

WASHINGTON PERSPECTIVE ON TPP & US TRADE POLICY

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PERSONAL PERSPECTIVES

1. Childhood in Pittsburgh—family steel business; J&L steel plant disappears; Univ Pgh Med Ctr (health sector) replaces USSteel as city’s largest employer; same for Cleveland Clinic in Ohio. So worker dislocation is familiar.
2. College Study in Stockholm, 1963-64: VOLVO worked with Swedish gov’t to retrain shipbuilders as autoworkers when Swedish gov’t exits shipbuilding. So business-govt cooperation on training is familiar.
3. Sabbatical at Oxford, 1991-92: UK debate on Maastricht limits on national debt/fiscal deficits: Even Oxford faculty had concerns about “threat to Parliament.” So Brexit is familiar.
4. 33 years trade practice at Coudert (Europe, Tokyo, HK, Singapore, Beijing & Moscow) representing non-U.S. companies in USG cases: e.g. NEC dumping; JAL investment in DHL. Practice matched personal beliefs in trade liberalization, rules of road for trade in GATT/WTO & in regional & bilateral trade deals; enhanced global well-being through trade & investment BUT with trade adjustment assistance (“TAA”).

INTERNATIONAL CONTEXT FOR TPP

5. Global trade/investment contribute to rapid growth of middle class: China, 200mn; India 90mn; 30mn each in Indonesia, Egypt, Brazil; reduction of global poverty (\$1.25 per day) from 44% to 23%.
6. Facilitated by Tokyo, Uruguay GATT Rounds; but failure of DOHA Round with post 9/11 plans for ‘development’ round stalled by, inter alia, China & India on market access.
7. Global turn to regional integration: NAFTA & CAFTA; EU expansion in Europe; Asian FTA’s, EPA’s, FTAAP, RCEP, OBOR; MERCOSUR in Latin America; EAC, SADC, etc in Africa,
8. Great Recession; crises in Middle East & massive emigration; nationalism with fences/walls in Europe & U.S. threat of wall; anti-globalization and first signs of slowing world trade.
9. PRC entry to WTO; huge PRC economic growth but lingering state capitalism; PRC use of soft power in Asia pre-Xi; Obama pivot to Asia including negotiation of TPP with major Japanese help.

U.S. CONTEXT FOR TPP

10. Major loss of U.S. manufacturing jobs: 30% of work force in 1960’s; now 12%. Blamed on trade (NAFTA, China); technology role less visible. Declining union membership/power =s wage stagnation, jobs abroad.
11. Weak trade adjustment assistance (“TAA”-1962): underfunded & poor training. Decades of Repub opposition; lack of gov’t-industry cooperation on training; less labor mobility after housing crisis.
12. U.S. political failure to recognize and take strong action to help displaced workers; indifference/arrogance of East/West Coast elites; modest success of innovative cities (e.g. Pittsburgh & Cleveland).
13. Rising income inequality, college costs, need for 21st century skills (e.g. mechatronics); lower workforce participation for 25-45-yrs males; epidemic of opioid addiction.
14. Working class problems are fertile soil, says author JD Vance (“Hillbilly Elegy”), for Trump who is: “Opioid

for the masses. He promises an easy escape from the pain. He makes some feel better for a short time, but he cannot fix what ails them & one day they will realize it.”

15. Vance, from depressed Kentucky & Ohio, with no Dad, drug/alky Mom, raised by grandparents: “White, working class Americans do not take sufficient personal responsibility for their situations. The culture now breeds “a sense of learned helplessness”. Abuses of social safety net (cars, electronics). WASH POST-ABC NEWS POLL: white men w/o college degree prefer TRUMP over CLINTON by 60 points.
16. Trump promises to ‘bring back’ US jobs by withdrawing from trade agreements & using pressure tactics (40% tariff v. China) against trade partners; his attacks on TPP have reinforced voter concerns.
17. Clinton altered view on TPP during primaries (Saunders challenge). Her reversal from TPP as ‘gold standard’ damaged current trade climate. But overall HRC is committed to more trade with more worker rights; as a realist, US cannot withdraw behind walls, oceans; must engage confidently to protect interests and be true to values, e.g. helping others escape poverty and oppression.
18. Demographic change of support for trade: (A) now more Dem voters support it-- minorities, women, millennials for whom globalization is like sunrise; (B) now more Repubs oppose trade—white, older males feel besieged by feminism, civil rights, gay rights, immigrant competitors for jobs, gun control.
19. Overall [Chicago CFR Poll of 2,000, June, 2016], voters more positive on TPP than election rhetoric suggests: 60% approve TPP; 64% say globalization ‘good for U.S’ [75% of Dems; 34% of Repubs]; AT SAME TIME VOTERS LESS POSITIVE ON EFFECTS OF TRADE ON JOBS: only 40% say trade is good at creating jobs in U.S. & only 35% say trade is good for workers’ job security.
- 19A. **ALSO DESPITE CAMPAIGN RHETORIC: US BUREAU OF CENSUS DATA FOR 2015 SHOW VERY LARGE INCREASE IN WAGES & DECLINING INEQUALITY: HOUSEHOLD INCOME UP 5.2%--LARGEST INCREASE IN 50 YEARS. ALSO LARGEST INCREASE FOR BELOW TOP 10% OF HOUSEHOLDS ON INCOME DISTRIBUTION SCALE. POVERTY RATE ALSO DOWN: 3.5 MILLION FEWER BELOW POVERTY LINE IN 2015 THAN 2014.**
20. Now OBAMA presses Congress to approve TPP in lame duck after Nov. 8 election. Senate/House Republican leaders say vote not possible; in fact, they don’t know if votes exist to pass it.

