



# TPA and TPP: A Defining Moment in Trade Policy, U.S.-Japan Relations and American Politics

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In 1991, the United States had moved 500,000 troops to the Persian Gulf and spearheaded an international coalition to force Saddam Hussein to leave Kuwait. Secretary of State James Baker went to Iraq to see if war could be averted. He described it as “a defining moment.”

I’ve always thought that was a beautiful phrase. Over the years, I’ve looked for a time when I could use it without exaggerating. I have finally found an appropriate occasion. Tomorrow, the House of Representatives will decide whether to join the Senate in granting trade promotion authority (TPA) to President Obama to complete the negotiation of the Trans-Pacific Partnership (TPP). By all accounts, the outcome hangs in the balance.

**It is a defining moment in U.S. and global trade policy.** The House vote will determine whether we will move ahead with expanding trade through negotiated agreements, or whether we will abandon the course that we have been on for many decades.

**It is a defining moment in U.S.-Japan relations.** The TPP represents the converging interests of the U.S. and Japan. It has become a measure of our ability to work together to provide leadership on major issues, and a test of whether we will deepen our trade and economic relationship, which is extensive but could be both deeper and more balanced.

**It is a defining moment for our position in the Asia-Pacific region.** The United States can be inside the Asia-Pacific region as it integrates economically, or we can be outside of it. We can offer a positive, rules-based model as an alternative to China’s state capitalism, or we can cede the economic leadership to China.

**And it is a defining moment for our political system,** which has done so much in recent years to invite contempt and deepen despair. This is a genuine battle between clashing world views being considered by Congress in real time; nobody is waiting until after the next election. This is a test of whether the President and Congress can break through partisanship and gridlock to do something important together. The 11 other nations in the TPP negotiations are watching the outcome intently; so is the rest of the world.

In my view, short of the decision whether to go to war, or the Iranian nuclear talks, for example---it doesn't get any more important than this.

The Trans-Pacific Partnership (TPP) negotiation began in 2005 as a minor trade negotiation between "the P-4", small nations oriented to free trade---New Zealand, Singapore, Chile and Brunei. It gained some weight when the United States, Australia, Peru and Vietnam joined the negotiation in 2008. It became much more substantial, adding Malaysia in 2010 and then Canada and Mexico in 2011. But it was the entry of Japan in 2013 that made the TPP the most significant trade negotiation since the Uruguay Round. Suddenly, it was a trade negotiation involving the first and third largest economies in the world, and involving 40% of the world's GDP.

From all reports, the TPP negotiations have entered the final stage. It is a complex negotiation, involving a full range of traditional trade issues, but also new issues: rules for the digital economy, labor rights and environmental protection, and regulation of state-owned enterprises. The other countries appear ready to complete the negotiations, but they want assurance that the deal they negotiate with the president's trade representative will be the final deal and will not be picked apart by Congress. For the past 40 years, that assurance has been provided by the uneasy but necessary accommodation between the Congress and the President, by which Congress sets the objectives of our trade policy, and gives the Executive the authority to negotiate trade agreements to meet those objectives. If the Executive Branch negotiates a trade agreement, it receives an up or down vote --- no amendments --- within a time certain. This is TPA, which used to be known as "fast track."

On May 22, the Senate, after a searching debate, approved TPA for this agreement and others that are being negotiated by a vote of 62-37. Now it is up to the House, which everyone knew would be a harder sell. House members don't have the luxury of a six year term, which makes even the toughest votes a little more bearable. And so, we've reached a defining moment.

Consider, first, the matter of trade policy. We all know that the United States was the principal architect and the unquestioned leader of the global trading system created in the aftermath of World War II. And the global trading system --- what we called "the GATT" --- produced a series of multilateral rounds that lowered tariffs and other trade barriers around the world. The decades after 1945 witnessed an enormous expansion of the global economy. Trade liberalization was hardly the only factor --- great improvements in technology, transportation and communications of course mattered ---but trade liberalization certainly contributed. For the United States, the importance of the multilateral trading system, and trade liberalization, went pretty much unquestioned in the decades following World War II.

