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The Trans-Pacific Partnership (TPP): Strategic Implications

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Summary

On February 4, 2016, Ministers of the 12 countries participating in the Trans Pacific Partnership (TPP) negotiations signed the proposed free trade agreement (FTA). TPP is one of the Obama Administration's signature trade policy initiatives, an effort to reduce and eliminate trade and investment barriers and establish new rules and disciplines to govern trade and investment among the 12 countries. TPP proponents, including Administration officials, argue that the proposed TPP would have substantial strategic benefits for the United States in addition to its direct economic impact. They argue that the agreement would enhance overall U.S. influence in the economically dynamic Asia-Pacific region and advance U.S. leadership in setting and modernizing the rules of commerce in the region and potentially in the multilateral trading system under the World Trade Organization (WTO).

Congress plays a key role in the TPP. Through U.S. trade negotiating objectives established in Trade Promotion Authority (TPA) legislation and informal consultations and oversight, Congress has guided the Administration's negotiations. Ultimately, Congress would need to pass implementing legislation if the concluded agreement is to take effect in the United States.

The geo-political arguments surrounding TPP are widely debated, as are the arguments about its potential economic impact. To some, the TPP is an important litmus test of U.S. credibility in the Asia-Pacific region. As the leading economic component of the Administration's "strategic rebalancing" to the region, the TPP, proponents argue, would allow the United States to reaffirm existing alliances, expand U.S. soft power, spur countries to adopt a more U.S.-friendly foreign policy outlook, and enhance broader diplomatic and security relations. Many Asian policymakers—correctly or not—could interpret a failure of TPP in the United States as a symbol of the United States' declining interest in the region and inability to assert leadership.

Some critics argue that TPP backers often do not identify specific, concrete ways that a successful deal would invigorate U.S. security partnerships in the region, and that an agreement should be considered solely for its economic impact. They maintain that past trade pacts have had a limited impact on broad foreign policy dynamics and that U.S. bilateral relations are based on each country's broader national interests.

The Administration is also pursuing strategic economic goals in the TPP. Through the agreement, proponents argue, the United States can play a leading role in "writing the rules" for commerce with key trading partners, addressing gaps in current multilateral trade rules, and setting a precedent for future regional and bilateral FTA negotiations or multilateral trade talks at the World Trade Organization (WTO). The core of this argument is the assertion that the TPP's potential components—including tariff and non-tariff liberalization, strong intellectual property rights and investment protections, and labor and environmental provisions—would build upon the U.S.-led economic system that has expanded world trade and investment enormously since the end of World War II.

Although most U.S. observers agree it is in the U.S. interest to lead in establishing global and regional trade rules, less consensus exists on what those rules should be, yielding some criticism on the strength and breadth of various TPP provisions. In addition, some argue that crafting new rules through "mega-regional" agreements rather than the WTO could undermine the multilateral trading system, create competing trading blocs, lead to trade diversion, and marginalize the countries not participating in regional initiatives.

China is not a TPP member, but features prominently in discussion of the agreement's potential strategic effects. Some argue that China is attempting to create a regional order that seeks to minimize U.S. presence and power. In this line of reasoning, the TPP serves as a counter to

growing Chinese economic and political influence, implying that failure to conclude TPP could, in effect, allow China to shape regional rules of commerce and diplomacy through its own trade and investment initiatives. Others, however, argue that TPP is complementary to other FTAs and trade agreements throughout the region, including those championed by China, and that new members—possibly including China—will be critical for the TPP to influence regional norms.

Trade agreements occur at the intersection of foreign and domestic policy, which can create tensions in balancing competing policy priorities. Key issues Congress faces as it continues its role regarding TPP include (1) how strongly to weigh geo-political implications of TPP; (2) the potential impact of the TPP on the multilateral trading system and other trade and economic institutions; and (3) the possible expansion of the agreement to include additional members.

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Overview

The Obama Administration has pursued the proposed 12-nation Trans-Pacific Partnership (TPP) free trade agreement (FTA) negotiations as the primary economic component of its "strategic rebalance" of U.S. foreign policy priorities to the Asia-Pacific region.[1] The 12 participating countries announced the conclusion of negotiations and released the text of the agreement in late 2015, and signed the proposed FTA on February 4, 2016.[2] The TPP aims to liberalize and establish rules and disciplines governing trade and investment among its 12 members,[3] and has broad implications for U.S. relations in the region.

Congress had an active role in the TPP negotiations through oversight, consultations with the Administration, and formal negotiating objectives established in Trade Promotion Authority (TPA) legislation. Ultimately, Congress would need to pass implementing legislation before the TPP could take effect in the United States. The potential impacts of the agreement may be an active area of debate during the second session of the 114th Congress.

According to TPP proponents, including U.S. Trade Representative Michael Froman, "the TPP's significance is not just economic, it's strategic."[4] The term strategic has been used in the context of the TPP debate to capture a range of arguments encompassing both geo-political and geo-economic aspects of U.S. policy, making it difficult to define precisely. In broad terms, however, arguments about the TPP's strategic importance relate to the United States using the agreement as a tool to exert influence in the region and beyond, in both economic and broader political and security spheres, and creating conditions that facilitate other U.S. policy tools. Such arguments maintain that through the TPP, the United States can

- strengthen regional alliances and partnerships;
- maintain U.S. leadership and influence in the Asia-Pacific region;
- enhance U.S. national security;
- liberalize trade, encourage market-oriented reforms, and drive economic growth;
- strengthen regional and potentially global trade architecture; and
- establish and update regional trade rules and disciplines consistent with U.S. interests and modern commercial realities.

China is not a TPP member, but features prominently in analysis of U.S. influence in the region. Beijing's economic rise and active trade and investment initiatives in the region form an important backdrop to the strategic aspects of the TPP negotiations. Now the world's second largest economy, China has grown much faster than the United States over the past decade as a trade partner for most Asian countries. Over the past several years, Beijing has initiated or

[1] U.S. involvement in the TPP negotiations began in 2008 under the Bush Administration as the United States decided to participate in expanding the existing P-4 agreement among Brunei, Chile, New Zealand, and Singapore. For more information on the background of the TPP, see CRS Report R44278, *The Trans-Pacific Partnership (TPP): In Brief*, by Ian F. Fergusson, Mark A. McMinimy, and Brock R. Williams and CRS In Focus IF10000, *The Trans-Pacific Partnership (TPP): An Overview*, by Brock R. Williams and Ian F. Fergusson.

