Overview

Understanding the Trans-Pacific Partnership

JEFFREY J. SCHOTT

The Trans-Pacific Partnership (TPP) is by far the most comprehensive trade and investment pact since the creation of the World Trade Organization (WTO) more than 20 years ago. It eliminates a broad array of barriers to trade and investment, some of which have been untouchable in previous trade pacts, and establishes state-of-the-art rules on domestic policies that can distort trade and investment flows.

Three years ago, the Peterson Institute for International Economics published *Understanding the Trans-Pacific Partnership*. That Policy Analysis, written at the midpoint of the negotiations, argued that the content and implications of the prospective trade pact were "not well understood" (Schott, Kotschwar, and Muir 2013, 1). Fast forward to 2016: After more than five years of negotiations, the pact was signed by the United States and 11 other Pacific Rim countries on February 4, 2016. But ratification of the pact, especially in the United States, poses substantial challenges in large measure because what it does and what it means for firms, workers, and farmers are still "not well understood."

Trans-Pacific Partnership: An Assessment is designed to better inform public understanding of the TPP by providing objective analyses of the agreement's major provisions. Simply put, it sets out a substantive reader's guide to the TPP that explains what the trade deal covers and what it requires in terms of trade and investment reforms by each member country. It examines both the highlights and shortcomings of the TPP text—areas where the TPP produced substantial reforms and those where reform efforts fell flat.

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Achieving broad-ranging reforms and developing innovative trading rules is particularly noteworthy given the diversity of the TPP participants in terms of the size of their economies, level of economic development, and political systems. As shown in table O.1, the 12 TPP countries include both rich and poor and large and small economies. Most members are high- or upper-middle-income democracies with high scores in the United Nations' Human Development Index (HDI), which measures per capita income, education, and life expectancy. But the TPP also includes nondemocratic regimes and several developing economies—such as Vietnam, the only member with an intensive state-run economy and the lowest HDI in the group.

This overview chapter summarizes why the TPP is a big deal for the participating countries, for their trading partners, and for the world trading system. But first it is important to examine the countries participating in the TPP and their objectives in building a free trade agreement (FTA) across the Asia-Pacific region.

TPP: Origins and Objectives

To understand the motivations and ambitions of the TPP, it makes sense to consider what the TPP countries initially intended. But the TPP poses complications for such an analysis: Unlike other trade negotiations, the number of countries engaged in the TPP expanded over the course of the talks, each adding its own export priorities and import sensitivities. Singapore, Chile, New Zealand, and Brunei (the "P4") constituted the initial core of the pact when they signed their Trans-Pacific Strategic Economic Partnership agreement in 2004. In March 2010, eight countries attended the first negotiating round in Australia (with Australia, Peru, the United States, and Vietnam joining the P4, the latter initially as an "associate member"); Malaysia joined the talks in October 2010, followed by Canada and Mexico in late 2012, and Japan in mid-2013.[1]

The key objective for the Asian participants in launching the TPP talks, reflecting the strategic vision of the late Lee Kwan Yew of Singapore, was the need to ensure sustained US participation in the region's economic development and to maintain US strategic engagement to deter the type of military adventurism that caused so much devastation in East and Southeast Asia over the past century. The same objectives underpinned the creation of the Asia-Pacific Economic Cooperation (APEC) forum in the late 1980s and continue to drive strategic initiatives almost three decades later.

It is probably not a coincidence that Lee Kwan Yew advised President Barack Obama in November 2009—just before Obama's first trip to Asia as president—to maintain US strategic presence in the region and to deepen economic relations by joining the TPP talks. Obama agreed and at the start of

1. The United States and others committed to launch TPP talks on the outskirts of the UN meetings in New York in late September 2008 when the world economy was beset with a global financial meltdown and President George W. Bush was still in office.

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Table O.1 Economic profile of the TPP-12, 2014