But the trade issues became more challenging as our economic dominance began to face the challenge of real international competition. Robert Reich has called 1973 "the end of the sweet summer of post-war prosperity." Suddenly, energy prices were soaring, and our steel, auto and semiconductor industries faced challenges from Europe and particularly Japan. We could no longer afford to be far more open to foreign products than other nations were to ours.

In the late 1970's and then through the 1980's, the search went on for a "tougher" U.S. trade policy, based on reciprocity. We wanted other countries, particularly Europe and Japan, long recovered from the damage of war, to open their markets to our products and services. The United States reached a new policy consensus on trade, as the Reagan administration and the Democratic Congress came together to enact the Omnibus Trade and Competitiveness Act of 1988. Congress gave the president trade negotiating authority, but also strong tools to pressure our trading partners, and policies to promote our economic competitiveness at home.

The new consensus didn't last long. In 1991, Washington began debating whether to grant trade promotion authority --- then known as "fast track" --- for the negotiation of the North American Free Trade Agreement (NAFTA). After an intense and divisive debate, Congress granted President George H.W. Bush that authority.

The Bush administration completed its negotiation of NAFTA in the summer of 1992, but not in time for Congress to consider it. The Clinton administration finished NAFTA after negotiating labor and environmental side agreements to make it more appealing to Democrats in Congress. As someone who was deeply involved in the Congressional fight over NAFTA in 1993, I can say with some confidence: the side agreements didn't make it much more appealing. Just enough.

Whatever one's view of NAFTA --- and I'm a proud supporter --- there is no doubt that it shattered the consensus on trade. President Clinton never got trade negotiating authority again, despite the successful conclusion of the Uruguay Round. The Free Trade Area of the Americas never had a chance because it was regarded as "NAFTA-expansion." The new multilateral round, which was scheduled to launch in Seattle in 1999, failed amidst chaos in the convention hall and violence in the streets, despite the booming prosperity of the times and the data showing that Seattle was a pro-trade city. The multilateral round did start in Doha in 2001 in the aftermath of 9/11, but born under a dark star, it never had a good day. The Bush administration narrowly won trade promotion authority, but after they had negotiated free trade agreements with Korea, Columbia and Panama, Congress simply refused to take them up, renegeing on the basic promise of trade promotion authority.

15 years after NAFTA, Barack Obama ran for president as a trade skeptic. He called a virtual timeout on trade negotiations as he worked to save the U.S. economy from the real possibility of a second Great Depression. When the economic crisis eased, the president was able to focus on longer-term U.S. economic prospects. He concluded that properly negotiated trade agreements, starting with the Trans-Pacific Partnership agreement, could play to our economic strengths, while lifting labor and environmental standards around the world. To his credit, he committed the United States to its most ambitious trade agenda in more than 20 years without the certainty that Congress would support it.

The Asia-Pacific, the most economically dynamic region in the world, presented the greatest opportunity and the greatest challenge. The region was moving rapidly toward economic integration, without the United States. The president concluded that America must be inside an integrating Asia-Pacific, ensuring that our manufacturers, service providers and farmers were not disadvantaged, and that we could play an important part in setting the rules of trade, rather than ceding leadership to China. I only worked for one president, but I have worked with several, and have no doubt that Obama reached the conclusion that any American president, Democratic or Republican, would have reached.

The opponents to TPA and TPP, spearheaded by the labor unions and many NGOs, led by Public Citizen, and their Congressional advocates, have waged a fierce fight in Washington and around the country, leaving the ultimate outcome in doubt. They combine substantive arguments and effective political pressure, and they have honed their skills through 20 years of opposing trade agreements. During that time, their work has elevated the U.S. emphasis on labor rights, environmental protection, human rights and access to medicines, adding important dimensions to the debate over globalization.