[2] USTR, "Trans-Pacific Partnership Ministers' Statement," February 4, 2016, http://www.tpp.mfat.govt.nz/assets/docs/Trans-Pacific%20Partnership%20Ministers%20Statement%204%20Feb%202016.pdf. The full TPP text is at https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text.

[3] The countries participating in the TPP negotiations with the United States are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

[4] USTR, "Remarks by Ambassador Michael Froman at the CSIS Asian Architecture Conference," September 22, 2015.

supported a broad set of trade and investment initiatives to spur development in the region. Some analysts argue that through these initiatives China is attempting to create a regional order that seeks to minimize U.S. presence and power. (See "China's Regional "Vision" section below.)

As a result, those championing the agreement, including the President, often cast TPP as a vehicle for maintaining U.S. leadership in Asia and establishing trade and investment rules and norms with an eye towards China.[5] Others contend that casting the TPP as an effort to "counter" Chinese initiatives is unproductive, and could create negative perceptions of U.S. intentions, both in China and elsewhere in the region. Some also argue that in many ways U.S. and Chinese goals for trade liberalization and rules and norms in the region may be mutually reinforcing rather than competing.

Trade agreements inevitably exist at the intersection of domestic and foreign policy and include both economic and political elements. This can create a tension in balancing various policy priorities, particularly for those policymakers who may support the TPP on some grounds but not others. Some opponents of the agreement argue that focusing on the strategic elements of the TPP distracts the debate from what they view should be its main criteria: the agreement's potential impact on the U.S. economy. While both TPP critics and supporters cite different estimates of economic outcomes to support their positions, the broader strategic implications tend to be highlighted by proponents, and can be difficult to quantify despite their potential significance.

This report will examine selected strategic arguments presented by the Administration, as well as by TPP proponents and opponents. Other CRS reports[6] address the specific trade negotiations and economic effects. This report focuses generally on the Asia-Pacific region, with particular emphasis on implications for Asia.[7] The report also raises strategic issues Congress may consider as it examines a final TPP agreement and potentially debates future legislation to approve and implement it.

Geo-Political Arguments Surrounding TPP

Since the end of World War II, the United States has advanced trade agreements and institutions such as FTAs to promote its broader foreign policy goals. The United States signed its first FTA with Israel in 1985, and many observers argue that political solidarity with Israel weighed more heavily than its economic value at the time.[8] In the 2000s, many observers saw U.S. FTAs with Bahrain, Morocco, and Oman as based not just on economic, but also on security and foreign policy objectives—primarily helping forge closer cooperation on efforts to combat terrorism. The first U.S. FTA in Asia entered into force in 2004 with Singapore, a close U.S. security partner with enormous strategic interests in liberalizing trade.

[5] White House, "Statement by the President on the Trans-Pacific Partnership," press release, October 5, 2015, https://www.whitehouse.gov/the-press-office/2015/10/05/statement-president-trans-pacific-partnership.

[6] For more information on the TPP negotiations, see CRS Report R42694, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress*, coordinated by Ian F. Fergusson, CRS Report R42344, *Trans-Pacific Partnership (TPP) Countries: Comparative Trade and Economic Analysis*, by Brock R. Williams, and CRS In Focus IF10000, *The Trans-Pacific Partnership (TPP): An Overview*, by Brock R. Williams and Ian F. Fergusson.

[7] In addition to countries in Asia, the TPP includes five countries in the Western Hemisphere: Canada, Chile, Mexico, Peru, and the United States.

[8] At the time, few bilateral or regional FTAs were being pursued by the United States or other countries. Instead, trade negotiations focused on multilateral efforts in the General Agreement on Tariffs and Trade (GATT), the predecessor to the World Trade Organization (WTO).

Obama Administration officials and many of the TPP's proponents argue that U.S. trade policy initiatives in Asia, particularly the TPP, have considerable geostrategic importance. The Administration's 2015 National Security Strategy stated:

> Sustaining our leadership depends on shaping an emerging global economic order that continues to reflect our interests and values. Despite its success, our rules-based system is now competing against alternative, less-open models.... To meet this challenge, we must be strategic in the use of our economic strength to set new rules of the road, strengthen our partnerships, and promote inclusive development.[9]

To some observers, TPP is an important test of U.S. credibility as a regional leader. The proposed agreement is the Obama Administration's signature economic initiative in the Asia-Pacific region. Some observers have argued that if the agreement is not approved by Congress, the entire rebalancing strategy could be seen as relatively weak and the United States will be seen as divided on how important it considers its leadership role in Asia.[10] Administration officials argue that the agreement is a key signal that the United States is actively integrated into Asia's economic and diplomatic structures. In a 2014 article in *Foreign Affairs*, U.S. Trade Representative Froman argued, "For many of the countries that would be party to the TPP, the economic benefits of the agreement are further sweetened by expectations that the United States will become more deeply embedded in the region."[11]

These arguments are echoed by many in the Asia-Pacific region, particularly among TPP negotiating partners. At a regional security conference in Singapore in May 2015, Singapore Prime Minister Lee Hsien Loong said, "... whatever the merits or demerits of individual line items of trade covered in the TPP, the agreement has a wider strategic significance. Getting the TPP done will deepen links on both sides of the Pacific. Failing to get the TPP done will hurt the credibility and standing of the U.S. not just in Asia, but worldwide."[12]

Some proponents also argue that concluding the TPP would be an important aspect of a broader U.S. strategy to develop and strengthen regional institutions in ways that foster cooperation and the peaceful resolution of differences through respect for rules and norms. In 2013, then National Security Advisor Tom Donilon wrote: "Just as our security alliances across two oceans have brought stability that extends far beyond our treaty partners, U.S. economic diplomacy today can advance global prosperity by strengthening the international rules and norms that make trade and growth possible."[13]

Linkages between the TPP and the promotion of broader diplomatic and security interests have become a strong part of the Administration's arguments for TPP. In an April 2015 speech providing a status report on the "rebalancing," Secretary of Defense Ashton Carter stated that "passing TPP is as important to me as another aircraft carrier."[14] Other TPP proponents have said

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[9] White House, "National Security Strategy," February 2015. https://www.whitehouse.gov/sites/default/files/docs/2015_national_security_strategy.pdf.

