

Welcome to the East Asian Bureau of Economic Research (EABER) and South Asia Bureau Research (SABER) Newsletter.

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## Analysis

### Obama's visit to Indonesia and Australia and the TPP

**Bernard K. Gordon**

President Obama's twice-deferred trip to Indonesia is now scheduled for the week after next, and will be combined with a visit to Australia. In the familiar phrase, these visits come at the 'best of times and the worst of times.' It is the best of times because US relations with both Jakarta and Canberra have never been better. In 2008, President Yudhoyono announced his 'Comprehensive Partnership with the US'—a sea-change for Jakarta—and it will be further formalised and intensified during Obama's three-day visit.

The goal will be both to 'catch up' in sectors that have been relatively neglected in recent years, and to open up new fields for Indonesia-US cooperation. The catch up category includes expanding scholarship and educational opportunities in the United States for young Indonesians, and resuming exchanges with Indonesia's military, especially senior-officer training in the US. The second category will emphasise the trade and investment opportunities Indonesia now represents for Americans.

As Indonesia's Trade Minister, Mari Pangestu, recently remarked, Indonesia is acutely aware it is little understood in the United States. It will seek to spread the word of what today's Indonesia represents: high annual growth rates of more than 6 per cent, a population of almost 250 million with a strongly favorable demography, and a stable democratic environment. From the American side, as US Commerce Secretary, Gary Locke, has pointed out regarding Indonesia, US industry has special capabilities in infrastructure-building, in the development of 'green' and related hi-tech energy sectors, and of course in agriculture.

But this is also the 'worst of times' for a Presidential visit to Australia and Southeast Asia because it is Northeast Asia that now consumes most of Washington's Pacific region attention. Two critical issues are

likely still to be at the top of America's agenda during the President's visit. One is the tension with Japan centering on US military bases in Okinawa. Prime Minister Hatoyama set the end of May for a resolution, and while the 2006 US-Japan agreement will now go forward, the devil really is in the details. It affects the reliability of the Japan-US alliance, the anchor of America's security role in the Western Pacific.

The second issue is the March sinking of the South Korean naval vessel Cheonan and its 46 deaths. A multi-nation group of naval specialists, including Australians, has found it was caused by a torpedo fired by a North Korean submarine. Because of North Korea's nuclear weapons capacity, and the vulnerability of Seoul's population to northern artillery and missiles just 30 miles removed, this crisis vitally affects the most dangerous issues of war and peace in East Asia.

Compared to those Northeast Asian issues, any foreign policy questions posed by Indonesia and Australia may be seen as small beer, though ironically it reflects their success. Yet the need for an overall American Asia policy remains, and prominent voices stress that goal requires in turn a clear US trade policy. President Obama's decision to engage and endorse the 'Trans Pacific Partnership' is the result.

Other US trade venues, the WTO Doha Round, the Korea FTA, and possible FTAs with ASEAN members, are not being forgotten and will be pursued if opportunities arise. But the TPP effort—representing Australia, Brunei, Chile, New Zealand, Peru, Singapore, the US and Vietnam—now tops Washington's trade agenda. Singapore and Australia have long been important American trade partners, but as a group the TPP is no heavyweight. Its merchandise trade with the United

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States last year was US\$110 billion, while total American exports and imports combined represented US\$2.6 trillion. The TPP, in other words, accounted for just 4.2 per cent of America's trade, and no partner is even in the top 10 of US export markets. Why then is Washington so energetically promoting the concept?

The answer is that, from a US government perspective, the Trans Pacific Partnership is the only game in town. Three main reasons explain why: the state of the WTO's Doha Round; China's role in Asia; and America's self-image of its place in the Pacific. A possible fourth reason is that Washington regards the TPP as the only doable multilateral trade initiative.

On the Doha trade talks, after more than a year in office, it is clear that President Obama is not inclined to make the major efforts, especially agricultural, that might achieve a Doha closure. A year ago Washington's new energies seemed committed to a world trade deal but the momentum ended when the new US Trade Representative, Ron Kirk, simply mirrored President Obama's main trade goal – tightening up on 'Free Trade Areas.' The clearest sign Doha was on the back burner came when the President announced that his new trade plan is a five year goal of doubling US exports.

The second factor driving the Trans Pacific Partnership is America's intense awareness of China's East Asian trade dominance. China is now top trade partner for Japan, Singapore, Australia and Korea. Seoul's China trade is actually now greater than with the US and Japan combined. Adding to all this is China's intensifying web of 'free trade' agreements throughout the region.

The third factor behind US support for the TPP is America's belated recognition of these new realities. A current Washington theme is that 'America is back' in East Asia and senior officials now insist they will participate in every important Asian meeting. They regularly recall the warning against 'drawing a line down the Pacific' first spoken two decades ago by former Secretary of State Baker. That's when Malaysian Prime Minister Mahathir proposed an 'East Asian Community' that would exclude the United States.

The Obama Administration has internalised Baker's warning, and its most concrete evidence is the Trans-Pacific Partnership.

But it raises the question of whether the TPP is the best vehicle to affirm the fundamental point that the geo-strategic and economic interests of 300 million Americans will remain firmly rooted on both sides of the Pacific. The answer is that as presently constituted the TPP is too thin a reed for that task.

One reason is that neither Japan nor Korea, Asia's weightiest actors closely tied to the US, are involved in the TPP, nor is Indonesia, ASEAN's key member. Another is the absence of an American consensus on what the TPP might entail. Fifty members of Congress recently insisted to the USTR that New Zealand dairy products be excluded from TPP negotiations, while the US Chamber of Commerce envisages it as a 'comprehensive FTA' using the 'US Singapore FTA as a standard.' Simultaneously more than 100 in Congress have affirmed their opposition to any new 'Free Trade Areas.'

For a United States that almost singlehandedly launched both the global GATT and then the WTO, a 'Trans-Pacific Partnership' is quite a comedown. All the more so when, if the WTO's Doha Round were completed, its 'most favoured nation' clause would render moot most of the preferential trade agreements now cluttering world trade, and simultaneously kick-start global trade growth. And yet only the unlikely goal of a TPP, so 20th century, will be pressed by the US because that's all the President is prepared to undertake at this point.

There is of course an alternative. If President Obama's party retains its majority after the November Congressional elections, he might then heed the current advice of former USTR and now World Bank President Robert Zoellick. He points out that the six per cent growth rate of the world's developing countries—double the developed countries' rate—means they will need 'precisely the kind of high-value goods that generate well-paying jobs.'

The message for the US is clear. If Mr. Obama genuinely hopes to achieve his goal of doubling of US exports, he will reassert America's world trade leadership, and take the necessary steps to complete the Doha global trade round.

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