

16-8 Implications of the Trans-Pacific Partnership for the World Trading System

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The Trans-Pacific Partnership (TPP), signed in February 2016 between the United States and 11 countries in the Asia-Pacific, is the most comprehensive trade deal ever negotiated between developed and developing countries. TPP countries account for more than one-third of global output (see table 1), and the TPP's size and influence could expand significantly as new members ask to join after the pact enters into force.

To be sure, the TPP is not yet ratified and US implementing legislation in particular faces significant resistance.¹ Despite strong protectionist undercurrents in the US political debate, however, the TPP merits congressional approval because of its impetus to trade and economic growth, its innovative rules governing areas such as digital trade, state-owned enterprises (SOEs), and environmental policies, and its positive impact on strategic relations with important US allies. Congress will likely

vote for the TPP so that it can enter into force during the first term of the next US president.²

This *Policy Brief* assesses how the TPP is likely to shape bilateral and regional trade initiatives in the Asia-Pacific and set precedents for new multilateral trade initiatives. Given the large economic footprint of TPP countries, the TPP will affect the economies of both participating and nonparticipating countries alike and influence the trade talks in the Asia-Pacific region in which they are engaged. TPP precedents also could contribute to the revival of multilateral trade negotiations in the World Trade Organization (WTO).

Whether the TPP will serve as a bridge to broader liberalization in the region and globally depends importantly on reactions by key TPP outsiders. Major Asian trading nations like China, India, and Korea, as well as entire developing regions in South Asia, Africa, and Latin America, are not part of the original TPP deal. A major concern for excluded countries is possible trade and investment diversion; some countries already are planning TPP accession to preclude such consequences. But these countries also question whether big agreements like the TPP will undermine the multilateral trading system over time. These systemic concerns could be mitigated if TPP reforms are used to advance broader regional and multilateral initiatives via a Free Trade Area of the Asia Pacific (FTAAP); the convergence of the TPP with other megaregional trade pacts; and new plurilateral trade initiatives—agreements negotiated among a core group of WTO members—based on both TPP trade reforms and rulemaking.

The most prominent near-term impact of the TPP will be shaping regional integration efforts in the Asia-Pacific and promoting economic reform. Regional trade agreements have proliferated, creating a network of different and sometimes inconsistent trading rules. The TPP upgrades the bilateral trade deals among individual members, deepens trade reforms at and behind the border, and minimizes exceptions so common in other free trade agreements (FTAs). In so doing, it creates a more cohesive and comprehensive template for trade reform in all of the TPP markets. To be sure, full coherence has not been achieved. Preexisting agreements will continue along with the TPP, for example. In addition, the TPP does not have one unified tariff schedule and the “nonconforming measures” or exceptions to market access commitments are still applied by rich and poor members alike. But overall, the TPP sets the standard for FTAs in the world trading system.

1. Criticism of the TPP reflects in part broad concerns about the impact on US workers already facing challenges from technological changes and globalization. For an analysis of TPP and labor adjustment, see Lawrence and Moran (2016).

2. See Schott (2016) for an overview of how the TPP affects economic and strategic interests of member countries.

Table 1 TPP-12 economic indicators

TPP member	GDP, 2015 (billions of US dollars)	Population, 2015 (millions)	Human Development Index, 2014 ^a	Trade, 2014		
				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	1,224	24	0.935	467	156	33
Brunei	12	0.4	0.856	14	8	58
Canada	1,552	36	0.913	933	686	74
Chile	240	18	0.832	149	46	31
Japan	4,123	127	0.891	1,502	421	28
Malaysia	296	30	0.779	443	170	38
Mexico	1,144	127	0.756	797	575	72
New Zealand	172	5	0.913	84	35	42
Peru	192	31	0.734	81	28	34
Singapore	293	6	0.912	776	235	30
Vietnam	191	92	0.666	298	92	31
United States	17,947	321	0.915	4,031	1,626	40
Subtotal	27,388	817		9,575	4,079	43
TPP-12 as a percent of global total	37			24		

a. The Human Development Index (HDI), published by the United Nations Development Program, 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 and imports.

Note: GDP data include IMF preliminary forecasts for four countries including Brunei, Chile, Malaysia, and Singapore.

Sources: IMF, *World Economic Outlook* database, April 2016; United Nations Development Program, 2015, <http://hdr.undp.org/en/data>; UN Comtrade data via World Bank's *World Integrated Trade Solutions* (WITS) database; World Bank, *World Development Indicators* database.

The conclusion of the TPP also affects the calculus of participants in ongoing trade initiatives in the region. The TPP is complementary to and provides impetus for concurrent regional liberalization efforts such as the Regional Comprehensive Economic Partnership (RCEP) and the China-Japan-Korea trilateral talks, both of which involve important building blocks toward a prospective FTAAP. The TPP increases the stakes for nonparticipating countries to make meaningful progress in these deals. But because the TPP includes some countries in the Asia-Pacific region and excludes others, it could also disrupt ongoing integration efforts among the 10 members of the Association of Southeast Asian Nations (ASEAN) and the four current members of the Pacific Alliance on the western rim of Latin America (see figure 1).

More broadly, the TPP's innovative disciplines could inform future negotiations under the aegis of the WTO. TPP rulemaking addresses many of the new challenges to trade and investment in an era of global supply chains, for example. Indeed, TPP precedents in areas like digital trade, SOEs, and the environment could strengthen and expand the agenda of future WTO negotiating efforts. TPP rules on labor standards are likewise significant, but resistance to including this issue on the WTO agenda makes it doubtful in the near term.

Overall, the TPP's biggest impact on the world trading system could be to inspire "competitive liberalization"—promoting reforms by TPP signatories and pushing countries

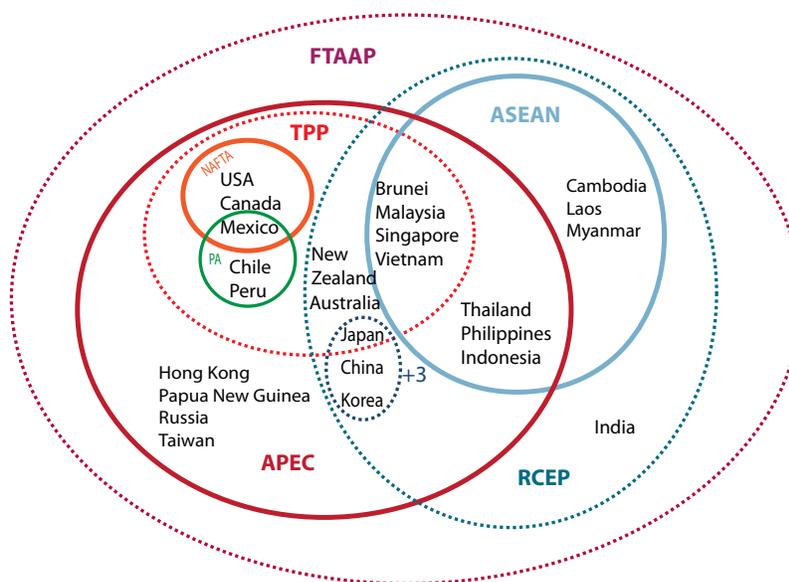
that have not joined to keep pace by removing trade and investment barriers through their own bilateral and regional pacts.³ Indeed, if enough countries adopted this approach, it could reinvigorate multilateral trade negotiations in the WTO. Unfortunately, this rosy scenario remains distant. WTO initiatives have mostly foundered except for the historic Trade Facilitation Agreement—and even that pact, agreed almost three years ago, has not yet been ratified by enough WTO members to enter into force. But if the TPP inspires new plurilateral negotiations and plants the seeds for future WTO talks, it could have a positive and enduring impact on the world trading system.