[10] Jeffrey A. Bader and David Dollar, "Why the TPP Is the Linchpin of the Asia Rebalance," Brookings.edu, July 28, 2015.

[11] Michael Froman, "The Strategic Argument of Trade," *Foreign Affairs*, November/December 2014.

[12] Prime Minister's Office of Singapore, "Transcript of Keynote Speech by Prime Minister Lee Hsien Loong at the Shangri-La Dialogue 29 May 2015." http://www.pmo.gov.sg/mediacentre/transcript-keynote-speech-prime-minister-lee-hsien-loong-shangri-la-dialogue-29-may-2015.

[13] Tom Donilon, "The President's Free Trade Path to Prosperity," *Wall Street Journal*, April 15, 2013.

[14] U.S. Department of Defense, "Asia-Pacific Remarks," Secretary of Defense Ashton Carter, McCain Institute, Arizona State University, April 6, 2015.

that the agreement will reinforce U.S. alliances and partnerships in East Asia.[15] However, when elaborating on security rationales for supporting passage of TPP, many of the agreement's backers do not identify specific, concrete ways that a successful deal would invigorate U.S. security partnerships in the region.

Some critics of TPP assert that the strength or weakness of broader bilateral political and security relationships depend more upon countries' assessment of their security interests than on whether they have a trade agreement with the United States.[16] For instance, they contend, it arguably is difficult to pinpoint how, if at all, the South Korea-United States Free Trade Agreement (KORUS FTA), which went into effect in 2012, by itself has altered either South Korea's or the United States' fundamental interests on the Korean Peninsula or in Northeast Asia. Put another way, the short-term strength of the U.S.-South Korea alliance likely is determined by factors such as the two countries' perception of threats from China or North Korea, rather than by the presence of the KORUS FTA. Likewise, few observers believe the future of the U.S.-Japan alliance depends heavily on the TPP's success or failure. In recent years, Japan's own strategic and political calculations appear to have been the primary drivers behind its moves to deepen strategic cooperation with the United States.

TPP may have a larger impact on countries with which the U.S. relationship is not as close. In Vietnam's case, for instance, some argue that a successful outcome in the TPP negotiations would support reform-oriented decisionmakers by requiring the government to enact deeper market-oriented institutional changes that may be required to implement their commitments under TPP provisions. In some cases, these same individuals may also support deepening relations with the United States.[17] Many Vietnamese leaders would see TPP approval as a sign that the United States welcomes closer ties and more normal relations with the country. Failure to approve the agreement, some argue, could negatively affect Vietnam's perception of the United States as a reliable partner, at least in the economic realm.

Some TPP proponents contend that the agreement will help the United States, as Defense Secretary Carter has said, "promote a global order that reflects both our interests and our values."[18] Historically, U.S. interests have included the establishment of a rules-based trading system founded on principles of transparency, openness, and non-discrimination, but less clear, and less often specified by proponents is the link between the TPP's trade rules and the security realm.

One indirect way that economically large trade agreements such as TPP may affect U.S. security relationships is by altering countries' *perception* of where their strategic interests lie. Each major agreement, the argument runs, signals that the participating countries are key partners, and merit treatment as such. By this line of reasoning, approving and implementing TPP would help to "lock-in" the United States' Pacific presence, keeping the United States closely connected to developments in the Pacific as countries in the region become wealthier and more powerful.[19] Similarly, implementing the TPP could send the message to other countries that the Pacific Rim is a priority of U.S. policymakers.

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[15] Dennis C. Blair, "Who Decides Pacific Trade?" *New York Times,* November 5, 2014.

[16] Daniel Slane and Michael Wessel, "The TPP: Why It Won't Address Security Concerns with China," *Renewing America* blog, Council on Foreign Relations, May 15, 2015.

[17] Truong-Minh Vu & Nguyen Nhat-Anh, "Vietnam Debates the TPP," CSIS cogitAsia blog, September 24, 2014.

[18] Carter, "Asia-Pacific Remarks," April 6, 2015.

[19] Daniel Drezner, "The Trans-Pacific Partnership is About More than Trade," *Washington Post,* May 7, 2015.

The flip side of this argument is that many Asian policymakers—correctly or not—could interpret a failure of TPP in the United States as a symbol of the United States' declining interest in the region and inability to assert leadership. A former U.S. ambassador to China was quoted in June 2015 saying: "Domestically we tend to view trade through a political prism by way of winners and losers ... In Asia, it's seen as directly tied to our leadership and commitment to the region. A failed TPP would create an influence vacuum that others, primarily China, would fill."[20]

Many argue that U.S. credibility in Asia currently is in question, during a time when China's rise and North Korea's growing nuclear and missile capabilities are testing the U.S.-based rules system and challenging U.S. influence.[21] Some TPP backers take this a step further, arguing that relationships such as that between the United States and Japan "would suffer from a period of mutual recriminations and loss of trust and cooperation."[22] In a scenario where a TPP agreement is rejected by Congress, thus negating any politically challenging concessions that others made through negotiation, the loss of trust and cooperation could be particularly pronounced.