TPP member	GDP (billions of US dollars)	Population (millions)	Human Development Index[a]	Trade		
				Total merchandise trade with world (billions of US dollars)[b]	**Total merchandise trade with TPP-12** (billions of US dollars)[b]	**TPP trade as a percent of total trade**
Australia	1,455	23.5	0.935	467	156	33
Brunei	17	0.4	0.856	14	8	58
Canada	1,785	35.5	0.913	933	686	74
Chile	258	17.8	0.832	149	46	31
Japan	4,601	127.1	0.891	1,502	421	28
Malaysia	338	29.9	0.779	443	170	38
Mexico	1,295	125.4	0.756	797	575	72
New Zealand	200	4.5	0.913	84	35	42
Peru	203	31	0.734	81	28	34
Singapore	308	5.5	0.912	776	235	30
Vietnam	186	90.7	0.666	298	92	31
United States	17,419	318.9	0.915	4,031	1,626	40
Subtotal	28,065	810.2		9,575	4,079	43
TPP-12 as a percent of global total	36			24		

a. The Human Development Index (HDI) is published by the United Nations Development Program. The HDI is a summary measure of average achievement in key indicators in three dimensions of human development: a long and healthy life (life expectancy at birth), being knowledgeable (mean years of schooling, expected years of schooling), and a decent standard of living (gross national income per capita). The HDI is the geometric mean of normalized indices for each dimension. The index is on a scale of 0 to 1, where 0 indicates the lowest and 1 indicates the highest level of human development.

b. Total trade is the sum of exports plus imports.

Sources: World Bank's *World Development Indicators* database, http://data.worldbank.org/indicator; United Nations Development Program, 2015, http://hdr.undp.org/en/data; UN Comtrade data via World Bank's *World Integrated Trade Solution* (WITS) database.

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his trip in December 2009 announced that the United States would participate in the TPP talks. At the time, with low capacity utilization in US industry and high US unemployment, the TPP offered the prospect of increased US exports to the region with the most dynamic growth in the world economy. The TPP fit well into an emerging US trade policy response to the global financial crisis, the National Export Initiative (NEI), which Lawrence Summers (then Obama's chief economic adviser as head of the National Economic Council) and Michael Froman (then Summers' deputy and now US Trade Representative) cogently argued could contribute to the US economic recovery. The NEI is a faded memory but the TPP, once implemented, can provide a strong impetus to economic growth for the United States and its TPP partners.

The TPP Is a Big Deal

The TPP is far different from the FTAs that have increasingly populated the trading system since the Doha Round of multilateral trade negotiations ran aground almost eight years ago. The economic footprint of its members is larger than other recent trade pacts and its content is more comprehensive. Compared with other FTAs, the TPP contains fewer exceptions to its liberalization commitments and more extensive rules to govern domestic practices that can impose barriers to foreign trade and investment. Importantly, developing countries accept full obligations in almost all areas—with additional time to implement some reforms. And, in almost all areas, TPP provisions are enforceable under strong dispute settlement procedures.

In fact, the TPP is a big deal, in several important respects.

First, in economic terms, the TPP involves countries that together account for about 36 percent of global output and 24 percent of world merchandise trade (exports and imports). The TPP is by far the most comprehensive trade accord involving developed and developing countries that has ever been negotiated in terms of scope of coverage and depth of commitments to trade liberalization and policy reform. The deal opens up new opportunities for increased trade and investment in goods and services, including by lowering farm trade barriers long resistant to reform, and should contribute importantly to economic growth (and more modestly on average to growth in nonmember countries as well). Overall, TPP countries should achieve permanent gains in real income of more than 1 percent over baseline projections once the deal is substantially implemented in 2030, or almost $500 billion in 2015 US dollars (see chapter 1 by Peter A. Petri and Michael G. Plummer).

For the United States, the TPP could generate permanent real income gains of 0.5 percent of baseline GDP—a very big number. US exporters and investors gain substantial new access to TPP economies, especially Japan and Vietnam, where US farmers and service companies should post important gains. In absolute terms, Japan would benefit even more because it will have to do more to reform its existing policies that distort trade and investment. Japan's gains should approach 2.5 percent of baseline GDP. Together, the United States and

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Japan account for about 55 percent of the aggregate income gains of the 12 countries. But the biggest winners may be the poorer TPP members, Vietnam and Malaysia, with prospective gains of 8.1 and 7.6 percent of baseline GDP, respectively—due to the fact that those countries have committed to substantially reforming their current policies. In FTAs, countries generally benefit the most from liberalization of their own barriers to trade.

While all TPP countries gain from the trade and investment reforms, not all firms and workers will be better off. Some firms will downsize or depart in the face of new competition; some workers will lose their jobs. The TPP does not cover employment policies or require retraining and retooling of workers and firms. Policymakers need to address these adjustment challenges as they advance strategies to take advantage of the new opportunities created by the TPP. This is especially true for the United States, given its modest safety net for unemployed workers. In chapter 2 Robert Lawrence and Tyler Moran calculate that the overall TPP benefit-cost ratio for the United States will average about 18:1 over the first decade and argue that part of the TPP gains should be invested in wage insurance and other programs that mitigate labor adjustment costs.

