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US withdrawal from TPP may hurt free trade

By **DR MD RIZWANUL ISLAM**



President-elect Donald Trump speaking at the US Bank Arena in Ohio. Trade analysts believe the United States's withdrawal from the Trans-Pacific Partnership agreement will render it meaningless. AFP pic

DOMINO EFFECT: Other advanced nations may take similar protectionist route

DONALD Trump, the president-elect of the United States, is showing that possibly he is more pragmatic and flexible than many of his critics may give him credit for. After the election, he has called for unity and seemed to have softened his stance on Muslims (of course, for an unpredictable character like him, it is still early to draw a conclusion). He has drifted from and dismissed the prospect of prosecuting Hillary Clinton for her private email usage and the alleged scandals over her family's foundation. He is silent on the pre-election rhetoric of building a wall on the border with Mexico and making the latter pay for it. Thus, it is not certain whether or not he would stick to his position that one of the tasks on his first day in the office would be to withdraw the US from the Trans-Pacific Partnership (TPP) agreement, which involves 12 countries that collectively constitute around 40 per cent of the global economy. And, of course, the views of the US congressional leaders who work in the committees on trade would also matter, and it may happen that instead of a full-blown withdrawal, the Trump-led US administration would seek to renegotiate the TPP, however, challenging that may be.

Many trade analysts are decrying that the US's withdrawal from the TPP would render it meaningless. Similar pessimistic views have been expressed by some leaders of the TPP member countries, including Shinzo Abe, the prime minister of Japan, who has candidly expressed his scepticism about the viability of the TPP without its biggest economy. This reminds us of what happened to the International Trade Organisation (ITO) after the end of

World War 2. When the US Congress did not ratify the Havana Charter, that effectively was the end of the ITO as the other countries did not find any merit in an ITO without the US. For sure, from the viewpoint of the members of TPP, that would be bad. When the parties negotiated a trade agreement and concluded it, they did not brace for its biggest economy to withdraw or seek renegotiation.

But, US's withdrawal from the TPP may not be necessarily bad for global trade. The principal reason for this is, like all other trade agreements of this nature, the TPP is not about free trade per se, it is about free trade between the 12 member countries that would inevitably be creating indirect barriers to the entry in the market of the TPP member states by the exporters of non-TPP member states. In other words, deals like the TPP create some winners from the state parties to the agreement, but they also create new competitive barriers for exporters of third countries.

To take one example, if Vietnam, a member state of the TPP, gets preferential access to the market of the 11 other signatories of the TPP, for competitors of the Vietnamese exporters in the rest of the world, that would mean greater barriers to entry in those 11 countries.

Contrary to the arguments raised by many, at least on two counts, the end of TPP may bring about positive outcomes. It is not impossible that a failure of the TPP to be ratified and enforced may resuscitate the stalled negotiations at the WTO. Despite its slowness, the good thing about the WTO is that it involves 164 member states. Unlike the preferential trade agreements, WTO agreements are not discriminatory and they entail true free trade (at least for all members of the WTO, though not all states in the world), not preferential trade. Another possible impact may be that it may underscore the need for greater transparency about trade negotiations. A fair share of public scepticism about the TPP may be attributable to the secrecy in which the whole negotiation was shrouded.

Indeed, what transpires following a potential withdrawal of the US would determine what its impact would be. The first and foremost danger is that if Trump's stance on TPP symbolises his protectionist mantra "America first" and that applies to the multilateral trade regime of the WTO, then this may create a domino effect. And, if the other economically advanced countries take a similar protectionist route, surely that would make all of us worse off. However, the highly interconnected nature of the global supply chain today makes this type of a domino effect highly improbable.

Another possibility is that the Trump administration may seek to sign more bilateral preferential trade agreements that would be problematic on at least two counts.

FIRST, because of the asymmetry of the states involved in the negotiation and relative lack of attention of the media, a bilateral trade deal may be concluded on unequal terms; and,

SECOND, and more certainly, more preferential trade agreements make conducting business beyond borders more complex and bureaucratic. This would happen because most bilateral trade agreements would need to adopt a complex set of rules of origin to determine which goods would qualify for export at the preferential tariff rate. For all these reasons, the scenario after the tearing up of the TPP is more complex than many of us believe.

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