The TPP and U.S. Trade Policy

The TPP may also have implications for U.S. influence on regional and global efforts to shape trade and investment. Proponents argue that the rules established in the TPP will promote economic growth and advance U.S. interests by influencing trade regimes at several levels:

- encouraging market opening and economic reforms among TPP's current members, particularly in emerging markets such as Malaysia and Vietnam;
- creating incentives for other Asia-Pacific nations to follow suit, to match the preferential access that TPP member countries would gain in major markets such as the United States and Japan; and
- addressing new trade barriers through new trade rules and disciplines, laying groundwork to influence and potentially spur future multilateral or plurilateral negotiations at the WTO or future FTA negotiations, and update critical gaps in existing trade rules.

U.S. Trade Policy in Context

Central to U.S. negotiating objectives in the TPP is the goal to update the rules-based trading system.[23] Since World War II, the United States, primarily through multilateral fora, has sought to expand economic engagement through trade as a mechanism for generating broader economic growth and prosperity. Through "rounds" of trade liberalization negotiations under the General Agreement on Tariffs and Trade (GATT), the United States led in liberalizing tariff and non-tariff barriers, setting rules and norms based on transparency, non-discrimination, and most-favored nation treatment. This led eventually to the establishment of the international rules-based trade architecture of the World Trade Organization (WTO), the successor to the GATT.

[20] Jon Huntsman, quoted in Peter Baker, "The Trans-Pacific Partnership and a President's Legacy," *New York Times*. June 14, 2015.

[21] Ellen L. Frost, "In Asia, U.S. Economic Leadership Is Under Attack," *The National Interest*, January 8, 2015.

[22] Dennis C. Blair, "Who Decides Pacific Trade?" *New York Times*, November 5, 2014.

[23] Michael Froman, interview by Gerald F. Seib, "The U.S. Trade Agenda and the Trans-Pacific Partnership," Council on Foreign Relations, October 15, 2015.

Launched in 2001, the current WTO multilateral trade negotiations—the WTO Doha Development Agenda (Doha Round)—has largely stalled due to persistent differences among its members.24 In the meantime, global commerce has adapted to rapid advances in technology, such that current multilateral trade rules do not address some critical aspects of today's trading environment, including issues related to digital trade and the role of state-owned enterprises. This has led some countries, including the United States, to pursue new or advanced trade rules and further liberalization through bilateral and regional agreements, such as the TPP.

Strategic Aspects of U.S. Trade Policy

TPP proponents argue that the agreement's scale gives it considerable strategic heft, by creating an economically significant bloc of nations that has agreed to its broad disciplines. The 11 other TPP countries account for 37% of U.S. trade, and together the 12 economies account for 37% of global GDP.[25] The TPP's economic significance could grow, as the TPP members have negotiated an agreement open to new countries willing to adhere to its provisions and make satisfactory market access commitments.

In some emerging economies, the TPP could give domestic reformers the political cover necessary to push forward with their own reform agendas, citing such reforms as necessary to gain greater access to the U.S. market. Arguably, these incentives could also help promote U.S. goals such as respect for internationally recognized worker rights and practices aimed at protecting the environment, such as curbing trade in endangered species.

Beyond these effects, proponents argue that an implemented TPP will draw interest from other countries, as those not party to the agreement may begin to face competitive disadvantages. Such competitive pressure, they argue, could expand the reach of the TPP's rules, driving further trade and investment liberalization in the region. One could look to Japan's involvement in the TPP negotiations—reportedly in part a response to the completion of the U.S. FTA with South Korea—as evidence of such a dynamic.[26]

Others, however, note that the TPP as presently constituted does not include some of Asia's largest economies, including China, India, and Indonesia, so even if it is ratified and implemented, they say it will not create a comprehensive set of "rules of the road" for trade and investment in the Asia-Pacific.[27]

Some experts argue that the influence of TPP's trade rules may depend on whether new members seek to join it in the future. Several large Asian countries, including Indonesia, the Philippines, South Korea, and Thailand, have publicly expressed interest in joining a "second round" of TPP members once the agreement is implemented, giving weight to the Administration's argument that the domain of TPP's influence may grow. Taiwan has also expressed interest in membership. Many Asian nations, however, face considerable current domestic opposition to joining TPP, as

[24] Despite the stalled Doha Round, some progress in negotiations at the WTO has been made, including the Trade Facilitation Agreement, now undergoing ratification procedures by member countries. For more information, see CRS In Focus IF10002, *The World Trade Organization*, by Ian F. Fergusson and Rachel F. Fefer.

[25] CRS Report R42344, *Trans-Pacific Partnership (TPP) Countries: Comparative Trade and Economic Analysis*, by Brock R. Williams.

[26] Japan, whose firms compete with South Korea's in several sectors, declared its interest in the TPP negotiations one month after the implementing legislation for KORUS was signed by President Obama in October 2011.

[27] South Korea is also not currently participating in the TPP, but given its FTA with the United States, it adheres to rules of a similar nature to TPP, at least in its trade with the United States.

do some of the current TPP parties now debating ratification.[28] Many analysts argue that U.S. FTA partners in Asia and Latin America, particularly South Korea and Colombia, may be among the most likely countries to seek entry in the TPP in the near future.[29]

Beyond regional implications, TPP proponents also argue that the size and economic significance of "mega-regionals," such as the TPP and the U.S.-EU Trans-Atlantic Trade and Investment Partnership (T-TIP), may help spur long-stalled negotiations at the multilateral level and influence their direction.[30] They argue that the rules established in the TPP that go beyond existing WTO commitments and address new trade barriers could become the basis for future negotiations at the WTO, including on a plurilateral basis.

Critics argue, however, that these bilateral and regional trade negotiations may draw resources and attention from and thereby impede multilateral initiatives. If the locus of trade negotiations shifts away from the WTO and the rules of the body no longer reflect global standards of trade policy, it could undermine the legitimacy of the organization in other aspects of its work, such as dispute settlement. The WTO's role as a force for future trade liberalization could be dampened. Mega-regionals could also add to the complexity of the trading system by creating overlapping and differing rules and commitments, instead of operating through multilateral rules established at the WTO that are applicable to nearly all world trading partners.