IMPLICATIONS FOR REGIONAL ECONOMIC INTEGRATION

The successful conclusion of the TPP affects the calculus of participants in ongoing bilateral and regional trade initiatives in the Asia-Pacific region. This section examines the implications for

3. For example, as the TPP negotiations intensified and concluded, the European Union accelerated its initiatives with several TPP members, concluding new pacts with Canada, Singapore, and Vietnam and announcing plans with Australia and New Zealand. At the same time, RCEP participants are pushing to close at least an initial deal in 2016, and the United States and European Union are trying to accelerate work on their Transatlantic Trade and Investment Partnership.

Figure 1 Spaghetti bowl of Asia-Pacific trade agreements



Notes: Dotted circles denote agreement not yet entered into force or under negotiation/consideration/study. The diagram does not include a number of bilateral FTAs between TPP and RCEP members. Colombia is a member of the Pacific Alliance but not in the TPP or other arrangements.

NAFTA = North American Free Trade Agreement
 APEC = Asia-Pacific Economic Cooperation forum
 TPP = Trans-Pacific Partnership
 FTAAP = Free Trade Area of the Asia-Pacific
 ASEAN = Association of Southeast Asian Nations
 PA = 4-member Pacific Alliance (including Colombia)
 CJK = China-Japan-Korea trilateral
 ASEAN+3 = ASEAN plus China, Japan, Korea
 RCEP = Regional Comprehensive Economic Partnership

(1) the China-Japan-Korea (CJK) FTA and bilateral FTAs among the three Northeast Asian countries; (2) existing arrangements involving the ASEAN and Pacific Alliance countries; and (3) the RCEP negotiations.

Several countries in the Asia-Pacific are already considering the pros and cons of negotiating accession to the TPP after the pact enters into force. Motivations to join are twofold: first, staying out risks possible trade and investment diversion and the disruption of production networks across countries due to TPP rules of origin and other requirements; second, and more constructively, acceding to TPP high standards would promote domestic economic reforms, add competitive pressure to improve the performance and efficiency of domestic firms, and drive productivity growth across the economy.

For many of these countries, preparing to meet TPP standards will require substantial reforms of existing policies. Moreover, because of the intensity of the US congressional debate on the TPP, the policies of new entrants, from market access to currency policies, will be put in a spotlight when seeking TPP entry. Specifically, in the area of financial services, US negotiators are already considering additional commitments beyond those agreed to in the TPP text (TPP-plus) for new TPP entrants, regarding a ban on data localization requirements. For major economies like Korea and China, delayed participation in the TPP could mean congressional demands for TPP-plus commitments, for example, regarding Korean agricultural liberalization and the Chinese list of exceptions to SOE disciplines.

China-Japan-Korea Trade Initiatives

The Northeast Asian economies are major trading partners for much of the region and among each other. Over the past decade, intra-CJK exports and imports increased more than three-fold. Growth in intermediates trade has been even more impressive as the three partners became deeply integrated in regional production networks. The TPP was one factor motivating them to redouble trilateral integration efforts after decades of mixed results. Japan is an original member of the TPP, while Korea is considering membership once the pact enters into force. China is also analyzing the TPP terms but has not decided whether to participate in the future. Over the same period, the three partners became founding members of the RCEP, which aims to deepen regional integration between ASEAN and its FTA partners—discussed more in the next section. While the TPP and RCEP are the broader regional initiatives competing for influence in the region, the CJK trilateral talks are an important intermediary component linking the Northeast Asian economies.

China, Japan, and Korea have pursued several initiatives to varying success: The Korea-China FTA entered into force in 2015 after three years of negotiations; Korea-Japan FTA talks have been stalled since 2004; Japan-China FTA talks have not even started. After initial efforts failed more than a decade ago, the trilateral CJK FTA negotiation launched in 2013, but it has progressed slowly. As of June 2016, the CJK trilateral has held 10 rounds of talks. As an interim step, the three partners signed a trilateral investment pact in May 2012. Whether the three

countries will be able to bridge a history of political frictions and undertake meaningful liberalization commitments is uncertain. The limited outcome in the Korea-China bilateral FTA is likely a precedent for what can be done in the trilateral talks—the deal did not achieve comprehensive trade and investment liberalization (Schott, Jung, and Cimino-Isaacs 2015). Given this outlook, the revival of a comprehensive bilateral pact between Korea and Japan holds more promise in the context of Korean accession to the TPP (Schott and Cimino-Isaacs 2014).

For China, the CJK FTA became more significant in geopolitical terms when Korea and Japan moved to strengthen economic and political relations with the United States via the Korea-US FTA and the TPP, respectively. Many view the CJK FTA—in the shadow of RCEP—as an important instrument for China to shape the economic trajectory of Northeast Asia, maintaining regional influence and countering US influence (Scott 2013). China has 11 bilateral FTAs with Asia-Pacific countries, including Korea (2015) and Australia (2015), and has been an active proponent of RCEP.⁴ These pacts may fall short of the high-standard TPP outcome, but the incremental reforms required by China will improve its readiness to join more comprehensive deals. Were China to join the TPP, it would significantly increase the TPP's chances of being the viable path to the FTAAP. But to join the TPP China will have to commit to substantial reforms of existing policies, particularly in regards to labor rights, e-commerce, and SOEs.

Japan joining the TPP in 2013 was primarily motivated by Korea's comprehensive FTAs with the United States and European Union and growing domestic consensus on the need for structural reforms to back economic growth.⁵ Japan's simultaneous pursuit of the CJK trilateral comes after stalled past efforts to deepen bilateral relations with Korea and China. Japan was an active supporter of TPP high standards and the TPP pushed Japan to agree to its highest liberalization commitments to date. As a result, Japan is in a position to insist on strong CJK rules in areas such as investment and intellectual property rights.⁶ But whether Japan will spend the political capital to insist on more comprehensive liberalization than the Korea-China FTA is an open question. Following the Korea-China FTA, China is likely to push for a less comprehensive FTA, which puts less pressure on Japan to take on hard domestic reforms. Moreover, the political effort to ensure domestic support for the TPP may dilute Japan's appetite for increased Chinese competition from further reform.