Second, the TPP is an FTA "upgrader." It substantially updates and augments less comprehensive pacts between pairs of TPP countries, including most importantly the 22-year-old North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico. Two decades ago, NAFTA was state of the art for FTAs but the world economy has evolved dramatically since then. Technological advances have changed the way goods and services are produced, marketed, financed, and distributed; and China and other Asian countries have become more formidable competitors. The TPP effectively updates and upgrades NAFTA in areas like e-commerce, energy, trade-related environmental and labor issues, and state-owned enterprises (SOEs), so that the three countries can better address the challenges of global commerce in the 21st century, while safeguarding their right to regulate to protect the public interest in areas such as health, product safety, and environmental protection.

Similarly, the TPP updates other US trade pacts, including in some areas even the recent Korea-US FTA, as well as the large number of much less comprehensive FTAs involving other TPP members. Previous FTAs had much more limited coverage and more exceptions from tariff liberalization, so the TPP will be a major upgrade for the large number of bilateral and regional trade pacts between TPP countries. TPP critics incorrectly charge that the pact merely repeats reforms covered in bilateral FTAs among pairs of TPP countries, ignoring the major changes and additional reforms that the TPP requires in all of those pacts.

Third, the TPP establishes new trade rights and obligations that fill important holes in the WTO rulebook and that update and expand WTO obligations in other areas. Advances in TPP rulemaking establish precedents for other regional and multilateral negotiations (covering issues such as environment, e-commerce, and disciplines on SOEs), and should help inform ongoing plurilateral talks like those currently under way on traded services. In almost

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all areas these new rules are covered by improved dispute settlement procedures (as detailed by Jennifer Hillman in chapter 12).

Fourth, the TPP establishes a comprehensive template for broader Asia-Pacific economic integration and could provide the core of a prospective Free Trade Area of the Asia-Pacific (FTAAP) that the United States, China, and the other APEC members agreed to advance at the Beijing APEC Summit in November 2014. To that end, US policy seeks to expand TPP membership over time to all countries in the region willing and able to implement and enforce the pact's broad-ranging obligations. Note that the TPP is not an alternative or competitor to the Regional Comprehensive Economic Partnership (RCEP) that Japan originally conceived as an ASEAN+6 negotiation involving members of the Association of Southeast Asian Nations and their FTA partners in Asia and Oceania. Indeed, almost half of the RCEP countries are also in the TPP and several others are preparing for possible TPP participation in the future, including China.

Finally, as presaged by Lee Kwan Yew, the TPP will also make a critical contribution to foreign policy and national security relations in the Asia-Pacific region. US participation in the TPP reassures the region of an ongoing US presence and that the Asia-Pacific will continue to be accorded priority in US foreign policy. This is about both the perception and reality "on the ground" of being a reliable partner. Some US politicians may not understand this point clearly enough; but those in countries like South Korea and Japan, facing the threat of North Korean missiles and adventurism, understand and value it very highly. So, too, do other Asia-Pacific nations that depend on open and secure sea lanes for their commercial prosperity. And so should China, which would benefit from constructive US engagement in the region that supports economic prosperity and peaceful relations among Asia-Pacific countries.

TPP Highlights and Lowlights

The TPP is notable for commitments to substantially open new opportunities for trade and investment, upgrade trading rules in key areas like intellectual property, competition policy, and dispute settlement, and innovate in areas critical to international commerce in the 21st century like e-commerce, trade-related environmental matters, labor standards, and SOEs (all subject to binding dispute settlement procedures). In addition, the TPP's parallel declaration on macroeconomic policies and exchange rates is the first time that FTA partners have addressed these issues as a response to concerns over currency manipulation practices.

To be sure, the TPP has opponents, who criticize what is missing and what they claim is miscast or mistaken. Critical commentaries largely focus on pharmaceutical patent protections, investor-state dispute settlement (ISDS) procedures, local content requirements for autos and parts, and exceptions to full or partial liberalization of trade barriers. The chapters in this volume assess all these issues and detail where the claims are justified and where they are not.

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The following subsections provide a summary of some key achievements and a few shortcomings, or lowlights, of the final agreement.