TPP and Other Asian Regional Trade Initiatives

TPP negotiations are one of a number of ongoing trade negotiations in the Asia-Pacific region, many of which do not include the United States and may differ in their structure and aims. Perhaps the most significant negotiation outside the TPP, particularly in terms of its membership, is the Regional Comprehensive Economic Partnership (RCEP), which would join the 10 ASEAN members and six nations with which ASEAN has trade agreements—Australia, China, India, Japan, New Zealand, and South Korea—in one collective FTA.[31] The United States does not have an FTA with ASEAN and has not expressed an interest in joining the RCEP negotiations.

Though RCEP's final provisions have yet to be determined, a comparison of the ASEAN trade agreements on which it is being built and the components of the finalized TPP provides some indication of potential differences.[32] A 2013 examination of ASEAN trade agreements shows that they have been less comprehensive in terms of trade liberalization than the proposed TPP.[33] In

[28] See, for instance, "Aquino government won't seek to join, trade chief says," *Nikkei Weekly*, March 31, 2015; "Treaty holds no attraction," *Bangkok Post,* October 22, 2014. "Indonesia and the Trans-Pacific Partnership: To Join or Not?" *The Jakarta Globe,* January 22, 2014.

[29] "Pacific Alliance Seeks Leverage by Joining Bigger Groupings," *Financial Times,* September 27, 2015. Colombia and the three Latin American countries currently participating in the TPP negotiations (Chile, Mexico, and Peru) are the founding members of the Pacific Alliance, a Latin American trade bloc of countries embracing economic openness and each with extensive existing trade agreement networks. For more information, see CRS Report R43748, *The Pacific Alliance: A Trade Integration Initiative in Latin America*, by M. Angeles Villarreal.

[30] Some argue the conclusion of the North American Free Trade Agreement (NAFTA), among the United States, Canada, and Mexico, played such a role in advancing the multilateral Uruguay Round negotiations in the 1990s. The Uruguay Round agreement was signed in April 1994, nearly seven years after it was launched but less than a year after legislation implementing NAFTA was signed by the U.S. Congress.

[31] The 10 ASEAN members are Brunei, Burma (Myanmar), Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

[32] The countries involved in RCEP have ambitions for more comprehensive liberalization than they have achieved in the existing ASEAN FTAs. For more information on RCEP, see CRS In Focus IF10342, *What Is the Regional Comprehensive Economic Partnership?*, by Michael F. Martin et al.

[33] According to analysis by the Economic Research Institute for ASEAN and East Asia (ERIA) of the ASEAN FTAs

addition, the existing ASEAN FTAs often do not include or have less extensive intellectual property rights, investment, and labor and environmental provisions than the TPP.[34] The TPP also includes disciplines on state-owned enterprises (SOEs), a topic unlikely to be addressed in RCEP.

Due in part to these potential differences, some argue that RCEP presents an alternative, and possibly a challenge, to U.S. efforts to craft trade rules through the TPP.[35] Others believe the proposed agreements can be complementary and both will lead to economic growth benefitting the region as a whole.[36] Notably, seven countries are in both RCEP and the TPP, and presumably have an interest in ensuring some degree of compatibility and synergy between the two agreements (**Figure 1**).

At this point, it is unclear how these two regional undertakings may affect one another and how they would affect the existing trade architecture in the region. This will depend in part on their timing. With negotiations concluded, the TPP is at a more advanced stage than RCEP, whose members agreed in November 2015 that negotiations would continue into 2016. A delay in the ratification and implementation process for TPP, however, could alter that sequencing.

All 12 TPP countries, and 11 RCEP countries are also members of the 21-member Asia-Pacific Economic Cooperation (APEC) forum, a body for dialogue on and establishing nonbinding commitments toward the goals of open and free trade and investment within the region. APEC members have discussed the possible creation of a broad Free Trade Area of the Asia-Pacific (FTAAP) since 2006—a goal that both China and the United States have supported. In the statement issued at APEC's annual Leaders Meeting in 2014, the group's leaders recognized both TPP and RCEP as "possible pathways" to the FTAAP.[37]

with the six countries participating in the RCEP negotiations (Australia, China, Japan, India, New Zealand, and South Korea), the percentage of tariff lines with eventual duty elimination under the respective FTAs range from 79.6% for the ASEAN-India FTA to 95.7% for the ASEAN-Australia-New Zealand FTA. By contrast, according to analysis by CRS, the TPP would eventually eliminate duties on more than 99% of tariff lines, on average, across the 12 countries. Yoshifumi Fukunaga and Ikumo Isono, *Taking ASEAN+1 FTAs Towards the RCEP: A Mapping Study*, Economic Research Institute for ASEAN and East Asia, ERIA-DP-2013-02, January 2013, p. 8.

