

# Understanding the Trans-Pacific Partnership

Jeffrey J. Schott  
Barbara Kotschwar  
Julia Muir

December 19, 2012



Peterson  
Institute for  
International  
Economics

# 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

<b>TPP-11</b>	<b>2011 GDP (\$US billions)</b>	<b>Population (millions)</b>	<b>Human Development Index<sup>a</sup></b>	<b>Economic freedom in the world index<sup>b</sup></b>
Australia	1,488	22.7	0.929	7.97
Brunei	16	0.4	0.838	n.a.
Canada	1,737	34.4	0.908	7.97
Chile	248	17.4	0.805	7.84
Malaysia	279	28.7	0.761	6.96
Mexico	1,155	113.7	0.770	6.66
New Zealand	162	4.4	0.907	8.27
Peru	174	30.0	0.725	7.61
Singapore	260	5.3	0.866	8.69
United States	15,094	311.9	0.910	7.69
Vietnam	123	89.3	0.593	6.54
<b>Total</b>	<b>20,734</b>	<b>658.2</b>		

<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.