
CFR Backgrounders

The Trans-Pacific Partnership and U.S. Trade Policy

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Introduction

The post–World War II era has seen the dramatic growth of international trade and the creation of a global trading framework based on the principle of open economies. The United States has been at the forefront of these changes even as it is less reliant on trade than nearly any other developed country.

With global trade talks stalling, the United States has turned to regional and bilateral free trade agreements (FTAs). Having won the passage of FTAs with Colombia, Panama, and South Korea, President Barack Obama is now struggling to finalize the Asia-centered Trans-Pacific Partnership (TPP), which he heralds as a “next generation” trade agreement. Opposition to the TPP and a similar deal with Europe has come from many in the U.S. labor movement, as well as some economists, who argue that trade agreements in their current form hurt workers, degrade the U.S. manufacturing base, and exacerbate income inequality. Advocates counter that FTAs create jobs by opening new markets to U.S. exports and making it easier for U.S. companies to compete in foreign markets.

What is the state of U.S. trade policy?

The institutions of global trade policy have evolved dramatically since the end of World War II, led primarily by the United States and its European allies. The [General Agreement on Tariffs and Trade \(GATT\)](#) was signed by twenty-three countries in October 1947. By 1986, GATT’s membership had expanded to 123 countries, all of which had committed to the principles of lower tariffs, open economies, and freer trade. Over those four decades, global import tariffs on goods fell sharply, from an average of over 30 percent to under 5 percent.

In 1986, President Ronald Reagan launched the [Uruguay Round of negotiations](#), which created the [World Trade Organization \(WTO\)](#), an agreement finalized under President Bill Clinton in 1994. The WTO was created to address the perceived limitations of the GATT system. World trade had grown increasingly complex since the 1940s, and GATT’s narrow focus on goods left out major areas such as trade in services, agriculture, intellectual property, and cross-border investment.

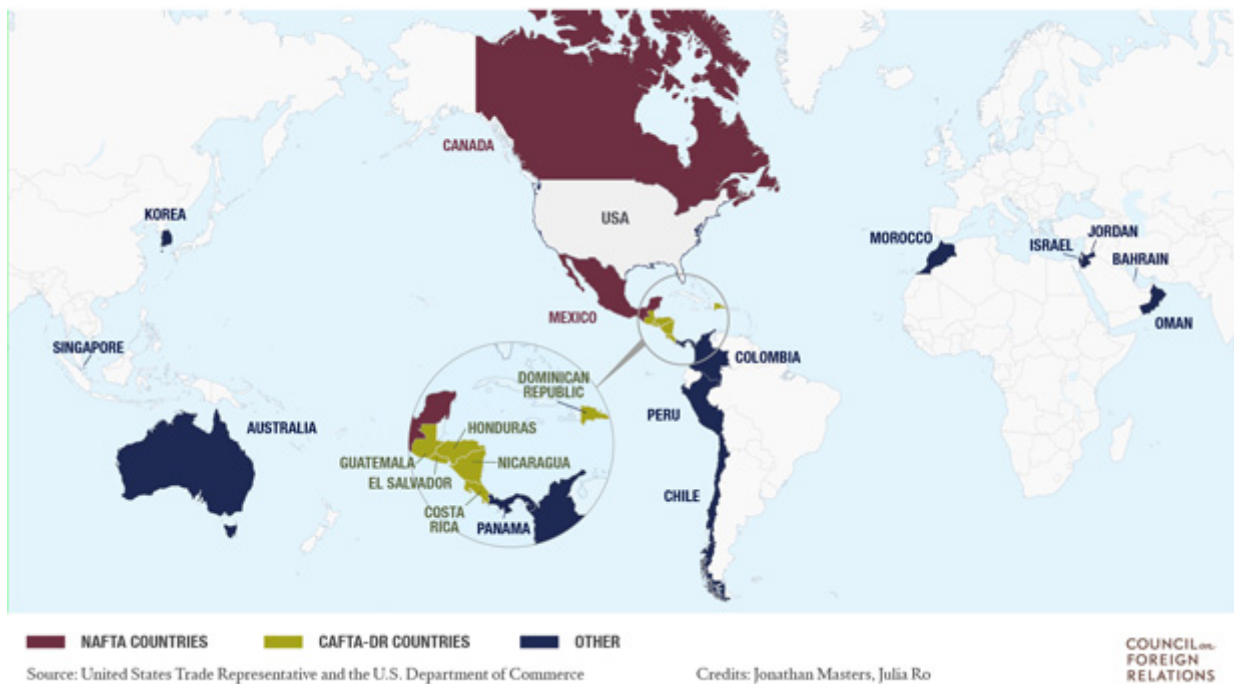
Facing a stalled WTO process, U.S. policymakers have focused instead on completing smaller regional and bilateral trade and investment deals.