Market Access Reforms

The TPP eliminates most tariffs quickly with a few notable but relatively unimportant exceptions, for example, US auto and light truck tariffs facing Japan. Indeed, there are fewer exceptions than most other FTAs: Overall, TPP members will eventually eliminate 99 percent of their tariff lines when the agreement is fully implemented; Japan will liberalize 95 percent—the highest liberalization rate of any past agreement that it has joined (see chapter 3 by Caroline Freund, Tyler Moran, and Sarah Oliver). Unlike other FTAs, the TPP contains substantial cuts in agricultural protection, including most of the sensitive products that Japan initially sought to protect. While barriers are not completely removed for many key farm products, the TPP opens up substantial new export opportunities. That said, the TPP requires few changes in US sugar and dairy programs, Canadian dairy protections, and Japanese rice quotas; the reluctance to open access in those markets meant agreement on more ambitious reforms in dairy and other products had to be scaled back—you reap what you sow (see chapter 4 by Cullen Hendrix and Barbara Kotschwar).

The TPP also reforms a variety of nontariff barriers, especially local content requirements and rules of origin for autos and parts and for textiles and apparel. The fact that content requirements are cumulated across the 12 TPP markets creates more flexibility in sourcing components, even though TPP countries adopted the highly restrictive US "yarn forward" rule for apparel (see chapter 6 by Kimberly Ann Elliott). TPP reforms also include the first major opening for bidding by foreign suppliers on contracts for central government procurement in Vietnam and Malaysia (see chapter 7 by Tyler Moran). That said, not much new ground is broken with regard to coverage of subnational procurement in any of the TPP countries.

Intellectual Property

Intellectual property rights are a backbone of innovation in goods such as medicines and high-technology and media products, which account for a growing value of traded products. The TPP establishes new rules governing patents for pharmaceuticals, for example, patent linkages and patent term extension, and copyright protections, which narrow the gap with US practice. The TPP sets criteria for data protection for patented drugs, including biologics, reaching a compromise between divergent rules across the Asia-Pacific that will both spur innovation and broaden access to new medicines (see chapter 13 by Lee Branstetter). An innovative component of the TPP is its strengthening of protection of trade secrets, by requiring criminal procedures and penalties for theft, including cybertheft. Similarly, TPP provisions include strong enforcement for copyright infringement, including online and media

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products. Overall, TPP provisions continue the US practice of FTAs that go beyond intellectual property protections enumerated in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Services and Investment

The TPP opens up avenues for greater services trade, where nontariff barriers remain quite high across countries (see chapter 8 by Gary Hufbauer). The United States gained improved access to the markets of Japan, particularly in insurance and express air delivery services; Malaysia; and Vietnam. The unwillingness of the United States to liberalize several sticky services barriers of its own limited reciprocal commitments made in this area. TPP financial services commitments ensure greater access for portfolio management and payment/clearing services and place some constraints on state-run postal insurance systems (see chapter 9 by Anna Gelpern). But data localization requirements are still permitted in this area, which has elicited legitimate criticism.

Trade and investment go hand in glove, so reduced barriers to trade in the TPP will increase foreign direct investment (FDI) and vice versa. The TPP will incentivize greater investment by reducing FDI barriers via a negative list approach, placing disciplines on use of local content requirements and other performance requirements, and including limits on SOEs (see chapter 10 by Theodore Moran and Lindsay Oldenski). Investor-state dispute settlement remains a controversial mechanism among critics of trade agreements, but the TPP provisions improve upon the ISDS model inherited from NAFTA and contained in various FTAs over the years (see chapter 11 by Hufbauer). The TPP ISDS mechanism cannot be used to challenge a member country's right to regulate in the public interest (e.g., environmental, health, and safety regulations), and ensures the transparency of dispute proceedings, though it falls short of establishing appellate review like that included in the most recent European trade pacts with Canada and Vietnam.

Environment

The TPP chapter on the environment contains a broader range of environmental issues than previous FTAs, and the new obligations are subject to the TPP's binding dispute settlement (see chapter 14). Most notably, the pact bans damaging fish subsidies, including those provided to illegal, unreported, and unregulated (IUU) fishing vessels. It also strengthens enforcement of multilateral environmental agreements (MEAs) to which a TPP country already is a party, with new powers to combat illegal taking and trafficking in wildlife and illegal logging. And it promotes conservation programs for specific marine species, wetlands, and forest/fisheries management. But the TPP falls woefully short with regard to disciplines related to global warming, particularly subsidies and other measures that distort demand for fossil fuels and renewable energy supplies.