The NGOs make, in essence, a "sovereignty" argument. They contend that trade agreements undermine the ability of the United States to legislate and regulate to protect health, environment, consumers and workers at the levels that our elected officials want to provide. In my view, their basic argument flies in the face of experience and common sense. We have a vigorous debate in this country over environmental policy. But it's a debate between those who believe that climate change is a profound threat, and those who deny that it's a problem. We have a fierce debate over health policy, but it's between

those who believe that Obamacare is a long-awaited accomplishment, and those who are bent on destroying it. We've been fighting about the proper balance between labor and management at least since 1947, when the Taft-Hartley Act was passed. None of these challenges arise from, or reflect, trade agreements. And in fact, every country is concerned about maintaining its own sovereignty. Look at the European Union positions on genetically modified food, data privacy, competition policy, regulation of chemicals and many others. Trade agreements are hard to negotiate precisely because no country is interested in giving up its sovereignty.

On the economic side, the opponents, led by the labor unions, argue that trade agreements have destroyed jobs, accelerated the movement of U.S. companies to do business elsewhere, suppressed wages and heightened inequality. There are plenty of reasons to be angry and unsettled about what has happened to the U.S. economy, particularly since 2001. It has been a turbulent period in which the economy has been buffeted by globalization, the transformative impact of the Internet, the rise of China, the decision to fight two wars while cutting taxes, the financial crisis and the Great Recession. It is understandable that new trade agreements become the vehicle for expressing anger, but in fact, it is very difficult to be certain about how many jobs have actually been lost because of trade agreements, as opposed to globalization and technological change generally, the rise of new competitors, or bad policy decisions.

From my standpoint, members of Congress should make this decision on the basis of what we know for sure:

- The United States is only 5% of the world's population. We will prosper only by selling our products and services, and doing business with, the other 95%.
- The Asia-Pacific is the most economically dynamic region in the world. Over the last two decades, the region's middle class grew by two billion people. That number is expected to increase by another 1.2 billion by 2020.
- Our manufacturers, farmers and service providers still encounter very high trade barriers in the region. According to the Chamber of Commerce, "a typical Southeast Asian country imposes tariffs that are five times higher than the U.S. average, while its duties on agricultural products soar into the triple digits. In addition, a web of nontariff and regulatory barriers block market access in many countries."
- The central reality of this era of trade is the proliferation of free trade agreements. Countries are lowering barriers to their preferred trading partners. The number of trade agreements between Asian countries increased from three in 2000 to more than 50 today, with 80 more in the pipeline. If your country is not a preferred trade partner, your companies, farmers and workers are disadvantaged. The U.S. has just three trade agreements with Asia. Our share of the region's imports declined by about 43% between 2000 and 2010.
- Whatever Congress decides, the Asia-Pacific region will integrate economically. We can be part of that integration, shaping the rules and sharing in the growth, or we can be outside, watching other nations work together in expanding trade and prosperity, often at our expense. The TPP negotiation is complex, but the fundamental choice is not.

Consider, second, U.S.-Japan relations. The U.S.-Japan economic and trade relationship can be viewed as a four-decade roller coaster ride, which has somehow brought the countries to this moment where our interests have converged to a remarkable degree.

Starting in the 1970's and accelerating through the 1980's, Japan's remarkable rise created a blast of unexpected competition that shook both the economy and the self-confidence of the United States. This was the era of Ezra Vogel's "Japan as Number 1," Clyde Prestowitz's book "Trading Places," and members of Congress taking a sledge hammer to a Japanese automobile on Capitol Hill. Japan's model of government-industry collaboration and closed markets appeared unstoppable, producing arrogance and complacency in Japan, and pessimism and frustration here.

In the 1990's, the situation reversed dramatically. The U.S. pressed Japan to open its markets, with some, but relatively limited, success. But the U.S. benefited from strong economic policies, and renewed competitiveness, particularly from the "dot. com" revolution, while Japan confronted a bubble in the housing and banking sector, which stopped growth and led to a long period of what has been called "the lost decades" (although that description is hard to believe for those who visited Tokyo.)

The 2000's ---- which began with 9/11 and ended with the financial crisis and the Great Recession, and will be remembered for China 's remarkable rise --- left both the U.S. and Japan short of confidence and looking for new economic and trade policies.

As recently as 2011, the U.S. had virtually sidelined itself from trade negotiations, and still had not approved the agreements negotiated by the Bush administration four years earlier. At the same time, Japan was battling deflation and struggling to respond to the catastrophe at the Fukushima nuclear plant.