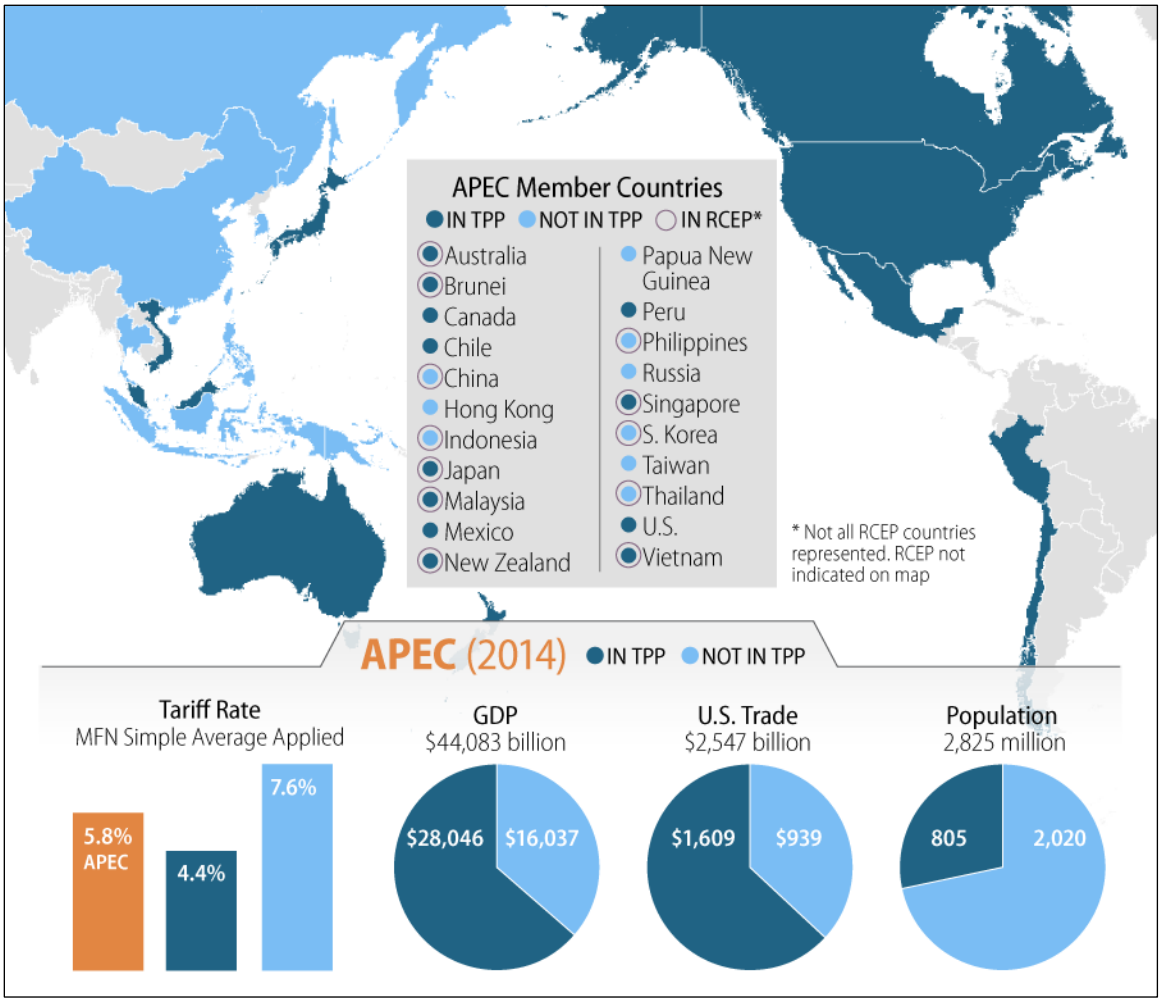
[34] Texts of the ASEAN FTAs can be found at the WTO website, http://rtais.wto.org/.

[35] Jeff Okun-Kozlowicki and Gabe Horwitz, *The TPP: Who Will Set the Trade Rules for Asia?*, Third Way, March 10, 2014.

[36] Simon Lester, *Chinese Free Trade is No Threat to American Free Trade,* Cato Institute, April 22, 2015.

[37] Asia-Pacific Economic Cooperation, *2010 Leaders' Declaration*, November 2010, http://www.apec.org/Meeting-Papers/Leaders-Declarations/2010/2010_aelm.aspx; *2014 Leader's Declaration,* November 2014, http://www.apec.org/Meeting-Papers/Leaders-Declarations/2014/2014_aelm/2014_aelm_annexa.aspx.

Figure 1. APEC and TPP Membership



Source: Data from WTO, IMF, and U.S. International Trade Commission. Analysis by CRS.

Notes: APEC does not include all major Asia-Pacific economies, notably omitting India, which is currently seeking to join the group. RCEP countries not in APEC are Burma, Cambodia, Laos, and India.

China and U.S. Policy in Asia

China has figured prominently in debates about the TPP and broader U.S. policy in Asia. As the world's second largest economy (on a nominal dollar basis) and largest trading economy, China's inclusion in, or exclusion from, the TPP in the future may have important implications for the United States, as well as the Asia-Pacific region. President Obama and other TPP proponents also argue that China's growing international influence increases the strategic importance of completing the proposed TPP. Some analysts go further, arguing that China is attempting to create a regional order that seeks to minimize U.S. presence and power and that TPP is a necessary means of countering this effort.[38]

[38] For instance, see Takashi Terada, "Japan and the TPP Conclusion: Regional Order, Negotiations, and Domestic Adjustment," *The Asan Forum*, October 23, 2015, http://www.theasanforum.org/japan-and-the-tpp-conclusion-regional-order-negotiations-and-domestic-adjustment/#a5.

Many analysts argue that decades of expanding Chinese trade and investment, as well as new Chinese trade and investment initiatives around the region, have created a vision of regional economic development that is different from that advocated by the United States, and potentially not in the U.S. interest. The proposed TPP, its proponents argue, would allow the United States to help shape a model in line with U.S. interests by creating rules and norms that other regional nations may ultimately opt to join. Due to the TPP's size and economic importance, the argument runs, it would help to influence China's economic—and potentially diplomatic—decisions in ways that are more favorable to U.S. economic, diplomatic, and security interests. As President Obama stated in a June 2015 interview:

> the fact is that if we have 11 of the leading economies in the Asia-Pacific region, who have agreed to enforceable labor standards, enforceable environmental standards, strong IP protections, non-discrimination against foreign firms that are operating, access to those markets, reduce tariffs, then China is going to have to at least take those international norms into account.[39]

A completed TPP could also encourage China to further liberalize its economic and trade regime in order to eventually join the agreement. It might also give some reformers in China a measure of political cover to press for deeper reform, beyond Beijing's WTO commitments.

To others, such arguments unnecessarily cast Asia's largest economy as an outlier in regional economic development and may overstate the degree to which Chinese initiatives are likely to influence regional trade and investment rules.[40] Such arguments stress several points. First, they note that if China's leaders perceive that TPP is being used as a tool to constrain Chinese interests, they could respond in ways that are inimical to U.S. interests. Second, they stress that China is proceeding with economic initiatives that others in Asia may see as helpful to their own economic development, given the region's extensive needs for infrastructure and other investment; they argue, therefore, that if countries in the region see the United States as opposing these initiatives, the United States may risk being seen as obstructionist, which could lead some in Asia to question U.S. commitments to regional development. Third, they stress that other Asian nations have their own trade policies and are unlikely to adopt policies they see as not in their interest—whether they are part of "models" that are American, Chinese or otherwise.