Korea will probably be the first in the queue of countries seeking to join the TPP. It has actively built an expansive network of FTAs in the region and has FTAs with the majority of TPP members, except Mexico and Japan. Participation in the TPP would both upgrade and consolidate trading rules across Korean trade pacts. It would also mitigate possible trade diversion facing Korea due to TPP rules of origin, which incentivize TPP members like Vietnam to source their inputs from within the TPP bloc and less from nonparticipating countries—more on rules of origin in a later section. Korea delayed its earlier participation in the TPP, giving priority to negotiations with China and then to the trilateral CJK pact. In the CJK talks, Korea is likely to promote the Korea-China FTA as the baseline for the talks. Concluding the Korea-China FTA was an important political achievement, but the final deal excludes several tariffs from full liberalization, including several manufacturing goods, such as automobiles, electronics, steel, and petrochemical products, and follow-up negotiations must still address services and investment liberalization commitments.

The CJK trilateral also offered Korea an alternate forum to engage with Japan. Korea-Japan FTA negotiations launched in December 2003 but were suspended the following year. A major obstacle in the talks was Japan's reluctance to fully liberalize its agriculture market, while Korea was not willing to open up its auto market.⁷ With the CJK pact proceeding slowly, Korea's prospective accession to the TPP would revive Japan-Korea engagement. To be sure, the economic and political problems that plagued the bilateral effort still need to be resolved. Moreover, Korea will likely have less leverage in negotiating its TPP entry because Japan will be able to delay accession until Korea's market access offers are generally acceptable (Schott and Cimino-Isaacs 2014). In the TPP, Japan agreed to open its most protected sectors, liberalizing agriculture and auto sectors—which were stumbling blocks in talks with Korea. For rice specifically, unlike Korea, which secured an exemption in the Korea-US FTA, Japan agreed to a tariff rate quota increase for the United States—a small but important concession.⁸ Korea will be expected to substantially meet the benchmarks set by US-Japan compromises in agricultural liberalization. Japan and Korea's joint participation in the TPP could improve prospects for a higher-standard CJK deal.

ASEAN and the Pacific Alliance

The TPP could also be disruptive to ongoing integration arrangements among the 10 members of ASEAN and the four current members of the Pacific Alliance on the western rim of Latin America. The TPP excludes some members of each regional arrangement, which could create serious fissures

4. See Song and Yuan (2012) for more detail on China's FTA strategy.

5. See Cooper and Manyin (2013) for an overview of Japan's economic and strategic objectives for joining the TPP. A major incentive was the declining competitiveness of Japanese products in major export markets relative to Korean products, which enjoyed greater access to US and EU markets as a result of the Korea-US and Korea-EU FTAs, which entered into effect in 2012.

6. Hamanaka (2014) argues that Japan has used the "TPP card" to bargain with China and the "RCEP card" to pressure the United States.

7. Yon-se Kim, "Korea, Japan Struggling to Resume FTA Talks," *Korea Times*, June 25, 2008, www.koreatimes.co.kr/www/news/issues/2015/09/242_26529.html (accessed on May 23, 2016).

8. For more detail, see table B1.1 in Hendrix and Kotschwar (2016) comparing Korean and Japanese FTA liberalization commitments in the agricultural sector.

in regional schemes that try to integrate production across participating countries. For example, TPP rules of origin could discourage sourcing among regional partners if part of a good produced in a non-TPP country could not be used to meet TPP content requirements. The obvious solution would be to include the outsiders in the TPP, but there are complications in implementing such a fix in both situations.

ASEAN members have long labored to establish an ASEAN Economic Community (AEC), even though the fabric of that arrangement requires constant alteration to fit the needs of a highly diverse group of countries. In one respect, the TPP pushes deeper integration among the ASEAN by generating pressure to keep up with other members who are advancing further and faster on economic reforms lest they become unattractive to foreign investors (often called “competitive liberalization”). To a large extent, that is why four of the 10 ASEAN members (Brunei, Malaysia, Singapore, and Vietnam) are parties to the TPP and three others have publicly stated interest in joining (Indonesia, the Philippines, and Thailand). But the three poorest ASEAN members (Cambodia, Laos, and Myanmar) are potentially left behind, with little prospect over the next decade in meeting the TPP’s high standards and limited exceptions—recall that the TPP does not include special and differential (S&D) obligations for developing countries as more frequently practiced in the WTO and some regional trade agreements including RCEP (discussed more in the next section).⁹ Indeed, a major reason why RCEP provisions are so limited and are being advanced so slowly is to ensure that the poorest countries keep pace and hopefully deepen their integration with other ASEAN members.

How can TPP countries mitigate fissures within the AEC? Blending TPP and RCEP disciplines into a common integration area is undesirable and unacceptable to the United States, which would be averse to diluting the high standards of TPP provisions. Indeed, it would be hard to justify why the three ASEAN members currently considering TPP accession should not meet the same requirements that existing members have undertaken—especially when TPP member Vietnam is smaller and less developed than those seeking admission to the club.¹⁰ To meet TPP standards, Indonesia, the Philippines, and Thailand will have to commit to substantial reform of existing policies across their economies—just like Vietnam has done in the TPP.

But what about the three poorest ASEAN members? Cambodia, Laos, and Myanmar have smaller and much less developed economies than Vietnam, and more unsettled political regimes as well. If Indonesia, the Philippines, and Thailand accede to the TPP in the coming years, then it would be worthwhile for TPP countries to consider special membership,

at reduced rates, for small, less developed countries (LDCs) in cases where they already participate in an integration arrangement with a TPP member. Such a “de minimis” exception would apply only in very limited situations but could mitigate the sourcing problems noted above and encourage development in the poorest countries in the region.¹¹ Such a solution makes sense in both the TPP context and in the context of a separate and broader Asia-Pacific economic integration arrangement under consideration in APEC (discussed further in the next section).

With regard to the Pacific Alliance (PA), the TPP causes the same problem but the solution is somewhat more straightforward. In this case, three of the four *current* members (Chile, Mexico, and Peru) have signed the TPP and only Colombia is not a party. Colombian officials already have expressed interest in TPP accession. Compared with the other PA partners, Colombia has a larger economy than Peru and Chile and per capita income higher than Peru, and like those countries, it has an FTA with the United States.¹² Its score on the UN Human Development Index (HDI)—which assesses levels of income, education, and life expectancy—is somewhat lower than the other PA countries (including aspiring PA members Costa Rica and Panama) but higher than the ASEAN countries seeking TPP accession. Building on its FTA with the United States, Colombia should be able to meet TPP standards later this decade. If so, fissures between the four PA countries should be modest and short-lived.

