Understanding the Trans-Pacific Partnership

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The TPP: A Big Deal in the Making?

- The GDP of TPP-11 countries is $21 trillion or 30 percent of global output.
- TPP-11 countries export $4.4 trillion of goods and services, or 20 percent of global exports.
- Developing comprehensive new rulebook for trade and investment in goods and services.
- Substantial upgrading of existing trade pacts among participating countries.
- Important stepping stone to broader Asia-Pacific and multilateral trade accords.
### TPP-11: Like-minded but Not Alike

<table>
<thead>
<tr>
<th>TPP-11</th>
<th>2011 GDP ($US billions)</th>
<th>Population (millions)</th>
<th>Human Development Index&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Economic freedom in the world index&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>1,488</td>
<td>22.7</td>
<td>0.929</td>
<td>7.97</td>
</tr>
<tr>
<td>Brunei</td>
<td>16</td>
<td>0.4</td>
<td>0.838</td>
<td>n.a.</td>
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<tr>
<td>Canada</td>
<td>1,737</td>
<td>34.4</td>
<td>0.908</td>
<td>7.97</td>
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<tr>
<td>Chile</td>
<td>248</td>
<td>17.4</td>
<td>0.805</td>
<td>7.84</td>
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<td>Malaysia</td>
<td>279</td>
<td>28.7</td>
<td>0.761</td>
<td>6.96</td>
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<tr>
<td>Mexico</td>
<td>1,155</td>
<td>113.7</td>
<td>0.770</td>
<td>6.66</td>
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<tr>
<td>New Zealand</td>
<td>162</td>
<td>4.4</td>
<td>0.907</td>
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<td>Peru</td>
<td>174</td>
<td>30.0</td>
<td>0.725</td>
<td>7.61</td>
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<td>Singapore</td>
<td>260</td>
<td>5.3</td>
<td>0.866</td>
<td>8.69</td>
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<tr>
<td>United States</td>
<td>15,094</td>
<td>311.9</td>
<td>0.910</td>
<td>7.69</td>
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<tr>
<td>Vietnam</td>
<td>123</td>
<td>89.3</td>
<td>0.593</td>
<td>6.54</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>20,734</strong></td>
<td><strong>658.2</strong></td>
<td></td>
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</tr>
</tbody>
</table>

<sup>a</sup> The Human Development Index (HDI) is published by the United Nations Development Program. The index comprises six indicators: life expectancy at birth, mean years of schooling, expected years of schooling, per capita gross national income (GNI), GNI rank, and non-income HDI value. The index is on a scale of 0 to 1, where 0 is the lowest and 1 indicates the highest level of human development.

<sup>b</sup> The index measures the degree to which the policies and institutions of countries are supportive of economic freedom. The index assesses five broad areas: size of government, legal structure and security of property rights, access to sound money, free to trade internationally, and regulation of credit, labor and business. Countries are ranked on a scale of 0 to 10, with 10 representing more economic freedom.
TPP Sticking Points: Market Access Issues

- Liberalization of trade barriers protecting dairy, sugar, and rice.
- Tariffs and origin rules affecting textiles, clothing, and footwear.
- Services trade reforms, especially financial services, insurance, and labor services.
TPP Sticking Points: Rulemaking Issues

- Intellectual Property Rights including pharmaceutical patents, copyrights covering the new digital economy.
- Investor-State Dispute procedures.
- Disciplines on State-Owned Enterprises to ensure “competitive neutrality.”
- Rules and enforcement of environmental policies including conservation and climate change.
- Rules and enforcement of labor standards and practices, including linkage to ILO Commitments.
- Disciplines on the use of capital controls.
Expanding Membership: Help or Hindrance to Completing the TPP?

Addition of Canada and Mexico should not slow down the talks but could complicate the end-game trade-offs:

- Supports “go slow” approach to dairy reform.
- Tempers scope of IPR provisions, especially re pharmaceutical patents, copyright enforcement, new digital issues.
- Favors consultative approaches to environment and labor issues and enforcement.
Expanding Membership: Help or Hindrance to Completing the TPP?

• What if Korea asks to join? And Japan then follows suit?
  • Then TPP becomes much bigger deal, covering 40% of world GDP vs. 30% for the TPP-11.
  • For Korea TPP should not require substantial adjustment beyond that required by the KORUS FTA...assuming KORUS precedent of excluding rice.
• Will new Japanese government want to join? Can it afford not to join if Korea participates?
• Should non-APEC countries be welcomed in the future (i.e. Colombia/Pacific Alliance, India)?
RCEP and TPP: Complementary or Competing?

- ASEAN + 6 (Australia, China, India, Japan, Korea, New Zealand) pursuing intra-Asian integration in the Regional Comprehensive Economic Partnership (RCEP).
- RCEP aims to broaden and deepen ASEAN + 1 pacts with the other 6 by end of 2015; similar agenda / timetable as work on ASEAN Economic Community.
- Overlapping participation: 6 of 16 RCEP members in TPP; plus 3 others interested (Indonesia, Philippines, Thailand).
- Why are ASEAN countries also interested in TPP? Bigger payoff from TPP reforms and concern about cost of non-participation in terms of trade and investment diversion.
- RCEP gives China the option to continue incremental reforms that would improve readiness to join more comprehensive regional pacts in the future.
TPP Going Forward

• New members could join after TPP is signed using accession clause but less likely that big countries could do so.
• TPP unlikely to be template for FTAAP.
• FTAAP more likely to be a hybrid pact among TPP and RCEP countries with reciprocal obligations between “hard law” of the TPP and consensus based Asian commitments.
• TPP disciplines would continue to apply among TPP members, just as WTO does not dilute FTA commitments.
Whither China?

• Priority on deepening pacts with Asian neighbors for political and economic reasons.
• Not ready for TPP-style commitments to transparency and disciplines on government intervention in the marketplace.
• TPP members want to use TPP to help them better compete with China – rationale for overlapping membership with RCEP and TPP.
• CJK investment pact (signed May 2012) shows willingness of China to commit to incremental but substantive economic reforms through regional trade pacts.
• China-Korea talks could upgrade Chinese “template” and set precedents for a broader Asia-Pacific pact.
Conclusions

• Goal of concluding talks by the end of 2013 is very ambitious, but doable if officials remember that in trade negotiations, good things come in big packages.
• Negotiators must winnow the long list of sticking points and get political ok to change existing policies.
• By late 2013, US negotiators will need new fast track authority to secure best deal.
• The TPP is clearly a big deal in the making, and could lead to even bigger deals over time...in the region and in multilateral trade negotiations.