China's Regional "Vision"

China's leaders are striving to continue the transformation of their nation into a prosperous and respected major power, and the fulfillment of these goals they see as predicated on three conditions: 1) a strong economy; 2) a strong defense; and 3) a respected role on the global stage. The Chinese government is currently pursuing a number of policies designed to strengthen its economy and increase China's role in the overall global economic system. China's plans to construct a land-based Silk Road Economic Belt and the Maritime Silk Road (jointly known as the "One Belt, One Road") to create new linkages to Europe, the Middle East, central Asia, and Southeast Asia. In doing so, they seek to facilitate trade and foster greater economic development and integration.[41] New financial institutions—such as the newly-created Asian Infrastructure

[39] National Public Radio, *Obama Says China Could Join Already Huge Asia Trade Deal*, June 3, 2015, http://www.npr.org/sections/itsallpolitics/2015/06/03/411778624/obama-says-china-could-join-already-huge-asia-trade-deal.

[40] Chas Freeman, "Arguments for TPP Don't Make Sense," *Boston Globe*. May 31, 2015; Simon Lester, "Chinese Free Trade is No Threat to American Free Trade," *Cato Institute*. April 22, 2015.

[41] See CRS In Focus IF10273, *China's "One Belt, One Road"*, by Susan V. Lawrence and Gabriel M. Nelson.

Investment Bank (AIIB)[42] and the Silk Road Fund—are aimed at providing the capital to finance the "One Belt, One Road" initiative and other major economic development projects. China's efforts to gradually increase the overseas use of its currency, the renminbi, are intended to simplify the transactions Chinese financial institutions use to support Chinese assistance programs, reduce the commercial risk for Chinese companies engaged in international trade and investment, and enhance China's global economic stature. Finally, Chinese leaders see the establishment of RCEP as laying the foundations for a broader FTAAP, which could be seen as a set of regional rules and norms inspired, at least in part, by Chinese leadership.

China's leaders also seek to reform existing multilateral institutions to reflect what they see as the geopolitical situation of today, rather than that of the post-World War II era. China is taking an active role in promoting reforms of the United Nations, the International Monetary Fund, and the World Bank. The establishment of the AIIB in part is an attempt to offer an alternative model for the various multilateral development banks, such as the Asian Development Bank (ADB), to adopt. However, it is unclear at this early stage of its development whether the AIIB will be more distinct from or more in line with these international institutions.

China's efforts to reshape or create new economic institutions are matched by its actions in the diplomatic and security spheres, where Beijing appears to be attempting to reduce or counter U.S. influence. For instance, according to many analysts, China has attempted to refashion the Conference on Interaction and Confidence Building Measures in Asia (CICA), a 26-member group that spans the Eurasian continent and does not include the United States, into a new Asian continental security system to counter the U.S. alliance network.[43] China also has undertaken extensive reclamation and construction on several disputed reefs in the South China Sea,[44] moves that many see as laying the groundwork for countering U.S. naval power in the Western Pacific.

China and the TPP

China's publicly-stated views of the TPP have varied and appear to have changed over time, especially as more countries have joined the TPP negotiations. After the United States joined the TPP talks in 2008, China's media portrayed the TPP as a U.S.-dominated process that was largely aimed at advancing U.S. economic interests over the rest of Asia and isolating China by excluding it from the talks. U.S. officials have countered such portrayals. In December 2014, for instance, President Obama said: "... there's been some suggestion that by doing TPP we're trying to contain or disadvantage China. We're actually not.... [W]e hope that ... China actually joins us in not necessarily formally being a member of TPP but in adopting some of the best practices that ensure fairness in operations."[45]

China's publicly-stated criticisms of the U.S. role in the TPP process appear to have softened somewhat shortly after Japan joined the TPP talks in April 2013.[46] In October 2014, China's Vice

[42] See CRS In Focus IF10154, *Asian Infrastructure Investment Bank*, by Martin A. Weiss.

[43] Mike Green, "China Is Overreaching—Does the U.S. Have a Plan?" *Foreign Policy.com*, June 9, 2014, http://foreignpolicy.com/2014/06/09/china-is-overreaching-does-the-u-s-have-a-plan/.

[44] See CRS Report R44072, *Chinese Land Reclamation in the South China Sea: Implications and Policy Options*, by Ben Dolven et al.

[45] White House, "Remarks by the President at Meeting of the Export Council," December 11, 2014.

[46] The inclusion of Japan into the TPP talks was significant because of the size of its economy. With Japan, the combined economies of the 12 TPP members accounted for 37% of global GDP. This meant a TPP that did not include China could significantly affect the Chinese economy. For example, an October 2014 study by the Peterson Institute for International Economics estimated that China could lose as much as $100 billion of annual income and exports if a TPP

Finance Minister Zhu Guangyao stated that a TPP agreement was "incomplete without China." In November 2014, Chinese Premier Li Keqiang in a speech before the East Asia Summit, stated: "China is open to negotiations on the TPP. In our view, various FTA arrangements can play a positive role in fostering a just and free international and regional trade order."[47]

U.S. officials have said China is welcome to join the TPP, although Chinese officials often state that many of the standards and provisions of the proposed agreement would be difficult for China to implement.[48] President Obama said in June 2015 that China had "already started putting out feelers about the possibilities of them participating at some point" in the TPP.[49]

Several analysts contend that the ultimate aim of the United States is to integrate China more fully into deeper and greater commitments to further liberalize trade and establish new trade rules and disciplines addressing issues not currently, or inadequately, addressed in the WTO multilateral trading system. For example, one former Obama Administration official argues that "an agreement with high standards like the TPP could subject China to new, higher-standard rules, and discourage China from trying to weaken or soften the existing trade rules through other channels."[50] In addition, the United States is currently negotiating a bilateral investment treaty (BIT) with China that could boost bilateral investment flows and facilitate its future potential participation in TPP.[51]

Issues for Congress

Since the United States joined the TPP in 2008, Congress has played a direct role in guiding and overseeing the negotiations. Congress approved legislation to renew U.S. Trade Promotion Authority (TPA) in 2015 to establish U.S. trade negotiating objectives and provide for the expedited consideration of legislation to implement U.S. trade agreements concluded by the President, among other provisions. Congress will have a direct role in considering TPP and implementing legislation.