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Labor Standards

The labor provisions in the TPP are the most ambitious of recent FTAs. TPP labor commitments do not address all of the labor challenges in the member countries, but they have the potential to improve labor practices and working conditions provided they are implemented (see chapter 15 by Cathleen Cimino-Isaacs). Like recent US FTAs, the foundation of TPP provisions are commitments to enforce domestic labor laws, as well as the fundamental labor rights and principles of the International Labor Organization (ILO) Declaration. The TPP includes several innovations: It requires TPP members to maintain "acceptable conditions of work" like a minimum wage, calls for constraints on trade in goods made by forced labor, and mandates upgraded labor standards in special trade or export processing zones. Three bilateral labor plans negotiated alongside the TPP labor chapter between the United States and Brunei, Malaysia, and Vietnam are a major innovative component. The plans mandate targeted reforms to address substandard labor practices of most concern—the TPP marked the first time these countries committed to such extensive reforms. Importantly, both the labor chapter and the bilateral plans are binding obligations, that is, subject to the TPP's dispute settlement procedures.

Digital Trade/E-Commerce

Digital trade, or e-commerce, is increasingly interconnected with international trade—many industries have come to rely on services and data exchanged over the internet and cross-border data flows. Recent US trade pacts like the Korea-US FTA do cover e-commerce, but none to the extent of the TPP. Foremost, TPP provisions promote a free and open market for trade in digital goods and online services. The TPP limits restrictions on data flows and explicitly prohibits the practice of "data localization" as a precondition for doing business. The TPP also covers a wide set of cross-cutting issues for e-commerce, protection of proprietary technologies related to software, copyright infringement, and consumer privacy. As Lee Branstetter's analysis in chapter 17 concludes, the coverage of data flows in trade agreements intersects with national data protection and privacy laws and could become more complicated in the future.

State-Owned Enterprises

With the growing commercial presence of state-owned enterprises over the past decade, ensuring a level playing field has become a higher priority, as such firms are often advantaged by favorable regulations and preferential treatment. For the first time, the TPP includes comprehensive provisions on SOEs, from prohibiting discrimination against other TPP firms in buying or selling goods and services, placing disciplines on certain subsidies, to transparency require-

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ments that shed light on the degree of state influence (see chapter 19 by Sean Miner). However, the application of SOE rules is subject to wide exceptions for subcentral entities and a list of specially designated SOEs. Among TPP countries, SOEs play a major role in Vietnam and Malaysia in particular, but TPP rules were also designed with an eye toward future members like China and to establish a template for WTO and other trade agreements.

TPP and Exchange Rates

TPP officials adopted a Joint Declaration of the Macroeconomic Policy Authorities of Trans-Pacific Partnership Countries in parallel with the trade pact but not subject to its dispute settlement procedures (see chapter 20 with C. Fred Bergsten).[2] Each TPP member commits to "avoid persistent exchange rate misalignments" and "refrain from competitive devaluation." Importantly, the declaration requires each country to disclose foreign exchange reserves and interventions in spot and forward currency markets—data necessary to determine whether currencies are being manipulated for commercial advantage—and establishes a Group of TPP Macroeconomic Officials to monitor and assess exchange rate and macroeconomic policies on a regular basis. Since none of the current TPP countries are or have recently been manipulating their currencies, this initiative serves largely to deter future abuses like those practiced by China, Japan, and others a decade or so ago. New entrants to the TPP would have to adhere to the declaration as well.

TPP Expansion

The TPP is a living agreement and a number of countries already are actively examining its requirements to determine whether to ask to join once the agreement enters into force. Contrary to initial expectations that the pact would be open only to APEC members, TPP final provisions allow any country to join that is willing and able to implement and enforce its extensive obligations and that is approved by all current TPP members.

Several countries already are considering TPP participation and could seek to enter TPP in "second tranche" membership negotiations once the pact enters into force. Among the countries undertaking "due diligence" on the TPP requirements are Korea, Indonesia, Thailand, Taiwan, the Philippines, Colombia, and China. Several of these countries face daunting challenges in meeting TPP standards and opening up long-protected segments of their economy.

2. In parallel with the TPP declaration, the US Congress included new currency provisions in the 2016 Trade Facilitation and Trade Enforcement Act that gives Treasury new tools to deter currency manipulation. Taken together, the new law and TPP Declaration satisfy Trade Promotion Authority negotiating objectives in this area.

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The TPP architects left ambiguous whether prospective entrants would proceed with accession negotiations one by one or as a group. Either way, all current TPP countries have to approve each new entrant. Moreover, US Trade Promotion Authority (TPA) requires that each new member be approved by the US Congress before US officials accept the country into the TPP.

