



**Statement before the House Foreign Affairs Committee
Subcommittee on Terrorism, Nonproliferation and Trade**

***“TPP AND AMERICAN GRAND STRATEGY IN
THE ASIA PACIFIC REGION”***

A Statement by:

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Chairman Poe, Majority Leader Keating, Members of the Committee, it is my pleasure to testify today on the national security benefits of the Trans-Pacific Partnership, or TPP, now under negotiation with our key allies and partners in the Asia Pacific region.

From the very beginning of our Republic, trade across the Pacific has been closely linked to our nation's security. In 1784 Robert Morris, dead-broke from financing the continental army of George Washington, outfitted a ship in New York in search of markets not yet closed to us by the British. His first ship, the *Empress of China*, sailed to Canton (today Guangzhou) laden with ginseng from what is today Pennsylvania and West Virginia and returned home with over 400% profits. Soon ships from Boston, Salem, New York and Baltimore were trading sea otter pelts from the Pacific Northwest and sandalwood from Hawaii and staking our claim as a Pacific nation before we had even expanded west beyond the Alleghenies.

In the late 19th Century our greatest naval strategist, Alfred Thayer Mahan, noted that a strong navy alone was not enough to secure the American position in the Pacific. In those days the Republican Party and his friend Theodore Roosevelt were proponents of a high tariff, but Mahan chastised them, arguing that the tariff was like the civil war ironclad ship USS Monitor –suitable for river defense and nothing more. Free trade was the instrument of a great maritime nation, he maintained, like the ocean-going battle cruisers that would soon win the Battle of Manila Bay.

In the 1930s the United States forgot the indispensable role of trade in securing the Pacific and passed the Smoot-Hawley tariffs, cutting Japan's trade with the United States in half and driving Tokyo towards a violent autarkic trading system of its own under the Greater East Asian Co-prosperity Sphere. Even as the U.S. Marines were landing at Iwo Jima to defeat the Empire of Japan and re-open the Pacific, Americans were planning the Bretton Woods system to ensure that post-war order and stability would be underpinned by an open rules-based economic system. That system has never been static –to succeed it must continually be strengthened with new member states drawn in, new markets opened, and the rules updated to reflect new economic realities.

The Trans Pacific Partnership (TPP) represents the most important effort to modernize trade across the Pacific in a generation. The negotiations with Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam are almost complete and offer significant economic and trade gains to the United States. The Peterson Institute's 2012 model demonstrates annual economic gains of \$77.5 billion in 2025 for the United States in 2007 dollars with an increase of exports by \$124 billion. A successful TPP agreement will build on global trading agreements at Doha by expanding into uncovered areas such as services, investment, competition, regulatory coherence. TPP will strengthen investor protection, discipline large state owned enterprises, enhance intellectual property rights protection and integrate the existing "spaghetti bowl" of trading agreements –all making it easier and fairer for large, medium and small U.S. firms to export to the world's most dynamic region.

But as Robert Morris, Alfred Thayer Mahan, or Franklin Delano Roosevelt would add – TPP will also reinforce American strategic interests in the Asia Pacific region at a time of major uncertainty. America turned protectionist in the 1930s just as Japan was emerging as a revisionist power seeking to push the United States out of the Pacific. Today we face a similar, if somewhat more benign circumstance. The United States is more powerful today than we were in the 1930s and Asia is made up of nation states rather than loosely held and vulnerable European colonies as it was before the war. Moreover, most of the states are democratic or transitioning towards democracy.

Nevertheless, China's rhetoric and behavior in the region bear some menacing overtones from previous eras and have rattled neighboring states from India to Japan. Last April in Shanghai, President Xi Jinping called for a "new security order in Asia" without "blocs" – a direct reference to the network of U.S. alliances that have kept the peace since the war. The Peoples Liberation Army budget has increased at double digit growth rates over the past two decades, arming China with new capabilities to challenge the United States in outer-space, cyber-space and the offshore island chain stretching from Japan through the Philippines to the Straits of Malacca. As CSIS demonstrated with previously unavailable footage on our Asia Maritime Transparency Initiative (AMTI) website, China has converted six small rocky crops in the South China Sea into military facilities designed to increase military dominance over smaller countries like the Philippines and Vietnam with which Beijing is contesting control of maritime domain.

At the same time, it is important to emphasize that Beijing still considers the United States to be its most important strategic counterpart and trading partner in the world and Xi has proposed a "New Model of Great Power Relations" with Washington aimed at sharing rather than contesting power in the Pacific. If we were a declining or even static power, such power-sharing might be tempting. In fact, however, we are a nation with unique competitiveness, abundant energy, and allies and partners in the Asia Pacific eager to see us lead. We are therefore positioned to shape a new cooperative relationship with China based not on relaxing the rules and splitting our differences, but instead on a broadening and deepening of the rules that would dissuade China from revisionism and encourage peaceful cooperation and integration down the road.

Successful completion of TPP is central to that mission in three ways.

