

The Potential of the Trans-Pacific Partnership Trade Agreement

**Written Testimony of
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Chairmen Royce and Manzullo, Ranking Members Sherman and Faleomavaega, members of the committee, thank you for the opportunity to testify today on the Trans-Pacific Partnership trade agreement. It is an agreement with enormous potential. If the agreement succeeds, it can help set the rules of trade for the 21st century and serve as a pillar of U.S. presence in the critical Asia-Pacific region. It can benefit America's companies and consumers and help secure the country's vital interests.

This great potential is, as yet, unrealized. The challenges that remain are daunting. The administration's embrace of the TPP as its principal active trade initiative and the core of its commercial policy toward Asia also distinctly raised the stakes. The enthusiastic response that the TPP received last November in Hawaii showed the eagerness of the nations in the region to join in a U.S.-led endeavor. It also showed how U.S. credibility is on the line. The United States and its TPP partners have put forth an enticing vision. It is incumbent upon the United States to ensure that vision is realized, and soon. Failure would be costly.

In my remarks, I will describe the origins of the TPP, consider how far it has come and what it has to offer the United States, and then offer thoughts on what must be done to conclude the agreement successfully. There is a significant role for the U.S. Congress, as the branch constitutionally entrusted with trade policy, in laying the groundwork for the TPP's success. I thus heartily commend the committee for holding this hearing.

The TPP: Origins and Progress

I would like to take a moment to talk about the inception of TPP. I do this not exclusively out of pedantic academic habit, but because it can help explain some of the impatience that surrounds the TPP. While the agreement captured the attention of many U.S. policymakers after the passage of the free trade agreements with Korea, Colombia, and Panama last fall, it has been around far longer than that.

It began as an agreement between four small countries in the Asia-Pacific: Brunei, Chile, New Zealand, and Singapore (the so-called P4 countries). Their initial agreement was in 2005 and the agreement entered into force in 2006. Later, in 2008, as that group was negotiating a deepening of the agreement, USTR Susan Schwab announced U.S. interest in joining the negotiations. Then, as with much of U.S. trade policy, a dormant period began. The upshot is that, for a majority of the nine countries currently in the TPP negotiations, we are moving toward the fourth year of discussions. That is not an unreasonable time period for an agreement of this ambition, if the end is in sight. It is problematic, however, if one imagines a year or two of additional delay. I will describe later why such delay is a real possibility.

Before I do, though, it is worth putting the TPP in the context of a strained global trading system. As the TPP was coming to life as a significant, region-wide agreement, global trade talks were slipping into a comatose state. The Doha Development Agenda launched in November 2001. The prolonged and fruitless efforts to strike a Doha deal

have left global trade powers wary of grand trade promises that bring repeated ministerials but no signing ceremony. By the end of the decade, the Doha talks had repeatedly hit impasses. Among the key contentious issues were the level of ambition – how much the agreement should do about modern facets of trade regulation – and the appropriate role of economically successful developing countries.

The TPP is clearly situated on one side of these debates – the side the United States has favored. One of the TPP's core principles is that it embraces a “high standards” approach. It deals with issues like service market access, intellectual property rights protection, and investment regulation that are important parts of modern global commerce. While the TPP expanded to include a number of developing nations, including Malaysia and Vietnam, it expects them to participate in these high standards commitments as well.

Thus, a successful TPP would have important ramifications for the global trading system. It would demonstrate the possibility of concluding such an ambitious trade accord and of bridging the North-South divide that plagued the Doha talks. The TPP also has captured the imagination of countries because of its other founding principle – an openness to new members. This approach suggests that the TPP could serve as a template for how to build a sophisticated approach to opening markets. The trading area would be built from the ground up with willing participants, in contrast to the World Trade Organization's top-down approach. The TPP's openness to new members makes possible unlimited future spread.

By the time of the APEC summit in November 2011, there were nine countries involved in the TPP negotiations.¹ In 2011, U.S. merchandise exports to these partner countries were \$105.4 billion.² That accounted for just over 7 percent of U.S. goods exports last year. But at the time of the summit, three of the top four U.S. trade partners – Japan, Canada, and Mexico – all expressed interest in joining the TPP talks. This demonstrates the heightened interest and potential of the agreement. With these countries, the agreement could encompass much of the trade in the broader Asia-Pacific, a region to which the United States exported nearly \$900 billion in goods in 2011.

Beyond sheer trade volumes, it has been a long-standing goal of U.S. international economic policy to get Japan, a true commercial heavyweight, to commit to market opening reforms. At significant domestic political cost, the prospect of TPP membership has induced Japanese Prime Minister Noda to do just that.

Measuring TPP Progress and Promise for the United States

It is natural to want to quantify the benefits the TPP has to offer the United States and to ask just how close we are to achieving those benefits. Neither question is easy to answer.

¹ The United States, Brunei, Chile, New Zealand, and Singapore were joined by Australia, Malaysia, Peru, and Vietnam.

² U.S. Commerce Department [Export Fact Sheet](#), March 2012.

If we look at the potential benefits from an agreement, we cannot be satisfied by just looking at the extent of current trade among participants, or even market size as an indicator of potential. After all, the United States already has agreements with Australia, Chile, Singapore and Peru (and, among the new applicants, with Canada and Mexico). That suggests that gains might be overstated.