But in the past few years, there has been a striking convergence of our economic interests. President Obama recognizes the danger that the U.S. risks being excluded from the Asia-Pacific region. Prime Minister Abe recognizes that the TPP is of existential importance to Japan, in terms of its future position in Asia and the global economy, and the only lever that could really reform and open the Japanese economy, particularly its agricultural sector. The two countries find a shared interest in offering a high standard, rules-based alternative to China's state capitalism. And both countries face the fundamental challenge: how do advanced economies maintain growth and prosperity during what Fareed Zakaria has called "the rise of the rest."

At the same time, there is a striking *divergence* in the political situation of Japan and the U.S. In Japan, the long years of "revolving door Prime Ministers" and "twisted Diets" have ended. Prime Minister Abe has a strong political position and can deliver on his promises. He capitalized on his position to take his support for TPP to the voters, twice, and won

In stark contrast, President Obama has a daunting political situation: a hostile Congress, a contentious and historically difficult division of power between the Executive and Congress over trade, and the legacy of the twenty year war over trade since NAFTA that has left Congressional Democrats overwhelmingly opposed to TPA.

President Obama took on this fight, against much of his own party, because he concluded it was in the national interest. If he prevails in the House vote, it will be a great example of political leadership--- and probably the best escape act since Harry Houdini.

If the House vote goes the president's way, Japan's involvement in the negotiation will have played an important part. A recent Pew Research Survey on U.S. and Japanese attitudes toward each other showed that Americans have very positive feelings and high levels of trust toward Japan and the Japanese people. The trade battles of the 1980's and the 1990's are in the distant past, an important memory to

only a small percentage of Americans. 55% of Americans polled characterized Japan as a “fair trader,” in contrast to 19% who held that view in 1997.

In my view, several factors contribute to these findings:

- The trade deficit with Japan has become a much smaller part of the overall trade deficit, and quite small in comparison with the trade deficit with China.
- There is widespread appreciation that Japanese companies, starting with the auto companies, have contributed significantly to investment, innovation and job creation in communities all across the U.S.
- There is recognition that Japan shares our commitment to democracy, human rights and rules-based trade.

For 30 years, the United States has pushed Japan to deregulate its economy and open its markets. Every administration had a different name for their Japan policy, but the bottom line was the same: be more like us. Now, for the first time, Japan has a Prime Minister that has committed his country to make fundamental changes. If the TPP successfully concludes, at the center of it will be a U.S.-Japan free trade agreement ---- something that many students of Japan thought would never happen. As Japanese barriers come down, many U.S. sectors will benefit, as will Japanese consumers. The overall Japanese economy will become more dynamic.

Currently, Japan is our fourth largest trading partner, and ranks second in foreign investment in the United States. But the trade and economic relationship between our countries could be deeper and richer. Japan remains very low as a recipient of foreign direct investment (FDI), compared to other OECD countries. U.S trade with Japan has been very flat compared to our trade with our established trading partners. Between 1990 and 2013, U.S. trade with the United Kingdom increased 6% per year; with France, it increased 8% per year; with Germany, 10% per year. With Japan, trade only increased 2% per year.

There is room for significant growth. Given Japan’s energy needs, and America’s newly found abundance of oil and gas, there will be extraordinary opportunities to expand energy trade. Japan has many superb companies that have begun to “go global,” or are poised to do so. Softbank, Toray and Lixil have come to the United States, and may someday be brand names as familiar as Honda, Panasonic and Canon. The U.S. and Japan continue to lead the world in all the information and communications technologies that provide the foundation for the future. There is no limit to what we can accomplish together.

Consider, third, our position in the Asia-Pacific. Much of the TPA debate --- in economic and geo-political terms --- centers on China. President Obama surprised many listeners when he hit the issue straight on during his State of the Union address: “China wants to write the rules for the world’s fastest growing region. That will put our workers and businesses at a disadvantage. Why would we let that happen? We should write those rules.” Some commentators criticized him, but in my book, that’s the kind of plain speaking and leadership that we need from our presidents.

