports from California to Australia in 2016.

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 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. Congress did not approve TPP in 2016 as hoped. The TPP was the best chance to ensure that the United States continued in the game in Asia. On his fourth day in office, President Donald J. Trump formally withdrew the U.S. from TPP.

The Trans-Pacific Partnership was set to be a landmark, 21st-century trade agreement that set a new standard for global trade and incorporated next-generation issues that will boost the global economic competitiveness of the TPP countries. The TPP contained 30 chapters of trade, labor, intellectual property, and environmental regulations. Those chapters would have eliminated 18,000 foreign taxes on U.S. products, boosted exports, protected intellectual property rights, and strengthened labor rights and human rights abroad.

TPP, thought to be dead once the U.S. withdrew, has since been revived with the remaining 11 countries, officially now known as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The new CPTPP has allowed Japan to step into a leadership role in the region. At the end of 2017, the 11 partner countries reached an agreement on "core elements" of the deal.

Impact

The United States now 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."

U.S. goods exports to TPP nations totaled $655 billion in 2016, representing 45% of total U.S. goods exports. California goods exports to TPP nations were $67 billion, making up 41% of California's goods exports.

Anticipated Action

With the Pacific Rim accounting for major California exports, continuing to trade with this region is critical for California business and agricultural enterprises.

CPTPP will be reviewed further in 2018, together with other alternatives, without the United States.

Regional Comprehensive Economic Partnership

As an alternative to the TPP, the Regional Comprehensive Economic Partnership (RCEP) is a proposed FTA 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 were expected to conclude in 2017; however, the talks have been carried into 2018. If CPTPP fails and the RCEP succeeds, then it will become the sole foundation for economic integration in the region.

The RCEP includes more than 3.4 billion people—45% of the world's population with a combined GDP of about $49.5 trillion, accounting for almost 40% of world trade.

The RCEP would be expected to grow to more than $100 trillion by 2050, double the projected size of TPP economies. It would be the biggest FTA 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 FTA 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 transportation equipment, chemicals, and computer and electronic products to Japan. Japan also is one of the largest U.S. foreign markets for agricultural products. U.S. exports to Japan were $63.2 billion in 2016, making it the fourth largest export destination for the United States. Imports from Japan to the United States were $132 billion, with transportation equipment accounting for 44.8%. According to the most recent figures, U.S. direct investment to Japan totaled $114.6 billion in 2016, largely in financial, software and internet services. Foreign direct investment from Japan into the United States was $421 billion in 2016.

California continues to be the top exporting state to Japan, accounting for 18.5% 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 $11.76 billion in 2016. Computers and electronic products accounted for 23.7% of total exports. California imports from Japan were $41.3 billion, with transportation equipment accounting for more than 60% 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 CalChamber, 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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