However, the latest round of negotiations—launched in Doha, Qatar, in 2001, and dubbed the [“Development Agenda”](#) due to its focus on topics of particular interest to poorer countries—has so far [failed to achieve a final deal](#) despite over a decade of talks. Agriculture policy has been the [primary sticking point](#), with large developing countries like India and China seeking to retain

flexibility in imposing import tariffs—so-called “safeguard duties”—while pushing for reduced farm subsidies in the United States and Europe.

The Current State of U.S. Free Trade Agreements

U.S. FREE TRADE AGREEMENTS (FTAs)



Facing a stalled WTO process, U.S. policymakers have focused instead on completing smaller regional and bilateral trade and investment deals. The 1994 North American Free Trade Agreement (NAFTA) **further integrated** the U.S. economy with those of Canada and Mexico. In addition to recent bilateral deals with Colombia, Panama, and South Korea, the United States has concluded **free trade agreements (FTAs)** with seventeen other countries. Most recently, in 2015 U.S. negotiations concluded talks on a pending Asia-Pacific deal, the Trans-Pacific Partnership, or TPP.

What is the Trans-Pacific Partnership?

The TPP is what has come to be known as a “megaregional” deal—that is, one spanning several continents. The Asia-centered negotiations began in 2002 with exploratory talks among a small group of Pacific Rim countries, and President George W. Bush announced his intention to join the negotiations in 2008. The Obama administration, in line with its **“pivot to Asia” strategy**, pushed forward with the initiative, and by 2015 the TPP had expanded to include **twelve countries**, including Japan but excluding China. The twelve parties reached a final agreement in October 2015.

TPP countries **account for** 44 percent of total U.S. goods exports and 85 percent of total U.S. agriculture exports. Since traditional tariffs are already low, TPP focuses on a **suite of reforms** that include liberalizing protected sectors, streamlining customs and regulations, strengthening intellectual property protections, promoting competitive and transparent business laws, and enforcing labor and environmental standards. Their stated goal is to create a fully integrated economic area and establish consistent rules for the unprecedented growth of global investment. While global trade in goods and services rose from \$6 trillion to \$19 trillion a year between 1985 and 2009, **global capital flows more than quadrupled** in that period, from \$1.1 trillion to over \$5.2 trillion a year.

Negotiations have faced significant political hurdles. During TPP talks, Japan overcame the influence of its [powerful farming lobby](#), Canada agreed to concessions regarding foreign access to its dairy market, and the United States compromised over [patent protections for pharmaceuticals](#).

“Asian countries are all looking to [TPP] as a symbol of whether the U.S. is committed to the East Asia region. If it fails, it will be seen as a significant U.S. retreat from engagement with Asia.” – Edward Alden, Council on Foreign Relations

Supporters say the TPP deal would [raise governance standards](#) for many of China’s trade partners, such as Malaysia and Vietnam, thus putting pressure on China to adhere more closely to international standards. Ensuring equal treatment for U.S. businesses throughout Asia, the Obama administration says, would level the playing field for U.S. workers.

From the perspective of Washington, the question is whether East Asian integration will be led by China or the United States. Beijing has supported a separate FTA for the region, the [Regional Comprehensive Economic Partnership \(RCEP\)](#), which would bring together sixteen countries but exclude the United States. Some in the region have expressed similar concerns. The late Singaporean leader [Lee Kuan Yew](#) argued in 2013, “Without an FTA, Korea, Japan, Taiwan, and the ASEAN countries will be integrated into China’s economy—an outcome to be avoided.”

CFR Senior Fellow Edward Alden says that the TPP, as the biggest U.S. initiative in Asia, has acquired a major geopolitical dimension. “Asian countries are all looking to this as a symbol of whether the U.S. is committed to the East Asia region,” he says. “If it fails, it will be seen as a significant U.S. retreat from engagement with Asia.” Others, like the [Financial Times Asia editor David Pilling](#), say that the TPP, if mishandled, has the potential to alienate the United States’ Asian allies.

What is the Transatlantic Trade and Investment Partnership?

Following on the TPP negotiations, the United States and European Union have sought their own megaregional deal, the Transatlantic Trade and Investment Partnership, or TTIP. The U.S.-EU trade relationship [already accounts for](#) more than \$1 trillion in flows of goods and services each year. Officially launched in 2013, TTIP negotiations have [focused largely](#) on improving regulatory cooperation between the two sides. Supporters argue this will reduce costs for businesses, thus boosting growth and lowering consumer prices. Another priority is to ensure equal legal treatment for investors.