The TPP could have a more pronounced impact, however, as the Pacific Alliance expands to other countries on the Pacific Rim of Latin America and perhaps beyond. Countries acceding to the PA must have FTAs with current PA members but otherwise there are no geographic restrictions on PA participation. Currently, 49 countries in the Americas, Asia, Europe, and Oceania have observer status in the PA; two of them, Costa Rica and Panama, already are considered candidates for PA membership. Both have FTAs with the other PA countries and with the United States; both have HDI scores higher than the other PA members except Chile. Like Colombia, those countries also could navigate TPP accession later this decade.

In short, the TPP is unlikely to impede the broadening of the PA; indeed, all of the countries likely to be PA members in the near term are likely to accede to the TPP as well. Fissures among the PA partners can be avoided with early Colombian accession to the TPP. Such action also would be instructive for other countries likely to join the PA, including Costa Rica and Panama. However, broader expansion of the PA this decade to other Latin American countries, especially members of the Mercosur, might be constrained by their non-TPP status.

9. Instead, the TPP includes somewhat longer transition periods for developing-country members like Vietnam and Malaysia to implement specific reforms in areas like intellectual property rights, government procurement, and labor rights.

10. Indonesia, Thailand, and the Philippines have larger economies than Vietnam and somewhat higher scores on the HDI.

11. In many cases, such special treatment is counterproductive and allows countries to maintain costly, protectionist policies. In this limited situation, however, the LDC discount would prevent new distortions from impeding the reform impetus from regional integration arrangements.

12. Colombia also has an FTA with TPP member Canada and is negotiating a pact with Japan.

Table 2 RCEP economic indicators

RCEP member	GDP, 2015 (billions of US dollars)	Population, 2015 (millions)	Human Development Index, 2014 ^a	Trade, 2014		
				Total merchandise trade with world (billions of US dollars) ^b	Total merchandise trade with RCEP (billions of US dollars) ^b	RCEP trade as a percent of total trade
Australia*	1,224	24	0.935	467	310	66
Brunei*	12	0.4	0.856	14	12	85
Cambodia	18	16	0.555	30	18	59
China	10,983	1,371	0.727	4,156	1,305	31
India	2,091	1,311	0.609	354	229	65
Indonesia	859	258	0.684	777	195	25
Japan*	4,123	127	0.891	1,502	696	46
Korea	1,377	51	0.898	1,099	512	47
Laos	13	7	0.575	12	11	94
Malaysia*	296	30	0.779	443	275	62
Myanmar	67	54	0.536	47	44	94
New Zealand*	172	5	0.913	84	48	57
Philippines	292	101	0.668	130	74	57
Singapore*	293	6	0.912	776	417	54
Thailand	395	68	0.726	453	260	57
Vietnam*	191	92	0.666	298	169	57
CJK subtotal	16,483	1,549		6,757	2,512	37
RCEP subtotal	22,406	3,519		10,641	4,575	43
RCEP as a percent of global total	31			28		

* = TPP members

a. The Human Development Index (HDI), published by the United Nations Development Program, 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 and imports. Trade data of Laos and Myanmar are based on mirror statistics due to limited data availability.

Note: GDP data include IMF preliminary forecasts for eight countries, Brunei, Cambodia, Indonesia, Korea, Laos, Malaysia, Singapore, and Thailand.

Sources: IMF, *World Economic Outlook* database, April 2016; United Nations Development Program, 2015, <http://hdr.undp.org/en/data>; UN Comtrade data via World Bank's *World Integrated Trade Solutions* (WITS) database; World Bank, *World Development Indicators* database.

Regional Comprehensive Economic Partnership¹³

At its core, RCEP is about relations between the 10 members of the ASEAN and six of its FTA partners (Australia, China, India, Japan, Korea, and New Zealand). The RCEP is meant to deepen integration between ASEAN and those countries, and an FTA with ASEAN is a prerequisite for RCEP participation. In this regard, RCEP is “ASEAN centric” and not “China driven,” as often asserted.

In any event, RCEP is being driven slowly in large measure due to the substantial differences in the size and level of development between the 16 participants. Simply put, RCEP countries

are—compared with those in the TPP—less like-minded and less alike: The pact comprises the two most populous countries, and five with populations under 15 million, and both rich and less developed countries. RCEP members accounted for 31 percent of global GDP in 2015 and 28 percent of global merchandise trade in 2014 (see table 2). Currently, seven of the 16 RCEP countries are original signatories of the TPP and four other RCEP countries, Korea, Indonesia, the Philippines, and Thailand, have expressed interest in joining once the pact enters into force. This could translate to a TPP-16 in the medium term, integrating 11 of the 16 RCEP countries in the TPP framework. The TPP does not have membership restrictions in principle and is open to any country willing and able to implement its obligations and requisite reforms. In contrast, RCEP is limited to ASEAN FTA partners.

13. This section is largely drawn from Schott (2014) and Schott and Cimino-Isaacs (2014).

The TPP provided a stimulus for the RCEP talks to move forward, incentivizing countries outside the TPP, such as China and India, to pursue regional engagement within their own megaregional. The RCEP and TPP are perceived as competitive initiatives between the United States and China, but the pacts are essentially complementary and mutually reinforcing. There are, however, several important distinguishing features, which will shape future integration efforts.

What are the implications of the TPP for RCEP? First, the different time horizons matter. The TPP has first mover advantage in setting the rules of trade and investment in the Asia-Pacific. The TPP countries successfully concluded the deal in 2015, then signed the pact in February 2016. By contrast, the RCEP talks are progressing slowly, beset by its diverse membership and challenges of accommodating foot draggers to liberalization like India. Members aim to conclude a deal by the end of 2016; however, limited progress in the most recent round of talks in June 2016 makes even an incremental agreement increasingly unlikely this year. Different time horizons mean a growing gap between those RCEP countries not in the TPP and those pursuing both arrangements simultaneously. For Australia, Brunei, Japan, Malaysia, New Zealand, Singapore, and Vietnam, it will be easier to implement RCEP standards because they already have committed to more comprehensive TPP obligations. Why did some RCEP members also participate in the TPP? Put simply, because of a larger economic payoff from TPP reforms and the cost of nonparticipation in terms of trade and investment diversion.

Second, the divergent timeline ties into important differences in agenda. The TPP outcome is much more substantial in terms of both trade liberalization commitments and rule-making obligations than what is under negotiation in the RCEP. While both megaregionals advance liberalization in the region, they are not built on common content. As Hufbauer and Schott (2009, 623) put it broadly: “attempts to harmonize existing and prospective RTAs [regional trade agreements] in the region risk a ‘least common denominator’ approach that limits the scope of the liberalization, weakens the force of the rules, and harbors numerous sector specific and product-specific exemptions.” The key differences involve the depth of reforms; the scope of new disciplines on SOEs, labor, and environmental policies; the large number of RCEP exemptions for sensitive products and special preferences and flexibility for poorer, developing-country members; and consultative versus binding dispute settlement procedures.

That said, RCEP still plays a role in the region in important ways that TPP does not. There are two near-term benefits: further advancing intra-ASEAN integration and encouraging China and India to continue to pursue incremental reforms, which improve readiness to join more comprehensive trade deals.

