

Trans-Pacific Trade Relations

U.S. Focus Shifts Toward Indo-Pacific; Region More Important Than Ever as China Influence Looms

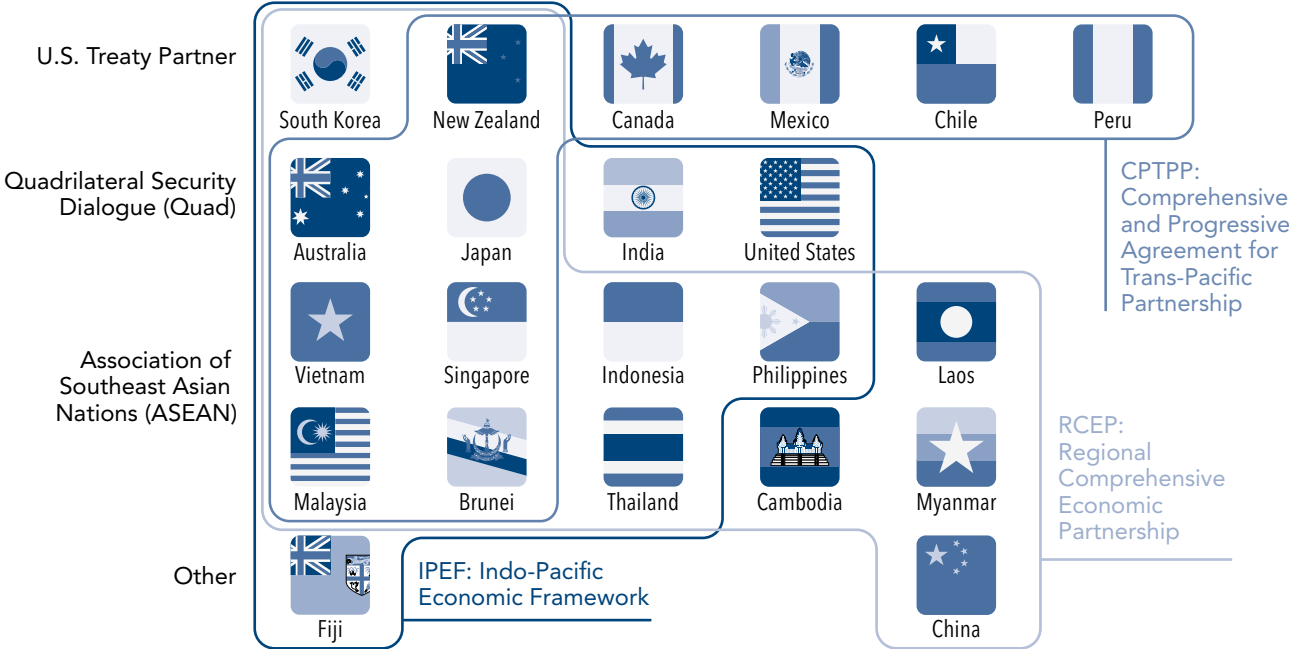
- Trade with the Indo-Pacific supports more than 3 million U.S. jobs and is the source of nearly \$900 billion in foreign direct investment in the United States.
- The 14 partners of the new Indo-Pacific Framework represent 40% of global gross domestic product (GDP) and 28% of global goods and services trade.
- The United States will host Asia-Pacific leaders in 2023; San Francisco will be the host city for the fall 2023 Asia-Pacific leaders summit.

BACKGROUND

The trans-Pacific region stretches from the west coast of the United States on the Pacific Ocean to the west coast of India in the Indian Ocean, connecting the two oceans through Southeast Asia. The region is made up formally of 14 countries: Australia, Bangladesh, Burma, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam. China typically is considered separately when discussing the region. The trans-Pacific region is one of the greatest current and future engines of the global economy.

The trans-Pacific is the most populous, fastest-growing and most economically dynamic part of the world. By 2030, it will represent 66% of the world’s middle class, and 59% of all goods and services sold to middle class consumers will be sold in the trans-Pacific. The region is expected to drive two-thirds of global economic growth in the years ahead. Developing nations in the region will need about \$1.5 trillion

MAJOR ASIA-PACIFIC STRATEGIC AND TRADE ALLIANCES



Source: China Briefing/Asia Briefing Ltd graphic.