TTIP negotiations have sputtered since the United Kingdom, one of the strongest supporters of the deal within the EU, voted to [leave the bloc](#). European leaders also express frustration with what they say is U.S. unwillingness to compromise on issues such as health and environmental standards. Many Europeans are skeptical about allowing U.S. genetically modified crops (known as GMOs) and relaxing rules on food labeling, among other perceived impositions on national sovereignty. In August 2016, France [said](#) the negotiations should be halted and Germany [said the pact was](#) “de facto dead,” though talks continue.

Washington hopes a deal with the EU would strengthen transatlantic relations with Europe struggling on multiple fronts. Disappointing growth, high unemployment, and persistent [sovereign debt issues](#) in the eurozone, along with a major confrontation with Russia and the UK’s Brexit, create a precarious situation for the continent. C. Fred Bergsten, the founding director of the [Peterson Institute for International Economics](#) and a leading trade advocate, says Europe’s struggles highlight the need for TTIP. A deal “would help energize the reforms that certainly the weaker countries in Europe need,” he says.

Ultimately, according to Bergsten, when it comes to trade deals, “the overriding goal is foreign policy and national security. That’s been the case in all previous U.S. trade agreements.” A major goal of NAFTA, for instance, was to promote a more successful Mexican economy and avoid instability on the United States’ southern border. “If the past is prologue, [national security] is what will eventually persuade Congress,” he says.

What is the role of Congress?

The [U.S. Trade Representative \(USTR\)](#), part of the Executive Office of the President, negotiates agreements, but the Constitution gives the legislative branch ultimate authority over foreign trade. Every postwar trade agreement has been passed with [Trade Promotion Authority \(TPA\)](#), previously called “fast track,” through which Congress agrees to give trade deals an expedited up-or-down vote with no amendments.

TPA had expired in 2007 and needed to be renewed for the TPP and TTIP to move forward. Bipartisan consensus on trade has frayed in recent years, and opposition from both parties had threatened to sink TPA renewal. Democrats argued that the [sharp decline in U.S. manufacturing jobs](#), alongside the rise of corporate “offshoring” in countries with low wages and weak labor and environmental standards, showed that U.S. openness to globalization has gone too far.

While Republicans have traditionally been more supportive of the U.S. trade agenda, a bloc of conservatives [spoke out](#) against renewing TPA. Some argued that granting the president such “fast-track” powers is unconstitutional, while others echoed concerns of [some Democratic members](#) that trade deals dilute U.S. sovereignty by overriding domestic regulation. Other lawmakers have said that any trade deals must address currency manipulation, a practice in which countries purposely devalue their currency to gain an export advantage.

Ultimately, Congress passed TPA in June 2015, jumpstarting the final round of TPP talks. However, the deal still requires a yes-or-no vote in Congress, a prospect that is increasingly uncertain as both major presidential candidates have [come out against](#) the TPP in its current form. The leaders of the Senate and House say they don’t currently have enough votes to pass it, as a [growing number](#) of congressional candidates in tight races have withdrawn their support.

How would expanded trade affect the United States economy?

The significance of trade to the U.S. economy has steadily expanded since the 1950s, in line with the broader expansion of global commerce over that period. Today, U.S. exports and imports are valued at more than [30 percent of U.S. GDP \(PDF\)](#), up from less than 10 percent in the immediate postwar era.

That number is low compared with other advanced countries—only Japan has a lower value of total trade compared to GDP. But trade, and exports in particular, play a major role in supporting U.S. growth and employment. The Department of Commerce estimates that U.S. exports are worth \$2.3 trillion, [directly supporting](#) 11.7 million jobs. In addition, over 300,000 businesses export their goods or services, 98 percent of which are small-and medium-sized enterprises (SMEs) with fewer than 500 employees. [Editor’s note: A deeper examination of the economic benefits of trade can be found in [this CFR Independent Task Force Report](#) on U.S. Trade and Investment Policy.]

Some economists argue that TPP and TTIP would have a significant positive impact on the U.S. economy. In theory, giving manufacturers a more level playing field in Asia would boost U.S. exports, while lower-priced imports and the gains in productivity arising from increased competition would be a boon for consumers. The Peterson Institute has [released research](#) showing that the TPP would produce annual income gains of \$78 billion for the United States. When it comes to the TTIP, the [European](#)

[Commission estimates \(PDF\)](#) that the deal would add over \$100 billion to the U.S. economy and \$152 billion to the European economy every year.

For CFR's Alden, the potential benefits of these deals are based on making it easier for companies to do business across borders. "Multinationals are breaking up their supply chains all over the world," he says. "You want to give your country every possible advantage to be a location for that investment." What's more, he argues, agreement on the TPP will reinvigorate the [U.S. trade agenda](#) at a time when progress on the U.S.-EU deal has slowed.