First, TPP will solidify our key alliances and partnerships. Japan is the linchpin of American presence in the Asia Pacific region, hosting our major air and naval assets and standing as a partner on rule-making and support for democracy and development across the region. When Prime Minister Shinzo Abe decided to join the TPP negotiations in 2013, it energized American exporters and blunted China's efforts to convince smaller countries not to join. Japan has the third largest economy in the world, yet only about 17% of Japanese trade is covered by economic partnerships or free trade agreements. The Abe government has already made significant moves to reform the agricultural sector and the differences in our position with Japan in the negotiations are now small in dollar terms, though politically sensitive. On the rule-making side, we and Japan are essentially on the same page. Japan stands to gain \$119 billion annually from TPP according to the

Peterson Institute study. More importantly, TPP would open Japan's market to American and regional imports and investment, adding real momentum to Prime Minister Abe's "third arrow" of structural reform and further aligning Washington and Tokyo for liberalization elsewhere –increasing the incentives for countries like Vietnam and Malaysia to complete negotiations, for Korea to "dock" the KORUS Free Trade Agreement with TPP, and for China to change the arc of its economic policy towards integration with 21st Century rules for trade.

Second, successful TPP negotiations will set the standard for competing trade negotiations in the Asia-Pacific region that do not include the United States. Principal among these is the Regional Comprehensive Economic Partnership (RCEP), which covers the ten ASEAN member countries and six of their major trading partners — China, Japan, India, South Korea, Australia and New Zealand. RCEP has its roots in Malaysian Prime Minister Mohammed Mahathir's concept of an "East Asian Economic Community" which he hoped in the late 1980s would counter the establishment of the Asia Pacific Economic Cooperation (APEC) summits and the North American Free Trade Agreement (NAFTA). With the presence of U.S. allies like Japan and Australia in the talks, RCEP is unlikely to become an anti-U.S. bloc, but the group is dominated by China and other countries that will drive for lower levels of liberalization and a less binding set of rules for state-owned enterprises, labor and the environment. In surveys of Asian elites taken last spring, CSIS found that a majority of experts thought TPP had greater momentum than RCEP. That increases the likelihood that TPP will set higher standards for liberalization and empower countries like Japan, Australia or Singapore that want those Asian-only negotiations to strive for NAFTA-plus outcomes. TPP and RCEP do not necessarily have to be in a zero-sum race against each other –competitive trade liberalization means that those countries counting on lower standards of trade liberalization will be pressed by TPP completion to open more themselves. The net-effect will be rule-making led by Washington in partnership with Tokyo, Canberra and other like-minded states and therefore a regional architecture of institutions that reduces the temptation for rising powers to try to change the rules.

Third, successful TPP negotiations will align the entire region better as China chooses its own economic future. Initially, Beijing was hostile to TPP, charging that the negotiation was aimed at "containing" China by creating a collective security framework like NATO in Asia. Chinese diplomats and proxies actively lobbied against TPP in countries like Japan, Australia and Malaysia. Once Japan joined the negotiations, however, TPP became a force too large for China to blunt. Japan's participation also coincided with a somewhat more ambitious economic reform plan under Xi and Chinese Premier Li Keqiang. Chinese officials began arguing that perhaps TPP would be useful for China's economic reform as a source of external pressure the way WTO succession was in the 1990s as then-Premier Zhu Rongji restructured state-owned enterprises. In the Sunnylands U.S.-China summit last June the Chinese side requested a briefing on TPP. Then as host of APEC last November, Xi Jinping called for moving towards FTAAP –a free trade area of the Asia Pacific tabled in the 2007 Sydney APEC summit. FTAAP would include all the APEC members, among them China. The other TPP members are certainly not ready to include China in the talks yet, but Beijing's recent moves signal

that TPP plays a critical role in shaping China's own internal debate about reform and integration with world trading system. Coupled with TTIP, TPP has real potential to not only pull China into modern rule-making, but re-energize global talks at Doha as a whole.

To conclude, one might briefly consider the national security impact should TPP talks completely stall this year. The U.S. economy is strong enough to weather any break-down in trade talks for now, but President Obama's goal of increasing exports would suffer over the longer-term as alternate trade agreements drew to a close without our rules or our membership. Meanwhile, our Asian allies and partners would begin questioning the commitment of the administration and Congress to the Asia Pacific region, including our will power to resist Chinese coercion, North Korean provocations, and backsliding on democratization in Burma/Myanmar. TPP does not offer a specific solution to any of these challenges, but it does indicate how ready we are to continue leading in the region. Japan's stock market would probably react negatively to any break-down of TPP talks and investors would question Prime Minister Abe's commitment to reform and restructuring. A hit to Japanese growth and credibility would be a hit to U.S. strategic interests. China meanwhile, would return to debating its own economic future without the prospect of an over-arching set of global and trans-Pacific rules and institutions that would determine Beijing's own competitiveness and ability to grow. American leadership, trade -- and ultimately security—would suffer.

It would be an exaggeration to say that failure of TPP would amount to another Smoot-Hawley tariff, but a generation from now such a failure could be one of the lost opportunities historians point *back* to should this region fall victim to the great power rivalries of the 19th Century instead of achieving the enormous potential for prosperity of the 21st Century.

Thank you.