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in investment every year for the next decade to develop the infrastructure necessary to sustain their growth.

Despite the trans-Pacific region's growth, over the last decade, growth in U.S. exports to Asia has lagged behind overall U.S. export growth. The United States is gradually losing market share in trade with Asian countries. Meanwhile, trans-Pacific countries have signed more than 150 bilateral or regional trade agreements, while the United States has just four trade deals in the trans-Pacific region — with Australia, Singapore, South Korea and Japan.

IMPACT

Two-way investment and trade in the trans-Pacific region totals \$1.75 trillion, supporting more than 3 million jobs in the United States and more than 5 million jobs in the trans-Pacific in 2020. The United States has made foreign direct investments of almost \$1 trillion into the Indo-Pacific region in 2020. The region contains seven of the world's 30 freest economies — Singapore, Australia, New Zealand, Taiwan, Malaysia, South Korea and Japan. The sea routes of the trans-Pacific facilitate 50% of world trade.

STATUS OF FREE TRADE AGREEMENTS IN TRANS-PACIFIC REGION

• **U.S.-Korea Free Trade Agreement.** In 2018, President Donald J. Trump renegotiated the U.S.-Korea Free Trade Agreement (KORUS), which originally entered into force in March 2012. The renegotiated deal went into effect on January 1, 2019 and included an extension to phase out U.S. tariffs on trucks, as well as harmonized vehicle testing requirements, Korean recognition of U.S. standards on parts, and improvements to fuel economy standards. There also were modifications to Korea's customs and verification processes, and its pharmaceutical pricing policy.

South Korea is the fifth largest export partner for both the United States and California, exporting \$65.77 billion and \$11.625 billion to the country, respectively.

• **U.S.-Singapore Free Trade Agreement.** The U.S.-Singapore Free Trade Agreement went into effect in January 2004. All tariffs have been phased out now. Singapore is a strategic partner for the United States in the Trans-Pacific region and is the 12th largest U.S. export partner; U.S. exports total \$35.76 billion. Singapore is California's 11th largest export partner; state exports exceed \$4.95 billion.

Singapore has consistently ranked among the top countries for doing business, according to the World Bank, and is regional headquarters for hundreds of U.S. companies.

• **U.S.-Australia Free Trade Agreement.** The U.S.-Australia Free Trade Agreement came into effect in January 2005 and eliminated tariffs on 99% of U.S.-manufactured goods exported to Australia at the time. Two-way trade between the United States and Australia was \$38.92 billion in 2021. Australia is one of the United States' oldest and closest allies due to sharing common values and major interests in each other's economies. The United States is the largest investor in Australia.

In 2021, the United States exported \$23.38 billion worth of goods to Australia, making Australia the 16th largest U.S. export partner. The United States enjoys a trade surplus with Australia that reached \$13.98 billion in 2021. Australia is the 14th largest export partner for California, which exported \$3.5 billion to the country in 2021.

• **U.S.-Japan Limited Trade Deal.** The U.S. and Japan have a limited trade deal, which went into effect in January 2020. The deal opened market access for certain U.S. agricultural and industrial goods in Japan. The agreement helped to give U.S. farmers and ranchers the same advantages as Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) countries selling into the Japanese market. In return, the United States reduced or eliminated tariffs on agricultural and industrial imports from Japan. A high-standard digital trade agreement also was reached separately but concurrently and went into effect in January 2020, as well.

In November 2021, the U.S. and Japan agreed to establish a new Japan-U.S. Commercial and Industrial Partnership on trade. The two countries will collaborate more closely on trade issues, including labor, the environment, digital commerce, and confronting other countries. President Joe Biden traveled to Japan in May 2022 and praised the April 2021 U.S.-Japan Competitiveness and Resilience (CoRe) Partnership between the world's two largest democratic economies to strengthen the rules-based economic order in the Indo-Pacific.