What are the concerns?

Support for TPP and TTIP is far from unanimous. Leading economists, labor representatives, and consumer rights groups have expressed concern over their impact on employment, inequality, national sovereignty, and safety standards. There is also substantial public concern over the effects of globalization: Polling from the [Pew Research Center found](#) that Americans' belief in the benefits of globalization tumbled sharply starting in the early 2000s, although as the economy has recovered, [so has confidence in trade](#).

The economist and Nobel laureate Paul Krugman [has argued](#) that the benefits of these "next generation" deals are overstated. Former Treasury Secretary Lawrence Summers [acknowledged that](#) "trade and globalization have meaningfully increased inequality in the United States by allowing more earning opportunities for those at the top and exposing ordinary workers to more competition." But while [some research indicates](#) that the decline of U.S. manufacturing can be partly attributed to the growth of Asian imports, Summers also pointed out that that has little to do with trade agreements themselves. Technological innovation, he says, plays a much larger role.

Critics have also raised concerns about both the transparency of the process and the implications of the deals for national sovereignty.

Still, many in the U.S. labor movement argue that trade liberalization has caused a "race to the bottom" in worker rights and environmental standards. AFL-CIO President Richard Trumka [contends that](#) the goal of recent trade deals "was not to promote America's exports—it was to make it easier for global corporations to move capital offshore. The logical outcome was trade deficits and falling wages." The Obama administration counters that its trade policy will [improve labor rights monitoring and enforcement](#).

Currency manipulation and its impact on the trade deficit, which [rose sharply in the 1990s and early 2000s](#), remains a major worry. China, previously the main culprit, has largely backed off from artificially devaluing its currency, but for the Peterson Institute's Bergsten it remains important to avoid potential future manipulation. China is not part of the TPP, he says, but it could someday join, and stronger controls would also help deter other TPP countries with a history of currency manipulation, such as Singapore and Malaysia.

The Widening of the U.S. Trade Deficit



Graphic Courtesy of the [International Trade Administration](#)

Meanwhile, leading Democratic and Republican members of Congress have called on the Obama administration to [address manipulation](#). But opponents fear that it could have the unintended consequence of limiting what the U.S. government sees as legitimate monetary policy—such as quantitative easing (QE) carried out in Europe, Japan, and the United States—which also generally has the effect of weakening a nation’s currency. QE, which has been central to bolstering the U.S. economic recovery, is expected to boost growth and help avoid deflation in Japan and the eurozone, which will in turn increase demand for U.S. exports. The final TPP deal sidesteps the issue.

Critics have also raised concerns about both the transparency of the process and the implications of the deals for national sovereignty. A provision known as the [Investor State Dispute Settlement \(ISDS\) mechanism](#), in particular, has [raised worries](#) that international companies will be able to override local government decisions. Supporters say that the ISDS is no different than the similar clauses used in previous trade agreements.

Ultimately, much of the opposition revolves around the [secrecy of the process](#). Lawmakers had limited access to updates on TPP negotiations, which Alden says led Congress, as well as the public, to complain of being left out of deliberations. “I am increasingly coming to the view that all of this should be done in the open,” he says, rather than “a setup where the corporate interests know in great detail what the negotiating positions are and the members of Congress who have to vote on it don’t.”

Additional Resources

This [CFR Independent Task Force Report](#) on U.S. Trade and Investment Policy warns that a lack of U.S. leadership on trade issues would be detrimental to the nation’s interests.

CFR’s Thomas J. Bollyky investigates the impact of U.S. free trade deals on global pharmaceutical prices in [this interactive presentation](#).

This [Congressional Research Service research paper \(PDF\)](#) explores the history and implications of Free Trade Agreements on U.S. trade policy.

[In this analysis](#), David Saha of the European Centre for Economic Policy Research synthesizes the economic debate on the potential benefits of a U.S.-EU trade deal.

In [this Foreign Affairs](#) article, the Peterson Institute's C. Fred Bergsten advocates for a stronger policy on currency manipulation.

This [briefing by Brookings' Mireya Solis](#) elaborates on the geopolitical case for the TPP.

[Gallup tracking polls from February 2016](#) illustrate the increasingly positive attitudes of Americans towards global trade.

CFR President Richard N. Haass and Roger C. Altman explain why the TPP would serve America's strategic aims in [this New York Times op-ed](#).

More on this topic from CFR

[Southeast Asian Perspectives on U.S.-China Competition](#)

[Brunei Hopes the TPP Will Help Diversify Its Economy](#)

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[TPP Tobacco Exception Proves the New Rule in Trade](#)

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