LAME DUCK PROSPECTS FOR TPP

21. With TPP as political punching bag in election, Congressional leaders will be more inclined to hold TPP vote AFTER ELECTION when members can more safely state their position.
22. BUT LEADERS MUST INTRODUCE TPP QUICKLY AFTER ELECTION TO HAVE TIME FOR ALL PROCEDURAL STEPS IN HOUSE & SENATE SINCE LAME DUCK IS ONLY 3-4 WEEKS LONG.
23. LEADERS WON’T INTRODUCE TPP IF THEY CAN’T COUNT VOTES TO APPROVE. BUT SOME MEMBERS WONT DECIDE UNTIL DATE FOR VOTE IS SET; SO WHICH COMES FIRST, VOTE COUNT OR DATE FOR VOTE?
24. MEMBER VIEWS ON NAGGING ISSUES PER OCTOBER TELCONS WITH SENATE FINANCE AND HOUSE WAYS&MEANS STAFF (REPUB AND DEM):

A) PERIOD OF DATA EXCLUSIVITY FOR BIOLOGIC DRUGS: US GIVES 12 YEARS BUT TPP ALLOWS 5 YEARS IN AUST, NZ, CHILE, PERU WITH POSSIBLE [BUT NOT REQUIRED] RISE TO 8 YRS BY REGULATION.

Hse WAYS-Means Chair Brady: ‘action plan (like labor plan) to ensure enforcement of longer periods: no TPP benefits until countries lengthen protection periods.

B) LOCALIZATION OF FINANCIAL DATA: TPP BANK SUPERVISORS WANT IT, BUT U.S. BANKS OPPOSE; MAY BE RESOLVED THROUGH PLURILATERAL TISA DEAL PLUS BILATERAL TALKS WITH VIETNAM, BRUNEI, SINGAPORE & MALAYSIA.

C) CARVEOUT OF TOBACCO PRODUCTS FROM ISDS: MEMBERS FROM TOBACCO STATES (E.G. KENTUCKY) WANT CHANCE TO CHALLENGE NAT’L REGS ON TOBACCO UNDER ISDS; OTHER FARM STATE REPS OPPOSE CARVEOUT AT BAD PRECEDENT FOR OTHER FAR MPRODUCTS. OBAMA-HRC unlikely to move on this because of domestic Democratic opposition.

25. USTR FROMAN ON LAME DUCK PROSPECTS [AND CHINA RISKS]

“Trade Agreements always passed Cong with majority of Repubs. I don’t see that fundamentally changing. BUT recent polls show Dem support for trade and TPP. Notwithstanding the headlines, there is more bipartisanship on trade than meets the eye.”

‘China is executing on its regional strategy with AIIB, RCEP, and ambitions for East and South China Sea. The choice is to allow countries to throw their weight around with behavior that is statist and mercantilist. OR PASS TPP AND STRENGTHEN THE RULES BASED SYSTEM THAT HAS DELIVERED AN ERA OF PEACE AND PROSPERITY UNEQUALED IN HISTORY.”

26. VICE-PRESIDENT BIDEN: “IN THE LAME DUCK PERIOD, I AM NOT OVERPROMISING, BUT SOMETIMES, WHEN THERE IS NO ELECTION TO FACE [INCLUDING DEFEATED] AND PEOPLE ARE RETIRING AND OTHERS WHO ARE STAYING, THEY MAY SEE THE WISDOM OF TPP. HOWEVER, IT IS GOING TO BE HARD. I THINK IT IS LESS THAN EVEN CHANCE BUT THERE IS A GENUINE CHANCE. IT’S POSSIBLE WE CAN GET IT PASSED.”

27. MY PREDICTION: TPP IS UNLIKELY TO PASS IN LAME DUCK: ENVIRONMENT IS TOO TOXIC FOR PRO TRADE VOTES EVEN AFTER ELECTION.

TPP IN CLINTON ADMINISTRATION

28. CLINTON WILL WIN ELECTION BECAUSE TRUMP FRIGHTENS ELECTORATE, MORE THAN CLINTON INSPIRES VOTERS.

29. DEMOCRATS WILL TAKE 5 SEATS FROM REPUBS TO CONTROL SENATE (E.G. WISCONSIN, ILLINOIS, NORTH CAROLINA, PENNSYLVANIA, NEW HAMPSHIRE); REPUBLICANS WILL HOLD HOUSE BUT WITH SMALLER PLURALITY.