Japan is the fourth largest export partner of the U.S. and California; exports total \$74.97 billion and \$11.86 billion, respectively. Japan is one of the largest markets for U.S. agricultural products. The country also is the largest investor into California through foreign-owned enterprises as of 2021. The Japanese and U.S. markets together cover approximately 30% of global gross domestic product (GDP). The trade deal is an important step in furthering the long-shared partnership between the U.S., Japan and California.

• **U.S.-Taiwan Trade.** The United States and Taiwan first signed a Trade and Investment Framework (TIFA) in 1994. Under the previous administration in 2020, the U.S. showed

more support for Taiwan and a possible trade agreement with Taiwan, relaxing some regulations to show good faith in starting talks. Support for a trade agreement is popular among some in the U.S. Congress. Taiwan's September 2021 bid to join the CPTPP remains on track and has received vocal support from other CPTPP members. The move to join the CPTPP is important to the country's long-term economic growth and stability in the region. Taiwan was notably left out of the China-led Regional Comprehensive Economic Partnership (RCEP).

In June 2022, the U.S. and Taiwan met for an inaugural trade meeting in Washington to begin talks on the newly agreed upon U.S.-Taiwan Initiative on 21st Century Trade, meant to strengthen ties as a counter to China's influence in the Indo-Pacific region. The talks will cover many of the same areas as the new Indo-Pacific Economic Framework.

Taiwan was the 11th largest export partner for the United States in 2021, with a total of \$36.94 billion in goods exported to Taiwan. For California, Taiwan is the sixth largest export partner with \$8.94 billion in goods being exported, including \$264 million worth of California agricultural products.

INDO-PACIFIC ECONOMIC FRAMEWORK

In May 2022, the Biden administration launched the Indo-Pacific Economic Framework (IPEF) with 12 other countries: Australia, Brunei Darussalam, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam. The IPEF is a non-traditional trade agreement that seeks to improve trade relations by reducing "behind-the-border" trade barriers; leaves enforceability intentionally vague; and does not guarantee that the agreement won't be voided if a new administration takes over in 2024.

The official statement states this framework is intended to advance resilience, sustainability, inclusiveness, economic growth, fairness, and competitiveness and aims to contribute to cooperation, stability, prosperity, development, and peace within the region. The first IPEF ministerial took place in September 2022 with a goal of finishing negotiations within the next 18 to 24 months, coinciding with the U.S. hosting of the annual Asia-Pacific Economic Cooperation Leaders' Summit at the end of 2023.

ASIA-PACIFIC ECONOMIC COOPERATION

The United States is the 2023 host for the Asia-Pacific Economic Cooperation (APEC). California will host two of the 2023 meetings, one in Palm Springs, and the other, the APEC Leaders' Summit, will take place in San Francisco in fall 2023.

Formed in 1989, APEC serves as a multilateral forum

in which Asian and Pacific economies can solve economic problems and cooperate in developing key economic sectors. The 21 APEC economies are home to 2.9 billion people and represent approximately 60% of world GDP, and 48% of world trade as of 2018.

CHINA, THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS, AND THE REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP

After many rounds of tariffs on each other's goods, China and the United States signed a Phase One Agreement on trade on January 15, 2020. This historic agreement required structural reforms and changes to China's economic and trade model, including intellectual property, technology transfer, agriculture, financial services, and currency and foreign exchange. The Phase One Agreement also included a commitment by China to purchase U.S. agricultural goods. The commitment fell to the wayside during the global COVID-19 pandemic and later due to China's ongoing zero-COVID policy, falling short by more than 40% of the target, according to a number of observers. U.S. Trade Representative Katherine Tai continues to hold China accountable to the Phase One agreement. Tai continues to explore weaknesses in China's performance and is gaining traction. The Biden administration continues to use Section 301 tariffs as part of its strategy to compete more effectively with China.