Free Trade Area of the Asia-Pacific

For the past decade, APEC members have been discussing whether, and if so how, to construct an FTAAP. At their meetings in Beijing in November 2014, APEC leaders commissioned a study to report by November 2016 on possible

pathways for advancing an FTAAP.¹⁴ The terms of reference for the study, set out in the Beijing Roadmap in Annex A of the Leaders’ Declarations, commit to “pursue the FTAAP with a step-by-step, consensus-based approach.” Since the report is co-chaired by China and the United States and being drafted by government officials with differing policy goals and priorities, it is likely to be inconclusive and generate further debate and analysis in APEC councils. Meanwhile, the ratification and implementation of the TPP will continue to influence progress on FTAAP scenarios.

There are two feasible pathways for developing an FTAAP: the US-preferred TPP expansion strategy and a separate pact that serves as an umbrella covering different integration schemes in the Asia-Pacific region.¹⁵

The former would be a comprehensive FTA, largely comparable to the current TPP, among possibly 20 countries or more. To achieve this outcome, FTAAP negotiators would have to resolve policy differences regarding special arrangements for LDCs and participation by Taiwan. Both are doable: LDC exceptions as suggested above would clear a path for Cambodia, Laos, and Myanmar to join the pact; while concerns by some APEC countries that their ties with China could be adversely affected if they support Taiwanese accession could be assuaged by pairing Taiwan and Hong Kong accession talks (see Schott et al. 2016, forthcoming). Of course, this approach could also take the form of a “3 China” package, as occurred with APEC accession, if China asked to join the pact in a timely fashion.¹⁶

The latter option projects an FTAAP as an umbrella agreement over various regional trade agreements in the Asia-Pacific region. Essentially, it would be akin to a trade and investment framework agreement that extends new consultative and rule-making obligations that are less comprehensive than the commitments undertaken in the TPP to countries not already linked by an FTA with other APEC members—most notably the United States and China, and Japan and China. This option also could include economic cooperation arrangements to promote inter alia infrastructure and environmental investments in the region. It would not, however, require changes to existing obligations among TPP participants.

Which approach will prevail depends importantly on the timing of US ratification of the TPP, the pace of accession of new members once the pact enters into force, and the decision by China to participate or not. By the end of this decade, it is entirely feasible for the TPP expansion model to dominate, if US ratification leads to the entry into force of the pact in 2018 and the launch of numerous accession negotiations for new members soon after. China may or may not want to join the accession queue at that point; in any event, the prospect of a

14. In good APEC fashion, the title of the report is *The Collective Strategic Study on Issues Related to the Realization of the FTAAP*.

15. The ongoing APEC study probably will not draw such a specific conclusion at this point, but we regard these two pathways as the most realistic and practical options for a regional agreement.

16. The “3 China” package refers to the pairing of China’s accession to the APEC with Hong Kong and Taiwan in 1991.

substantial increase in TPP membership would pose a political challenge for Chinese leaders and increase the costs of nonparticipation resulting from trade diversion. If political concerns dominate the Chinese debate, then China will likely opt for the umbrella-style pact; if reinforcing economic reforms is the key objective, China might argue for TPP membership, albeit probably with some negotiated exceptions or transitions to deal with TPP obligations that pose intractable political problems for the Chinese regime (see Schott 2016, forthcoming). In this case, the TPP, expanded into an FTAAP, would become the predominant template for 21st century trade pacts and likely propel new WTO negotiations to “multilateralize” the Asia-Pacific regional compact.

IMPLICATIONS FOR THE WTO

The TPP is significant as one of the first megaregionals of its kind, building on the integration achieved in early megaregional deals like the North American Free Trade Agreement, though far short of the vast integration achieved by the European Union. The relationship of the new megaregionals, TPP, TTIP, and RCEP, to the multilateral trading system has been the center of a rigorous debate—see WEF (2014) for an overview. Richard Baldwin summarizes the debate well: “Mega-regionalism is good news and bad news for the world trade system. The good news is that mega-regionals will tidy up the ‘spaghetti bowl’ of RTAs. The bad news is they may undermine world trade governance, eroding WTO centrality as the forum for creating new trade rules, with worrisome consequences. Without reform that brings existing RTA disciplines under the WTO’s aegis and makes it easier to develop new disciplines inside the WTO system, the trend towards eroding WTO centrality will continue” (WEF 2014, 8). This section examines the prospective economic impact of the TPP on the rest of the world and TPP implications for WTO talks and plurilateral deals moving forward.

TPP Economic Impact

Taking into account trade diversion and trade creation across the global economy, is the TPP a negative or plus for the world trading system? In principle, regional trade agreements like the TPP are less optimal than multilateral efforts, as they are inherently more discriminatory. An extensive literature assesses to what extent regional trade agreements are discriminatory and potentially trade diverting, their impact on broader external trade liberalization, and whether regionalism helps or hampers the multilateral trading system, see Freund and Ornelas (2016) for a comprehensive summary. The authors conclude that “the evidence on trade creation and on RTAs [regional trade agreements] facilitating external liberalization is encouraging . . . Regionalism appears to be a useful tool to dismantle trade barriers, to be employed with care when unilateral and multilateral efforts fail.” Table 3 provides a summary, drawn from Baldwin, Evenett, and Low (2009), of potential channels of discrimination in some major areas: tariffs, services, government procurement, investment performance requirements,

and technical barriers to trade. A few illustrative examples are highlighted below:

- *Preferential tariff reduction is a primary channel of discrimination.* Put simply, lower tariffs among TPP members can lead to trade creation and potentially divert trade from nonparticipating countries that may be more efficient suppliers. However, positive growth effects can and often do outweigh tariff discrimination and result in net trade creation. Moreover, with applied most favored nation (MFN) tariffs already generally low across many countries, this negative effect is somewhat mitigated, with the exception of key protected sectors. That said, the TPP’s differentiated tariff reduction schedules across partners makes tariff liberalization complex and less transparent, which Freund, Moran, and Oliver (2016) argue could set a worrisome precedent for future trade deals. The TPP outcome would be more favorable for nonmembers if the TPP-12 or subsets like the NAFTA countries had agreed to apply a common MFN tariff to nonmembers (Hufbauer and Schott 2009).
- *Rules of origin determine how goods qualify for “originating status” and thus preferential treatment.* They exist to ensure only participating countries enjoy duty-free access, but if too restrictive and complex they can disrupt supply chains, lead to less efficient sourcing, and raise administrative and compliance costs for developing countries in particular (Cadot and de Melo 2007, Elliott 2016a, Freund and Ornelas 2010). At the insistence of the United States, the TPP includes restrictive rules in labor-intensive sectors like textiles and apparel, known as the “yarn-forward” rule. These rules have the potential to alter sourcing decisions of key TPP apparel exporters like Vietnam, divert trade from non-TPP apparel exporters like Bangladesh and Cambodia, and affect non-TPP textile input suppliers, predominantly China and Korea (Elliott 2016b). As a result, Vietnam will be less able to take advantage of tariff preferences offered by TPP partners until its upstream input providers participate in the TPP or, alternatively, until countries redirect foreign investment to help develop Vietnam’s domestic capacity to meet input demand. Regional trade agreements like the TPP do include cumulation rules, however, which mitigate some negative impact by counting value added across the entire TPP market.¹⁷ On the flip side, for most services, rules of origin are considered “leaky”—it is hard to determine nationality of firms—and do not discriminate strongly against third-country suppliers (WEF 2014).
- *The impact of reducing nontariff barriers (NTBs) in preferential trade agreements is less straightforward than tariffs.* In practice, lowering NTBs can be nondiscriminatory, as reforms of domestic regulatory policies can broadly benefit other foreign investors and trading partners (Baldwin 2000,

17. Regional cumulation rules mean that products made with inputs that are produced by any TPP member are eligible for TPP benefits.