30. I AGREE WITH FRMR USTR BOB ZOELLICK: IF NO TPP IN LAME DUCK, HRC WILL TAKE 1-2 YEARS TO MOVE TPP FORWARD. HER OTHER PRIORITIES LIKE INFRASTRUCTURE

INVESTMENT, HIGHER MINIMUM WAGE, TAX REFORM, INVESTMENT IN CLEAN ENERGY NEED SUPPORT OF CONGRESS. A TPP DEBATE WON'T HELP MAKE FRIENDS.

DRIVERS FOR EVENTUAL TPP ACTION WILL INCLUDE ASIANS' VOICING MARITIME SECURITY CONCERNS. SO 3 SUGGESTIONS FOR HRC:

- (a) HRC SHOULD APPOINT CREATIVE/AGGRESSIVE USTR; HE/SHE CAN BRING TRADE INTO FOCUS SO CEO'S CAN TALK TO EMPLOYEES ON TRADE, E.G. FORD WORKERS SUPPORT STRATEGIC PLAN (MEXICO).
- (b) HRC SHOULD MAKE STRONG ADDITION TO TPP, E.G. COUNTER-CURRENCY INTERVENTION; (DOES TREAS ALREADY HAVE THIS AUTHORITY?)
- (c) HRC MUST HELP WORKERS ADJUST, E.G. BETTER TRAINING (WITH INDUSTRY?) AND RELOCATION; EXPANDED EARNED INCOME TAX CREDIT; WAGE SUBSIDY (WILL WORKERS SUPPORT IT?)

31. HRC WILL ALSO SEEK IN TPP: STRONGER LABOR AND ENVIRONMENT STANDARDS; STRONGER RULES OF ORIGIN [ONLY 45% IN TPP BUT 62.5% IN NAFTA] TO LIMIT CHINESE CONTENT IN AUTO IMPORTS.

32. I ALSO AGREE WITH FRMR USTR CHARLENE BARSHEFSKY:

- A) BECAUSE OF CONCERNS ABOUT CHINA IN ASIA, TPP PARTNERS, WILL CONSIDER CAREFULLY HRC'S PROPOSED TPP CHANGES.
- B) TPP PARTNERS WILL HESITATE TO REBUFF HRC ADMIN IN FIRST (OR 2ND) YEAR OF 4 OR EVEN 8 YEAR TIME IN OFFICE.
- C) SO U.S SHOULD STRUCTURE A TPP PACKAGE MORE ACCEPTABLE FOR US & TPP PARTNERS: E.G. DROP ISDS, DROP FIGHT VS. FINANCIAL DATA LOCALIZATION.

OTHER TRADE POLICIES

33. AFTER TPP DELAY & BREXIT, US-EU TTIP TALKS WILL CONTINUE AT SLOW PACE: KEY OBSTACLE IS AGREEMENT BETWEEN DOMESTIC REGULATOR; E.G.ON AUTOS ONLY SEATBELTS, LIGHTS BRAKES AGREED.

34. US WILL CONCLUDE ENVIRONMENTAL GOODS (EGA), TRADE IN SERVICES (TISA) IN GENEVA.

35. US WILL SEEK TO BROADEN BEYOND TPP MEMBERSHIP NEW DISCIPLINES IN TPP, E.G. FISH SUBSIDY LIMITS, WHETHER TPP APPROVED OR NOT.

36. LIKE OBAMA, HRC WILL MOVE SLOWLY ON TRADE OVERALL WHILE SHE LAYS FOUNDATION AT HOME, E.G. IMPROVED TAA, STRONGER DISCIPLINE ON CURRENCY MANIPULATION.

37. 3-WAY TRADE TALKS AMONG U.S, JAPAN & EU MAKE SENSE: MORE EFFICIENT THAN US & EU PURSUIT OF DUPLICATIVE ASIAN DEALS. BUT CURRENT U.S. POLITICAL CLIMATE FOR TRADE NOT UP TO TASK UNLESS & UNTIL U.S. MACRO-ECONOMIC GROWTH BECOMES

STRONG AGAIN.

38. NO U.S. PUSH TO BREATHE NEW LIFE INTO DOHA ROUND UNLESS CHINA MODIFIES POSITION.
39. U.S. WILL EXPLORE BILATERAL TRADE DEAL WITH BRITAIN.
40. U.S. WILL CONTINUE TO SUPPORT CLOSER JAPAN-S. KOREA RELATIONS; U.S. WILL ALLOW POLICY SPACE FOR JAPAN-RUSSIA DISCUSSIONS.
41. OBAMA LEAVES HRC CHALLENGE OF HOW TO CEMENT TIES TO ASIA AS CHINA POWER GROWS. WHILE OBAMA TOOK STEPS FORWARD ON DEFENSE TIES WITH JAPAN, SOUTH KOREA, AUSTRALIA; AND IMPROVED TIES WITH BURMA AND VIETNAM, IF NO TPP IN LAME DUCK, CAN WE SAY THAT OBAMA'S LEGACY FROM HIS ASIA PIVOT IS A SUCCESS?

THANK YOU VERY MUCH. I LOOK FORWARD TO YOUR QUESTIONS.