What are the prospects for TPP enlargement once the pact enters into force? The most likely first applicant is Korea, which considered asking to join the talks several years ago but stayed on the sidelines (see Schott 2015). Overall, however, the timing and pace of TPP expansion will turn importantly on three broad developments: the ratification by original members, especially the United States; whether Indonesia follows through on new commitments to reform and joins the TPP later this decade; and whether China wants to join and, if so, when.

The first factor is clear cut: The TPP cannot enter into force unless the United States participates, and US ratification will strongly influence actions by the other countries. Second, Indonesia's decision is pivotal because of its size, impact on ASEAN integration, and how it might affect Chinese strategy toward the TPP. The latter point requires more extended analysis.

Reflections on the TPP and China

Could China join the TPP later this decade? And would Chinese leaders want to do so in an economic integration pact put together by US architects? The answers to both are, perhaps surprisingly, cautiously positive. The TPP has important implications for the future of Chinese economic reforms and for US-China economic relations, and these matters are being intensively assessed by senior Chinese officials.

Since well before the completion of the TPP negotiations, Chinese officials have been doing "due diligence" on whether or not China should join the pact in the future, what challenges TPP obligations would pose for Chinese policy and Chinese competitiveness, and what opportunities the TPP could open for the Chinese economy and Chinese commercial relations in the region. Staying out would mean some trade discrimination, perhaps upwards of $100 billion in lost exports if the TPP expands but China does not participate. To be sure, much of this cost of nonparticipation could be offset if China negotiated more comprehensive trade deals with TPP members. But China would have to do better than its recent FTA with South Korea, a likely TPP member in the near future, which contained substantial carveouts in key sectors like autos and agriculture (see Schott, Jung, and Cimino-Isaacs 2015).

Would the United States accept China into the TPP club? Few politicians want to address this hypothetical question today, in either Beijing or Washington. But US Trade Representative Michael Froman has stated publicly on several occasions that the United States hopes that China will be able to join the TPP in the future, when it is ready, willing, and able to implement and enforce TPP obligations.

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But there is another obstacle to such a development, namely the residual mistrust in Washington of Beijing leaders, and vice versa. Eroding this mistrust is a key objective of the increasingly frequent meetings between US and Chinese officials. Indeed, US-China consultations now occur regularly to discuss the TPP. The topic has been a prominent item on the agenda of the biannual US-China Strategic and Economic Dialogue and was discussed as well during the Obama-Xi Summit in September 2015. US officials recognize the importance of informing their Chinese counterparts of TPP progress—hopefully other countries are doing the same thing in their talks with Chinese officials.

Chinese interest in the TPP is driven primarily by how the TPP could complement and reinforce domestic reforms (in areas like financial and other services and disciplines on SOEs) now being implemented incrementally in key sectors of the Chinese economy. To be sure, China is not nearly ready to accept a broad array of TPP obligations on transparency and disciplines on government interventions on the market.

However, China is making incremental strides toward meeting TPP standards, in two key ways: first, and most importantly, via the positive and constructive impact of domestic economic reforms, in particular the strong emphasis on reducing restrictions inhibiting trade and investment in services. Second, Chinese participation in plurilateral trade negotiations and in FTAs and bilateral investment treaties (BITs) is also contributing to narrowing the gap between Chinese policies and TPP standards. After years of grudgingly slow negotiations, China contributed to the conclusion of the revised Information Technology Agreement and is participating actively in current talks on an environmental goods pact. Similarly, recent investment agreements with Japan and Korea, and the BIT with Canada, have introduced new and significant reforms on Chinese practices that affect FDI. Even more important, if it is successful, would be the current US-China BIT negotiations because the United States is seeking commitments in the bilateral pact very comparable to those covered in the investment chapter of the TPP.

But TPP obligations pose some fundamental challenges for China in areas such as labor rights, freedom of data flows, and intellectual property. Vietnam agreed to adjust its policies to meet the high TPP standards, albeit within a period of time to allow for the required administrative and regulatory reforms, because it needed to do so to remain competitive. Chinese leaders may not feel as compelled to do so.

But if the TPP expands to include Korea, Indonesia, and other key Asian trading partners, China could face significant trade diversion that could lead it to reconsider its position on TPP membership—or seek another option for deepening economic engagement with the United States, such as efforts under way in APEC to build an FTAAP. An APEC study on possible next steps toward an FTAAP, co-chaired by China and the United States, will be presented to APEC leaders in November 2016. The study may offer the next US president

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new options for expanding the TPP and broader Asia-Pacific economic integration later this decade.

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