Table 3 Multilateralizing regionalism: Tariffs and nontariff barriers compared

	Tariffs	Services	Government procurement	Investment performance requirements	Technical barriers to trade
Principal source of discrimination observed	Discriminatory tariffs, protectionist rules of origin (ROOs), bilateral rules of cumulation (ROC)	Preferential market access	Preferential access to bidding on government contracts	Preferential application of performance criteria	Mutual recognition, norms and testing
Agreements creating discrimination	Regional trade agreements	Regional trade agreements, mutual recognition agreements (qualifications)	Regional trade agreements, national practices, World Trade Organization's Government Procurement Agreement (WTO GPA)	Bilateral investment treaties, regional trade agreements	Regional trade agreements, mutual recognition agreements (testing)
Rules of origin create "spaghetti bowl"	Yes	Slight	Yes for goods, slight for services	No	No
Political economy trigger for multilateralization	Fragmentation of supply chains and offshoring	Unbundling (mode 2), unilateralism, and struggle for "hub" status	Dominoes and accession of new members to WTO GPA	Fragmentation of supply chains and offshoring	Fragmentation of supply chains and offshoring
In practice, how discrimination is mitigated	Common ROOs, diagonal ROCs, zero most favored nation (MFN) tariffs	"Leaky" ROOs, third-party MFN, application of "concessions" on an MFN basis	Expanding WTO GPA, third-party MFN clauses, "leaky" ROOs in services	MFN commitments in regional trade agreements	Lack of ROOs on mutual recognition agreements, harmonization to international standards
Severity of "spaghetti bowl"	Severe	Modest	High in regional trade agreements, modest in GPA	Slight	Modest
Existing comprehensive multilateral rules	General Agreement on Tariffs and Trade	General Agreement on Services	No	Partial (Trade-Related Investment Measures Agreement and General Agreement on Services)	Technical Barriers to Trade Agreement

Source: Baldwin, Evenett, and Low (2009, table 3.3).

Hoekman and Winters 2009). To be sure, harmonization of standards or mutual recognition agreements (MRAs) among subsets of countries can be harmful to excluded countries if compliance costs increase as a result. But the TPP does little in achieving such harmonization.

In terms of net economic impact, Petri and Plummer (2016) estimate that the TPP is a plus for the rest of the world (table 4). Small net gains in real income and trade for the rest of world show that the spillover growth effect is greater than potential discrimination. For TPP countries, the majority of gains are driven by the liberalization of NTBs in goods and services, while tariff liberalization accounts for less than 10 percent. The reduction of some nonpreferential barriers means some non-TPP members would also benefit via "spillover effects"—the assumption that TPP provisions will liberalize some trade with nonmembers. Specifically, Petri and Plummer assume that 20 percent of NTBs are reduced on a nonpreferential basis, increasing the estimated gains for both TPP members and nonmembers. Thus nonmember countries that face losses due to the TPP do so mainly because of goods provisions,

while excluded countries that benefit do so because of the services and investment provisions (Petri and Plummer 2016).

For example, the European Union would see small positive real income gains of 0.2 percent of GDP (\$48 billion) primarily due to TPP's growth effects as well as US and Japanese liberalization of NTBs in services and investment. In the Asia-Pacific, China, India, Indonesia, and Thailand, plus the LDCs in ASEAN, would face real income losses, as they compete with TPP members for TPP markets. Korea also faces losses because the TPP will lessen previous advantages enjoyed in the US market due to the Korea-US FTA. However, except for Thailand, these losses are small relative to GDP (Petri and Plummer 2016). Though China suffers only a modest reduction compared with baseline growth, these small negative effects would expand sharply if other big Asian economies joined the TPP in the future.

The TPP's accession clause mitigates possible trade and investment diversion. Indeed, estimates show that the benefits of an expanded TPP, for participating members and for the rest of the world, far exceed those of the original pact. Accession clauses have existed in past regional trade agreements, but they

Table 4 Real income and trade effects of the TPP in 2030

Country	Real income		Exports	
	Billions of 2015 dollars	Percent change over baseline	Billions of 2015 dollars	Percent change over baseline
TPP countries	465	1.1	1,025	11.5
Australia	15	0.6	29	4.9
Brunei	2	5.9	1	9.0
Canada	37	1.3	58	7.0
Chile	4	0.9	8	5.3
Japan	125	2.5	276	23.2
Malaysia	52	7.6	99	20.1
Mexico	22	1.0	32	4.7
New Zealand	6	2.2	9	10.2
Peru	11	2.6	14	10.3
Singapore	19	3.9	35	7.5
United States	131	0.5	357	9.1
Vietnam	41	8.1	107	30.1
Non-TPP countries	27	0.0	81	0.3
ASEAN nie	-1	-0.4	-3	-2.8
China	-18	-0.1	9	0.2
European Union	48	0.2	49	0.5
Hong Kong	6	1.2	4	1.0
India	-5	-0.1	1	0.1
Indonesia	-2	-0.1	-4	-1.0
Korea	-8	-0.3	-11	-1.0
Philippines	-1	-0.1	-1	-0.4
Russia	2	0.1	5	0.5
Taiwan	1	0.2	4	0.8
Thailand	-7	-0.8	-9	-1.6
ROW	12	0.0	37	0.5
World	492	0.4	1,106	3.1

nie = not included elsewhere; ROW = rest of world.

Source: Petri and Plummer (2016).

are rarely invoked. If successfully utilized, the TPP could set an important precedent in this regard.

TPP Potential for Setting Precedents

Beyond its prospective economic impact, the TPP could shape the agenda of future trade deals. In some areas, the TPP makes little headway in resolving outstanding issues that have eluded compromise in the multilateral trading system. In other WTO-plus areas,¹⁸ the TPP sets negotiating precedents that could help build support for a new agenda for WTO negotiations and complementary plurilateral talks.

