

The Trans-Pacific Partnership: New Rules for a New Era
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I appreciate the invitation to participate in this discussion of the Trans-Pacific Partnership at the Wilson Center. I always appreciated Jane Harman's friendship and guidance when she served in the Congress. And I'm delighted that she is continuing to offer international leadership through her stewardship of the Wilson Center. I also have benefited from the work of the Center's Program on America and the Global Economy, directed by Kent Hughes. The pamphlet prepared for the Center by William Krist offers a fine overview of the TPP negotiations.

You have some excellent panel participants today, so I hope just to set the stage. I'll try to offer a perspective that seeks to combine the strategic with the operational.

In doing so, I'll make 5 points.

First, the strategic logic for the TPP is a natural evolution of the US interests that prompted the USG to press for the creation of APEC in 1989.

Even as the Cold War was drawing to a close, the Bush 41 Administration was putting structures in place for a future international system.

America's important security alliances across the Pacific need an economic underpinning.

Of course, the Asia-Pacific is a region of dynamism and growth, and the U.S. has a strong interest in integrating with that region: whether through trade; investment; supply and logistics chains;

development of norms and rules, ranging from customs to IPR; the expansion of trade in sectors such as services; capital markets; technologies; the environment; and many other topics.

In this strategic sense, APEC, and now TPP, are natural complements to another regional integration initiative launched by President Bush 41 as the Cold War was ending: NAFTA and North American integration. Yet when the U.S. negotiated NAFTA and helped initiate APEC, it simultaneously pursued global economic integration and development through the Uruguay Round that transformed the GATT into the WTO. This is a key point: The U.S. is the largest and most innovative country in the global economy. So even as it pursues regional economic initiatives—such as TPP and the Trans-Atlantic Trade and Investment Partnership, TTIP, the U.S. should be complementing these negotiations with global steps that advance a healthier world economic system.

Just last week, the International Chamber of Commerce and the U.S. Council for International Business released a useful paper, prepared by Gary Hufbauer and Jeff Schott at the PIIE, offering practical ideas on possible WTO accomplishments, some of which could be closed by the time of the Bali Ministerial later this year. Some such achievements would help rebuild momentum for global trade liberalization—which is in America's interest.

Second, the TPP has the potential—along with TTIP—to deepen U.S. economic ties with regions of great economic, political, and security importance to the U.S.

From a geopolitical perspective, TPP and TTIP could be America's economic bridges to the eastern and western borders of Eurasia, the landmass that dominates the world's population, economic potential, and security prospects. The U.S. share of the Asia-Pacific region's imports declined by about 43% from 2000 to 2010, and U.S. exports to the region even lagged behind overall U.S. export growth over that decade. So the need to strengthen trans-Pacific economic ties is apparent. The 12 countries negotiating the TPP represent almost 40% of world GDP, and these trading partners

account for almost 40% of U.S. exports of goods and services. Yet the negotiators will need to explain their logic for this particular negotiation: the U.S. already has FTAs with 6 of the TPP countries—so what will be the added value? Cumulation of sourcing and more common, up-to-date rules offer potential gains.

The nature of trade has been changing quickly. Consider the role of value and supply chains, through which the process of production spans numerous countries. The U.S. Chamber of Commerce has pointed to a study of apparel that revealed that 70% of the final retail price of apparel assembled in Asia is created and gained by American innovators, designers, or retailers. Therefore, rules to facilitate trade—for example, through making customs and border procedures more efficient—will boost global and US competitiveness as much or more than removing traditional tariffs and quotas. Yet it's not clear to me whether the aim of the TPP negotiating countries is an agreement that is more demanding than current FTAs—or one that exceeds WTO standards, but with provisions that might, over time, realistically draw others in Asia, too? If TPP seeks a higher standard than existing FTAs, what is the U.S. willing to offer in terms of lowering its barriers to achieve more from current FTA partners?

Third, Japan's participation in the TPP expands the scope hugely.

Japan's involvement is a very big deal. Ten years ago, I was skeptical that Japan would be capable of negotiating a comprehensive, high quality FTA with the U.S. But the amazing work of USTR's Wendy Cutler—and the courage and decisiveness of Korea's Trade Minister Hyun Kim—shows what can be done: if Korea could strike an FTA deal with the U.S., Japan should be able to do so, too.

In another post-Cold war project of the Bush 41 Administration, the Structural Impediments Initiative, or SII, the U.S. tried to get Japan to recognize that structural economic changes were critical to Japan's long-term vitality. But the Japanese bureaucracies resisted, and treated the exercise

as one of negotiating concessions, not driving reform. Prime Minister Abe and Finance Minister Aso now seem to recognize the need for Japan to make serious microeconomic reforms. Frankly, without structural reforms, Japan's aggressive fiscal and monetary policies are not likely to be sustained by real economic growth. As we are already seeing, the initial, beneficial boost to the economic psychology in Japan needs to be backed by more fundamental changes in Japan's economic model. With structural reforms, including greater opportunities for Japanese women, who offer a tremendous untapped resource of education and ability, Japan could boost its growth and reshape the regional and global economic landscape.