While China and the United States have a complex relationship, China's relationship with Association of Southeast Asian Nations (ASEAN) countries continued to deepen in 2022. The Regional Comprehensive Economic Partnership (RCEP) deal officially went into force on January 1, 2022, encompassing the 10 member nations of the ASEAN, as well as China, Japan, South Korea, Australia and New Zealand. The RCEP deal covers nearly one-third of the global population and about 30% of global GDP, making it the largest trading bloc in the world.

The nations in ASEAN, established in 1967, have the goal of creating an ASEAN economic community (AEC) by 2025. The region's combined GDP topped \$3 trillion in 2020. AEC already has eliminated 99% of intra-ASEAN tariffs and continues to strive for deeper economic integration. In May 2022, the Biden administration hosted the first U.S.-ASEAN Special Summit noting the U.S. has provided more than \$12.1 billion in investments into the region since 2002.

ASEAN represents the world's fourth largest market and the United States is ASEAN's largest source of foreign direct investment, with two-way trade exceeding \$379 billion in 2021.

COMPREHENSIVE AND PROGRESSIVE AGREEMENT FOR TRANS-PACIFIC PARTNERSHIP AND THE ORIGINAL TRANS-PACIFIC PARTNERSHIP

The original Trans-Pacific Partnership (TPP) was signed in February 2016 and included the United States as a member. When President Trump took office, however, he pulled the United States out of the TPP. The remaining countries formed the CPTPP, which then came into force on December 30, 2018 for Australia, New Zealand, Canada, Japan, Mexico and Singapore, followed by Vietnam on January 14, 2019, Peru in August 2021 and Malaysia in November 2022. The agreement will come into force for Brunei and Chile 60 days after they complete their ratification process.

The CPTPP agreement retained all the tariff reductions and eliminations from the original version signed in 2016; however, it suspended 22 other provisions, including some intellectual property rules. The CPTPP will reduce tariffs in countries that together amount to more than 13% of the global economy — a total of \$10 trillion in GDP. With the United States, the agreement would have represented 40% of the world economy. Even without the United States, the deal will span a market of nearly 500 million people, making it one of the world's largest trade agreements.

In 2021, the United Kingdom announced its intent to apply for membership to the CPTPP and has since moved to the second and final step in the process as of February 2022. In September 2021, China also applied to join CPTPP, preempting Taiwan's own bid six days later. The dueling bids have created opposing sides within the trading bloc; the outcome remains to be seen. Meanwhile, South Korea also has expressed interest in the possibility of joining the CPTPP.

The end of 2022 saw a renewed push for the Biden administration to consider re-entering the agreement. Supporters of that approach argue that a revamped agreement would fit current political realities and that the new IPEF does not do enough to combat China's influence in the region.

Re-engagement in the TPP/CPTPP could be beneficial for California, which in 2021 exported \$72.39 billion to the CPTPP member countries.

ANTICIPATED ACTION

The California Chamber of Commerce is hopeful that the Biden administration will continue to develop relations in the trans-Pacific and strengthen partnerships within the region — including consideration of multilateralism rather than bilateralism.

In 2023 in partnership with our regional allies, the Biden administration will continue to negotiate an Indo-Pacific Economic Framework, while the U.S. takes a special focus on APEC during America's host year. The U.S. expects the new "flexible and inclusive" frameworks of IPEF and the Initiative on 21st Century Trade to set standards in digital areas like cybersecurity and privacy, address infrastructure investments, clean energy, and export controls. U.S. Secretary of Commerce Gina Raimondo expects to negotiate the framework with Indo-Pacific nations within an aggressive timeline, finishing by the end of 2023.

CALCHAMBER POSITION

The CalChamber supports 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.

The trans-Pacific region represents nearly half of the Earth's population, one-third of global GDP and roughly 50% of international trade. The large and growing markets of the trans-Pacific already are key destinations for U.S. manufactured goods, agricultural products, and services suppliers.

Following the U.S. withdrawal from the Trans-Pacific Partnership, a highlighted trans-Pacific relationship is welcome, as this is a key area in geopolitical, strategic, and commercial terms.



Staff Contact

Susanne T. Stirling

Vice President, International Affairs

susanne.stirling@calchamber.com

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