18. WTO-plus refers to areas in which the TPP goes beyond existing WTO provisions.

Building on the spark of momentum brought by the conclusion of the WTO Trade Facilitation Agreement (TFA) in 2013, WTO members strived to put the finishing touches on a comprehensive Doha package (see Hufbauer et al. 2015 for detail). In the latest WTO ministerial in Nairobi in December 2015, a modest package addressed agriculture, cotton market access, and preferential rules for least developed countries. But no consensus was reached on how to fundamentally address unfinished business of Doha, leaving the stalemate in place. For “traditional” issue areas related to agriculture and non-agricultural market access, the TPP offers little innovation to break that stalemate. For example, in agriculture, the TPP avoided the contentious issue of disciplines on agricultural subsidies. Overall, TPP countries substantially liberalized tariffs but maintained barriers for some sensitive dairy, sugar, and meat

products through continued use of tariff rate quotas. In regards to the Doha Development Agenda, the TPP importantly reinforces and, to some extent, expands on commitments made in the WTO TFA, but it does not offer groundbreaking guidance within its limited chapters on development, cooperation and capacity building, small and medium-sized enterprises, or regulatory coherence (Freund 2016). Specifically, TPP members do commit to greater transparency and “core good regulatory processes,” and several annexes to the TPP technical barriers to trade chapter provide guidelines for common regulatory approaches related to specific sectors like cosmetics, medical devices and pharmaceuticals. But broadly the TPP does not harmonize or provide for the mutual recognition of regulations (Freund 2016).

Increasingly, the plurilateral approach—agreements negotiated among a core group of WTO members—has become the most effective way of advancing tariff reforms and augmenting the world trade rulebook. The expanded Information Technology Agreement (ITA-2) has concluded, and the Environmental Goods Agreement (EGA) and Trade in Services Agreement (TiSA) are well underway, despite ongoing challenges to reach consensus among participating countries. Several TPP countries are involved in these efforts—6 in the EGA, 9 in the ITA-2, and 8 in the TiSA. For the WTO to build on this progress and remain relevant as a negotiating forum, it must continue to address new issues shaping 21st century trade. In the report *From Drift to Deals: Advancing the WTO Agenda*, Hufbauer et al. (2015) identify such areas that could comprise a viable work program moving forward: investment framework agreement, local content requirements, exchange rate practices, state-owned enterprises, export controls, and digital trade and telecom hardware.

Throughout the postwar era, FTAs have been negotiating laboratories for developing and refining trading rules. The Australia–New Zealand Closer Economic Relations Trade Agreement and the Canada-US FTA planted the seeds for the General Agreement on Trade in Services; NAFTA advanced the agenda on trade and the environment. As the current titleholder as the world’s “gold standard” FTA, the TPP has broken new ground or innovated in a number of areas that go beyond the scope and content of WTO obligations. We do not explore all of these areas here, but a few possible areas where TPP chapters provide precedents for broader initiatives include e-commerce and data flows, state-owned enterprises, investment, and investor-state dispute settlement (ISDS).

E-Commerce. International commerce increasingly relies on services and data exchanged over the internet. According to the McKinsey Global Institute (2016), global data flows were 45 times larger in 2014 than in 2005, and 12 percent of global goods trade is conducted via international e-commerce. Along with the rapid growth of digital commerce, cross-border data flows, data privacy, intellectual property protection for software, hardware and technologies, and cybersecurity threats have all become prevalent issues related to global trade. WTO agreements address some related issues but overall have been slow to tackle new realities in e-commerce. For example,

in 1998, WTO members reached a standstill agreement not to impose customs duties on electronic transactions. Among its protections, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) does cover cyberespionage directed against foreign commercial firms (Hufbauer et al. 2015).

The TPP establishes more extensive rules in this area than any previous FTA and could set precedents for future trade deals (Branstetter 2016). The agreement aims to promote an open market for digital trade by prohibiting custom duties on digital goods and requiring members to permit cross-border data flows.¹⁹ Importantly, mandatory data localization is prohibited—the establishment of local computing and data storage facilities as a condition for doing business. The TPP also protects proprietary technologies and source code from involuntary disclosure. TPP members commit to establish laws protecting consumers from online fraud and junk mail, as well as online privacy more broadly. TPP rules set an important precedent for ensuring free flow of cross-border data and could also have significant spillover effects on nonmembers as they will have to comply with TPP rules when exchanging information with TPP parties.²⁰ In the near term, the TPP is the benchmark for US priorities in the ongoing TTIP and TiSA negotiations.

State-Owned Enterprises. With the growing commercial presence of state-owned enterprises, ensuring a level playing field has become a major concern, as SOEs often have the advantage of government support, favorable regulations, and preferential treatment. International trade rules under the WTO and various FTAs attempt to discipline the behavior of SOEs, but with limited success (Miner 2016). Select provisions in WTO agreements—the General Agreement on Trade in Services, the Agreement on Subsidies and Countervailing Measures, and the Agreement on Trade-Related Investment Measures (TRIMs)—affect the conduct of SOEs but do not address clearly what constitutes an SOE and what behaviors warrant constraints (Hufbauer et al. 2015).

The TPP includes a separate chapter with disciplines on SOEs, which unlike the broader competition policy chapter is subject to dispute settlement. The TPP imposes constraints on financial and other preferences provided by TPP governments, which include prohibiting discrimination against other TPP firms in buying or selling goods and services and disciplines on certain subsidies (Miner 2016). The TPP also mandates broad transparency requirements on state influence in these firms. The TPP goes a long way in establishing a baseline for SOE rules, but the chapter does not cover all SOEs: There are notable exemptions for subcentral entities, certain specially

19 The TPP defines a digital good as “a computer program, text, video, image, sound recording or other product that is digitally encoded, produced for commercial sale or distribution, and that can be transmitted electronically”—for example, downloaded software.

20. Susan Ariel Aaronson, “Solutions to the digital trade imbalance,” VoxEU, March 7, 2016, <http://voxeu.org/article/solutions-digital-trade-imbalance> (accessed on June 22, 2016).

designated SOEs, and sovereign wealth funds. Members do commit to reconvene within five years to consider commitments on subcentral SOEs, however. In the near term, a major contribution of the TPP is simply increased transparency. Moreover, based on the TiSA negotiating documents leaked by WikiLeaks, the disciplines on SOEs appear to draw heavily on TPP provisions with the aim of establishing precedents that would apply to future TPP participants, especially China.²¹

Investment and ISDS. Unlike international trade, no multilateral agreement oversees foreign direct investment, though the WTO addresses related policies in TRIMs. Consequently, the WTO lags far behind the norms set by bilateral investment treaties (BITs) and FTAs in terms of rules that both accommodate and discipline the close relationship between trade and investment, or address preferential treatment of multinationals and SOEs by governments (Hufbauer and Cimino 2015). The Doha Round agenda initially included investment issues, but the topic was dropped after the Cancun WTO ministerial in September 2003.