As Congress considers the TPP agreement and its strategic elements, it might consider examining a number of issues, including the following:

- **Whether TPP Furthers a Broader Foreign Policy Strategy.** TPP proponents argue that the proposed agreement is part of a broad foreign policy strategy to promote greater respect for international rules and norms in the Asia-Pacific region. If it is approved, they argue, the implications could further other U.S. diplomatic and security goals, beyond the trade realm. By encouraging a diverse

agreement did not include China.

[47] ASEAN China Center, *Remarks by H.E. Li Keqiang Premier of the State Council of the People's Republic of China at the Ninth East Asia Summit*, November 14, 2014, available at http://www.asean-china-center.org/english/2014-11/14/c_133912792.htm.

[48] Foreign Policy, *What Will the TPP Mean for China*, October 7, 2015, http://foreignpolicy.com/2015/10/07/china-tpp-trans-pacific-partnership-obama-us-trade-xi/.

[49] National Public Radio, *Obama Says China Could Join Already Huge Asia Trade Deal*, June 3, 2015, http://www.npr.org/sections/itsallpolitics/2015/06/03/411778624/obama-says-china-could-join-already-huge-asia-trade-deal.

[50] CSIS, *the Trans-Pacific Partnership and China's Corresponding Strategies*, June 2012, p. 4, http://csis.org/files/publication/120620_Freeman_Brief.pdf.

[51] The BIT negotiations aim to establish mutual nondiscriminatory treatment of investments and reduce both market access barriers and ownership restrictions for U.S. firms in China, among other provisions. China has agreed to use the "negative list" approach in reducing ownership restrictions via the BIT, where all industries except those explicitly listed would be open to investments.

group of nations to accept the rules and disciplines contained in the TPP, the argument holds, the United States will have reinforced U.S. leadership in the region, given space to Asia-Pacific leaders who seek greater economic and (perhaps) political reform, and encouraged a group of nations to adopt a more U.S.-supportive foreign policy outlook. Congress may wish to consider how deeply it accepts these arguments, and whether it sees the proposed agreement as part of a well-considered and broader foreign policy strategy.

- **How Deeply to Weigh These Strategic Arguments**. In considering an agreement as broad as the TPP, Congress may weigh trade-offs among the agreement's many potential implications. Are the TPP's strategic implications a critical consideration for Congress, or do they distract the debate from the TPP's more direct impact on the U.S. economy? How do these different arguments relate? Are the potential strategic benefits of the agreement contingent on its ability to drive economic growth and prosperity? For those who support the TPP on some grounds but not others, what rank should be given to various aspects of the agreement? Does the argument that the TPP is an important measure of U.S. leadership in Asia outweigh potential concerns arising from individual terms of the agreement?
- **Membership Expansion.** Some argue that the TPP's ultimate strategic impact will depend on whether a broader group of nations ultimately decides to join it. To other observers, the proposed TPP, established by like-minded countries, represents the best opportunity for the United States to pursue regional and broader multilateral trade policy goals currently unattainable in the WTO and other fora. Has the agreement struck the right balance between trade liberalization and establishing rules that are most beneficial for U.S. economic interests, while at the same time remaining attractive to a broader set of regional actors that could enhance the agreement's strategic value?
- **Implications of Failed Ratification.** From the standpoint of promoting greater U.S. leadership and influence in the region, Congress may wish to consider whether delays or failure to ratify and implement the agreement would set back these goals. The TPP took more than five years to conclude, and if rejected by Congress, it could take several years for an alternative, U.S.-led agreement, if any, to take shape. Meanwhile, other countries in the region continue to pursue their own trade arrangements. Would a failure to ratify the TPP impact foreign governments' views on U.S. leadership and credibility in the region, or do other foreign policies, including U.S. military presence, ultimately shape such views?
- **Implications for Countries Outside the TPP**. The TPP's 12 participating countries do not include several in the Asia-Pacific region that are strategically and economically important. Some observers urge the United States to enunciate strategies that reinforce U.S. economic engagement more broadly across the region, beyond the current TPP membership, in part so that countries that currently are not in the TPP do not conclude that Washington is neglecting or ignoring them. Congress may wish to consider whether existing U.S. economic initiatives in Asia are sufficient to achieve broad goals of furthering U.S. influence across the region, or whether other economic initiatives are advisable as an assurance of U.S. commitment to the region. If other initiatives are advisable, which nations or multilateral groups should be targeted? Congress also

may wish to consider whether it is strategically important that TPP expand to include other countries outside the region.

- **Implications for the Multilateral Trading System.** Analysts hold mixed views as to how "mega-regional" negotiations may impact the multilateral trading system as represented by the WTO. While some see such agreements as an opportunity for the United States to advance new trade rules and disciplines that may eventually be incorporated in multilateral initiatives, others worry they may usurp legitimacy from the WTO and may negatively impact countries not involved in their negotiation. From a strategic standpoint, Congress may wish to consider whether the proposed TPP will further eventual WTO multilateral trade liberalization or lead to greater fragmentation of the global trading system. Congress also may wish to consider whether to seek new trade initiatives at the global level, either to assure that the TPP has the effect of spurring momentum at the global level or to address potential concerns that the TPP shifts the center of trade discussions away from the WTO.

Author Information

Ben Dolven, Coordinator
Specialist in Asian Affairs

Brock R. Williams, Coordinator
Analyst in International Trade and Finance

Ian F. Fergusson
Specialist in International Trade and Finance

Mark E. Manyin
Specialist in Asian Affairs

Michael F. Martin
Specialist in Asian Affairs

Wayne M. Morrison
Specialist in Asian Trade and Finance

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