Anders Borg, the successful Finance Minister of Sweden, pointed out recently that if the participation of Japan's women in the workforce matched Sweden's levels, Japan's GDP could be boosted about 9 percent—and that would be a hefty increase! Japan's participation in the TPP is also a big plus for the other countries: The US could gain much from Japan's liberalization of insurance, other services, and farm products, as well as from investment reforms. Other TPP countries could benefit a lot from more open trade with Japan, too, perhaps making it easier for them to be flexible about other trade reforms and rules.

Fourth, where does China fit?

Some in China view TPP as part of a U.S. effort to contain China. I don't believe that is TPP's aim—and it would not work in any event. China is deeply integrated in global and regional supply chains; its growth is fundamental to all TPP partners. However, TPP could be used as part of a “competitive liberalization” strategy to urge China to play a more active role in opening its markets, working with global rules, and enforcing those rules. Yet to leverage TPP as part of a competitive liberalization plan, the US needs complementary efforts with China. These initiatives would make

clear that the US economic strategy is not one of containment—but instead offers opportunities if China also assumes responsibilities for a regional and global system of open markets.

One effort with China could be bilateral: connecting trade liberalization to China's own structural reform plans, for example through more competition and productivity in the services sector. Or complementary interests in financial sector reforms. Or the development and protection of technology and value-added product through IPR enforcement, as China moves up the value chain. The two countries also share interests in energy efficiency and water conservation.

The U.S. and others could also both support—and benefit from—China's development of a flexible, efficient safety net. We also share interests in open investment policies. The US and China should be working in concert to show global leadership through an active WTO agenda: for example, the US and China should be leaders in the WTO service sector negotiations and an ITA2 and other sectoral accords that provide reciprocal liberalization for the willing.

Finally, and most importantly, we need to focus attention on getting TPP done.

Frankly, I'm more concerned about the operational capability than the strategy. Rhetoric isn't the same as achieving results.

The Administration had an inert trade policy in its first term; the 3 FTAs passed dated way back to the Bush 43 Administration. Indeed, 2 were well along under my tenure as USTR in President Bush's first term, and it took the Republicans in Congress to insist on the President's presentation of all 3 FTAs to Congress.

Does the President and his senior team have the political will to establish trade as a priority, make tough decisions, and close deals?

I hope so. And all of us interested in trade and its larger place in America's foreign and economic policy should push the Executive to match talk with action.

I am pleased that the President nominated Mike Froman as USTR. Mike is smart, knows the issues, and importantly, seems to have the trust of the President. After his confirmation, Mike's challenge will be to build the coalitions of support, drive decisions, and push for closure.

For example, the Administration needs a TPA strategy—which Chairmen Baucus and Camp have encouraged.

Those of us who are familiar with the hard-edged realities of trade negotiations can identify challenges ahead in the TPP—in agriculture; services and investment; IPR; investor-state dispute procedures; SOEs; capital and foreign exchange issues; some manufacturing sectors—and environment and labor.

The US, in particular, will need to make decisions about difficult defensive issues, such as dairy and sugar; textiles and apparel; and footwear.

For those of you looking for a good summary of these and other topics, I recommend a very good short policy booklet published by Jeff Schott, Barbara Kotschwar, and Julia Muir of the Peterson Institute for International Economics earlier this year. There's also a good quantitative assessment of TPP and Asia-Pacific Integration published by the Peterson Institute last November.

The good news is that I understand there has been considerable progress in outlining and even drafting the language of the 29 or so chapters that would comprise the TPP.

The not-so-good news is that there has been little progress on the market access negotiation and key policy questions.

The other TPP partners have been waiting for the U.S. to show its hand.

I suppose I have as good a sense as anyone about what goes into closing deals.

One dimension is thinking creatively to come up with solutions that open markets while coping with political sensitivities.

Trade negotiations are not like a poker game, where one player walks away with the chips. Everyone needs to be able to make a case for the deal back home. So the real task is creative problem-solving. But at some point, the principal negotiators—who need to combine policy and technical knowledge with political sense and antennae for constituencies—have to decide.

The stakes for TPP are high. The potential benefits are great. The worst course is to talk about TPP without acting. I hope that sessions like this one can build interest and support in Congress and with constituencies; encourage TPP partners to stretch for a deal; and, must of all, press the Administration to put its shoulder behind TPP to get it done.

Thank you for the invitation to be with you, and I'd be pleased to try to answer your questions.