Continuing the tradition of US FTAs and the model BIT (i.e., the text template the United States uses to negotiate such treaties), TPP investment provisions go far beyond TRIMs. The TPP sets extensive limits on performance requirements including local content requirements; national and MFN treatment apply to all phases of the investment cycle, including pre- and post-establishment; and liberalization commitments are made on a negative list basis. Provisions involving ISDS remain a controversial issue generating opposition in both the TPP and ongoing TTIP talks. The TPP ISDS mechanism improves on past practice: It respects the right to regulate for environmental, health, and safety reasons; narrowly defines “fair and equitable treatment”; clarifies minimum standard of treatment obligations, and eliminates forum shopping, in an attempt to discourage frivolous cases by investors (Hufbauer 2016). Notably, the TPP excludes tobacco control regulations from ISDS cases, setting a major precedent. Megaregionals like the TPP would provide the logical template for new WTO or plurilateral negotiations on investment.

Environment and Labor. The WTO has avoided these issues in its trading rules framework, due to the lack of consensus among developing- and developed-country members. Increasingly, regional trade agreements have come to include related disciplines albeit varying in quality and enforceability. The TPP represents the most comprehensive standards in these areas of US FTAs to date. Like recent trade pacts, the TPP requires members to uphold and enforce core international labor standards of the International Labor Organization (ILO). It also creates additional commitments regarding “acceptable conditions of work,” labor standards in special trade or export processing zones, and trade in goods made by forced labor. Side labor plans specify reforms in developing countries Brunei, Malaysia, and Vietnam to ensure their practices better align with ILO standards.

Regarding the environment, TPP countries make the first major commitments to curb fishery subsidies that contribute to overfishing or illegal and unregulated fishing. Other commitments involve the conservation of certain threatened species, and reining in practices involving endangered wildlife and illegally harvested logs. The TPP does not mandate ratification of seven specified multilateral environment agreements, but countries agree to implement those they have ratified.

The TPP should inspire broad plurilaterals in these areas. But TPP provisions also provoke opposition among some labor and environmental constituencies. For example, TPP environmental provisions are politically controversial due to concerns that regulatory policies could be subject to investor-state litigation. In the labor area, however, the WTO might move closer toward adopting the ILO Declaration as an aspiration for all WTO members and agree to “enforce their own laws” (Hufbauer and Cimino 2015). In most cases, however, the TPP’s high standards provide a substantive and politically salient template for negotiators developing new bilateral, regional, and multilateral agreements.

From Megaregional to Multilateral?

Table 5 details the economic footprint of the three megaregional pacts: TPP, TTIP, and RCEP. Each pact covers a substantial share of the global economy, a third or more of global output, and a quarter or more of global exports. Could the convergence of these pacts lead to revitalized multilateral trade reforms?

The short answer is no. While seemingly desirable, the merger of megaregionals is impractical and in some cases counterproductive. First, while the merger of TPP and RCEP has been seen as a stepping stone toward an FTAAP and new WTO accords, in practice a merger would be difficult given the significant substantive differences in the two pacts, as noted above. Second, while the TPP and TTIP are similarly built on high-standard, comprehensive trade agendas, convergence would be politically difficult given TTIP’s TPP-plus ambitions for addressing nontariff barriers and regulatory cooperation. In a comparative analysis, Hufbauer and Cimino-Isaacs (2016) consider whether TPP sets precedents applicable to TTIP, concluding “yes” in traditional areas and “no” in innovative areas involving the behind-the-border, regulatory agenda. Moreover, initial ideas of expanding the TTIP to include mutual EU-US FTA partners, such as Canada and Mexico, have gained little traction. An alternate approach is considering whether the European Union could join the TPP, given its preexisting pacts with TPP members. But this idea has yet to be fully explored.

In sum, the practical channel for advancing megaregional reforms to the multilateral forum is the expansion of TPP precedents to plurilateral initiatives and the WTO negotiating agenda, as recommended above. TPP expansion is not enough because too many poor countries would be left out and increasingly marginalized from global supply chains. For that reason alone, it is essential that TPP members use their handiwork to inspire and propel new multilateral initiatives.

21. For these documents, see <https://wikileaks.org/tisa/>.

Table 5 Economic footprint of the megaregionals, 2015

	TPP	TTIP	RCEP	TPP + RCEP	TPP + TTIP	TPP + RCEP + TTIP
Number of countries participating	12	29	16	21	40	49
Aggregate share of world GDP (percent)	37.4	46.7	30.6	59.4	59.6	82.6
Aggregate share of world goods exports (percent)	28.2	25.1	36.3	53.3	42.6	67.7

RCEP = Regional Comprehensive Economic Partnership; TPP = Trans-Pacific Partnership; TTIP = Transatlantic Trade and Investment Partnership.

Note: 2015 GDP figures include IMF estimates for select countries. Figures for TTIP based on the current EU-28, including the United Kingdom.

Sources: Calculated by authors based on data from IMF, *World Economic Outlook* database, April 2016, and UN Comtrade database.

CONCLUSION

Given the large global footprint of its members, the TPP will affect both participants and nonmembers alike. The TPP will shape the direction of ongoing and future bilateral and regional deals in Asia as well as set precedents for multilateral trade initiatives. On balance, the net global economic impact of the TPP is positive, but the *distribution* of benefits among rich and poor countries varies and could disadvantage some developing countries in Asia, Africa, and Latin America.

Overall, the stimulus to growth among TPP countries should spill over modestly to nonmembers once the agreement is substantially implemented. While the TPP generates no net trade diversion for the rest of the world as a whole, some Asian countries could suffer some modest real income losses compared with baseline growth projections. The key concern is investment diversion, with investors locating or relocating to TPP members at the expense of nonmember countries. That is why a number of countries in the Asia-Pacific region are assessing the benefits and adjustments required if they participate in the future once the TPP enters into force. And, of course, the potential trade and investment diversion increases as membership expands in the future—a consideration that

is driving Chinese interest in the TPP because of prospective membership by Korea and other ASEAN countries.

The TPP poses another risk for existing regional trade agreements in which not all members are signatories to the TPP. Such bifurcated membership could create fissures in regional integration in ASEAN and the Pacific Alliance, in particular. We recommend early accession for affected countries and special membership considerations for the LDCs in the ASEAN to mitigate such problems.

More broadly, the TPP establishes a comprehensive template for an FTAAP. Whether Asia-Pacific nations follow the TPP pathway depends in large measure on the pace and scope of TPP expansion and on whether China participates or pursues a less demanding FTAAP arrangement that provides an umbrella covering TPP, RCEP, and other pacts in the region.

Finally, the TPP also contains the seeds of WTO revival, if WTO members adopt some of its innovative rulemaking to complement the more traditional issues that have been under negotiation in the Doha Round. TPP rules on domestic policies that can distort trade and investment in goods and services go well beyond the standards set out in the WTO and in recent FTAs and establish important precedents for both new plurilateral and multilateral trade negotiations.

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