China’s rise since 1979 is one of history’s extraordinary stories. Hundreds of millions of people have been moved out of poverty through China’s state capitalism: a unique blend of private enterprise and government control. It is fair to say that no one fully anticipated the magnitude of China’s impact on the global economy, as it emerged as the manufacturing arm of the world, and its insatiable need for energy and commodities drove economic growth in Latin America and Africa. Certainly, it has affected

our country. We had 19 million manufacturing jobs in 1979 --- our highest level. In 2001, we still had 16 million manufacturing jobs --- a decrease of about 1% per year. By 2003, three million more manufacturing jobs disappeared --- a 19% reduction in just two years. It is hard to explain that type of loss without recognizing that it coincided with China's entry into the WTO, which gave U.S. companies confidence that they could open facilities in China without worrying that tariffs and other trade barriers could be imposed unilaterally against imports from China.

Facing a substantial economic slowdown (by their standards), forces within China's government are debating whether this is the time to liberalize the economy, by going for consumer-led growth, rather than export-led growth. In the meantime, rampant violations of intellectual property continue, state-owned enterprises are advantaged over private competitors, and U.S. companies invested in China have become increasingly disillusioned by China's unique standards and preference for "indigenous innovation."

It remains the hope of all Americans, and our leaders, that China will become what Robert Zoellick once called "a responsible stakeholder" in the international system. Every recent American president has worked hard to maximize the possibility that China would develop as a partner in the challenges facing the global economy and global security. As the old Michelob commercial reminded us: "Some days are better than others." Recent actions by China to build islands on reclaimed land in the South China Sea threaten China's neighbors and are inconsistent with international norms. Plus, press reports tell us about major breaches of our cyber-security by China.

TPP is the economic centerpiece of the Obama administration's "rebalance" toward Asia. It allows the United States and other major nations to offer a high-standard, rules-based alternative to China's state capitalism. It offers a model to which some reformers in China will aspire. It provides assurance to the other countries that the United States is committed to the region and their future. China may decide to seek entry to the TPP in a few years, or it may intensify its effort to spearhead competing trade arrangements.

But we can be absolutely certain about one thing. If Congress defeats TPA and rejects TPP, it would be a major self-inflicted wound for the United States. It would be seen, quite accurately, as a protectionist and isolationist move by an America plainly in retreat. I don't question the sincerity of those who oppose TPA and TPP. But it does amaze me that many of the opponents --- mostly from my party --- absolutely understand that China is our number one trade problem, but still advocate a course of action that would be a boon to China, and a disaster for America.

Consider, finally, our political system. Ultimately, the decision on TPA is a test of our political system. Are we still capable of doing big things in the national interest? Can the president exercise leadership that historically we expected from the "bully pulpit?" Can the president and the Republicans overcome their differences and work together to achieve a common goal --- for just about the first time? Can some of the Congressional Democrats face up to their strongest supporters, and tell them: "On this one, we just don't agree."

So far, the news has been gratifying. President Obama has exercised extraordinarily strong leadership. The entire administration has been mobilized in support. The Republican leaders have been impressively steadfast, even though working with the president is, in Mitch McConnell's wry phrase, "something of an out of body experience." In the Senate, 14 Democrats bucked the unions and the NGOs to support the president, producing a decisive result. The House vote will be very close, but I am confident that there will be just enough Congressional profiles in courage to produce a narrow victory. This is one time that failure really isn't an option.

By now, it's probably clear that I care about this decision a lot. My interests in U.S. trade policy, our relations with Japan, and whether our political system can overcome dysfunction are pretty evident. But the real issue is more fundamental. I was born in 1947. There was a broad middle-class, and we were at the very bottom. My mother didn't finish high school; my father did get through college, thanks to the G.I. bill, at the age of 40. But I had extraordinary opportunities, thanks to a period of American economic dominance. I worry, as I'm sure you do, whether my children and grandchildren will have the opportunities that I had. They'll travel more, and they have technology that we didn't have, but in terms of the economy, it's a much tougher world than what my generation faced. It's natural to be nostalgic for some earlier, easier period, but the United States really can't stop the world and get off. As President Clinton said in 1993: "America must compete, not retreat."

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