But one can equally argue that gains can be understated. When we talk about trade flows within the region we usually discuss goods trade. We ought to be discussing services trade as well; it's something the United States is particularly good at and it would capture much of the novelty in market-opening through the TPP. But services trade is difficult to measure. Nor are we well-equipped to quantify the benefits from harmonizing a spaghetti bowl of different trade rules into a coherent package or the benefits from facilitating the sprawling global supply chains that characterize modern commerce. We do get a hint of the importance of such factors, however, when we see global supply chains interrupted by natural disasters in Japan or Thailand and U.S. producers and consumers suffer.

Nor is it easy to quantify the benefits from preserving and extending a U.S. leadership role in the region, but that role is at stake in these talks and the benefits are surely significant. To measure them, one would want to have a counterfactual – where would the U.S. stand if it fails to deliver on the TPP vision? There are a number of unsettling possibilities. There are trade configurations and alliance groupings in the region that do not include the United States. A loss of U.S. credibility in the region would extend beyond the realm of commercial policy.

The one area where we should not count on the TPP is as a short-term macroeconomic stimulus. This is not a failing of the TPP; it is true of most trade agreements. Even were the TPP participants to reach quick agreement, many of the reforms would take time to implement and to pay off for the U.S. economy. In the case of the TPP, the most significant effects may lie in the precedents that are set for other economically powerful countries that aspire to join the high standards agreement. These gains will take even longer.

How close are we to realizing the gains TPP has to offer, whatever they might be? It is tempting to claim progress, citing the framework agreement that emerged in November, or the technical progress made by negotiators. This would be somewhat misleading. The various checkpoints toward reaching ultimate agreement need to be considered along with the degree of difficulty in reaching each one. There are technically complex issues on which there is broad substantive agreement, then there are issues that may be conceptually simple but on which there is strong political resistance to movement. There are issues dividing members of Congress from the administration, and there are issues that divide the United States from other countries.

For all the laudable technical progress that USTR negotiators have made, the most politically divisive issues remain unresolved. To give an example of one such core issue, there is the question of whether the TPP will be built around a single set of market access commitments to which all members sign on, or whether it will consist of a patchwork of

existing market access rules augmented by new promises to fill in the empty spaces. Most of the participants in the negotiations favor the former approach, but the United States has espoused the latter. It is not hard to see why. The United States already has agreements with many of the members. A single set of market access commitments would require revisiting politically difficult issues like Australia's access to the U.S. sugar market. But without a single set of commitments, the TPP loses much of its potency as a template. Any newcomer would feel free to negotiate its own market access deal. This may seem just one issue on a long checklist, but it poses major political problems and will have an inordinate impact on the extent to which the TPP realizes its potential.

What needs to be done?

A principal reason that so many important issues remain unaddressed is that no bipartisan consensus on trade has been reached here in the United States. Issues such as labor regulation, environmental provisions, and intellectual property rights protection all remain contentious. The administration committed to building a consensus when it undertook to renegotiate the three pending FTAs, but the split votes on those agreements, particularly in the House, demonstrate that the goal has not yet been met.

The appropriate way to meet this goal would be through passage of new trade promotion authority. Such legislation would prompt an open discussion of the key issues described here and would make clear to U.S. negotiators just how much room for maneuver they have in discussions with their counterparts. The very fact that the TPP may serve as a template for future trade agreements and will establish important new precedents for dealing with issues like state-owned enterprises makes such discussions essential.

In all likelihood, for the TPP to succeed, this will require more openness to compromise than the United States has been required to show in its recent bilateral negotiations. There are multiple countries at the negotiating table and many of them have already negotiated their access to the United States market (a strong threat point, in the parlance of game theory). The United States has defensive interests, but should approach the negotiations with the institution-building mindset that served it so well throughout the post-war era.

In the candid discussions between the administration and Congress, there should also be agreement about a realistic timeline. Resolving these difficult issues will take time. Traditionally election years have been an awkward time to make difficult trade compromises. Aside from using such a timeline as a means of counteracting impatience and skepticism, it is important in determining the appropriate stance toward Japan, Canada, and Mexico. If an agreement is nearly ready for conclusion, then we can plausibly tell these allies that they must wait until later. If, however, the TPP is unlikely to conclude before mid- to late-2013 (as I fear) then a stiff-arming of these important partners will prove unacceptable.

Finally, there is the People's Republic of China. It is not a member of the TPP negotiations and it reacted strongly in November to its exclusion from the talks. Here the Obama administration is to be commended on its handling of a sensitive issue. Of course, rules for Asia-Pacific trade that are set under the TPP could ultimately affect China, but it is China's choice whether it wishes to meet those high standards. China had the opportunity to help shape global rules in the Doha talks but unfortunately chose not to play a leadership role. The Obama administration has, quite rightly, averred that the TPP is not meant as a coalition directed against China. It would make no sense to "gang up" on China in this way, nor would most of the other members of the TPP wish to take part in such an effort. China would, ultimately, benefit from open service markets, strong intellectual property protections, and other features of a high standards agreement. If the TPP realizes its potential, it will be waiting when China is ready to undertake those sorts of obligations.

Conclusion

The United States has played a leadership role in the Asia-Pacific for decades. Economically and strategically there is no more important region of the world. The TPP has the potential to continue this tradition of leadership while delivering significant economic benefits to the country. As a demonstration of a high standards approach to trade liberalization which addresses modern concerns about global commerce and incorporates developing nations as full members, the TPP can set an example that will have positive repercussions well beyond the region. To realize this vision, however, will require prolonged and concerted efforts to bridge differences over trade both domestically and with other parties to the agreement. That political engagement needs to begin without delay.

United States House of Representatives
Committee on Foreign Affairs

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