What's Next for TPP?

Jeffrey J. Schott offers an overview of the payoffs and political problems facing implementation of the Trans-Pacific Partnership trade deal.

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Pedro da Costa: Hi. I'm Pedro da Costa with the Peterson Institute for International Economics. I'm here with Senior Fellow, Jeff Schott, who is an expert on trade and has written several books and articles on the Trans-Pacific Partnership, including a book called Understanding the TPP. Welcome.

Jeff Schott: Thank you.

Pedro da Costa: First question is, we have an agreement, this has been a long fought battle that lasted, what, five years? What, if anything, could prevent this from becoming the law of the land, particularly with regards to domestic political concerns? We've already heard some noise, both from the left and the right as far as the actual implementation of that.

Jeff Schott: Well, that's right. The TPP is a very big deal and will have a very big pay-off, but you don't get that pay-off until the pact enters into force and it has to be ratified by all 12-member countries and that means you have to get the requisite political support to ensure that you have the votes to let it go forward.

A lot of what happened in Atlanta was about making the recalibrations in the overall package, which was substantially finished well before Atlanta to ensure there was the requisite political support. Of course, getting political support in one country may raise political frictions in another. And that's what we've seen happen, particularly on the most important issue raised in Atlanta, the intellectual property protection for biologic type of pharmaceutical product, where the United States was in a distinct minority compared to the other 11 countries and where the US compromised and that compromise has been under attack.

Senator Orrin Hatch, Chairman of the Senate Finance Committee, voiced concern about the results of the agreement with regard to the pharmaceutical industry.

Pedro da Costa: Indeed. And so, how perilous are the political waters and what are the chances of the deal getting scuppered between now and its time-line for implementation?

Jeff Schott: Well, as soon as the deal was finished every constituency that thought it was going to lose its protection or lose its subsidies started complaining. That's natural. And they went to their politicians and they said, "We want some compensation, either a change in the deal or some side payments." Traditionally, governments give side payments to affected negatively industries so that the blow is somewhat softened or that they can find a way to better compete.

Pedro da Costa: Like Canadian dairy farmers, for instance.

Jeff Schott: Well, they took a very small hit. But what is happening is you immediately hear the complaints from constituencies that actually represent a very small part of the value of this deal, while the vast majority of American businesses are basically happy with the deal but waiting to see the exact details. And those details will come out because the entire deal will be published and on the US Government websites within a month.

Pedro da Costa: Now, let me ask you about one of those constituencies, specifically which is the US Labor Movement. They've been consistently against the TPP and they've essentially argued that NAFTA depressed manufacture and US wages and that the TPP would likely do the same. And that it's very difficult to enforce labor provisions that are included in the TPP. How do you respond to those concerns?

Jeff Schott: Well, first of all, the labor chapter in the TPP and the environmental chapter for that matter, are far different from what was in NAFTA. They're much more substantive. The obligations are much more rigorous and there is binding dispute settlement. It's a different animal and indeed the negotiators learned from the experience in NAFTA where there was ability to build on the obligations included in that agreement, which was over 20 years old now, learned how to improve on the enforcement mechanisms and that has all been built in to the TPP.

Not only, but not only is there binding dispute settlement for those chapters, labor and environment, but the United States also went, and in addition, negotiated additional bilateral agreements with several of the countries to spell out the detailed actions that would be taken by those countries to implement and enforce the labor provisions and obligations of the agreement. So it goes far and away beyond what NAFTA ever did and is a much greater improvement for US workers and for foreign workers, who will benefit from the protections provided by the TPP.

Pedro da Costa: Now, what about the concerns that come, if you will, from the other side of the political spectrum, those who want greater trade liberalization and integration and who think that regional deals like the TPP are actually potentially a hindrance? Actually, this argument comes from the left and the right. You had Joe[inaudible 0:05:27] arguing that this is a protectionist agreement in the sense that it's filled with carve outs for different industries and ends up being a sort of big Swiss cheese full of holes. What do you make of that argument?

Jeff Schott: Well, everybody says they can negotiate a better deal until they actually are given the responsibility to do it and they realize there are a lot of competing interests, even within your own country, that you have to balance off. And I think, in that regard, our chief negotiator, US Trade Representative Michael Froman, did a superb job under very difficult circumstances. He didn't even have a large support from his own party and had to rely on the Republicans to get the real oomph to pass trade promotion authority to allow him to complete the deal.

But the deal is incomplete. In some areas, liberalization doesn't go as deeply as would be desired by many, but it is a vast improvement over what we have today. And for American firms and workers in particular, if you think about the fact that the other countries already

have very good access to the US market; a lot of what the TPP does is lower the barriers in foreign markets so that US farmers, US manufacturers, US investors, can take advantage of new opportunities in those countries. It's a big improvement over what we have today and what we would have in the absence of the TPP.

Now, the additional question is, does it compromise the ability to gain a broader multilateral trade accord in the World Trade Organization? Many people for many years were worried about that, but for the past decade the WTO has had multilateral negotiations that have gone nowhere and the talks have been adrift and essentially there isn't any good prospect for big success in the multilateral forum the way those talks are proceeding today.

What the TPP can do is actually give a kick in the pants to the multilateral process. One, because it sets an example, a precedent, that many countries are willing and able to commit to new trade reforms and the TPP agreement itself contains important new innovative chapters that can set precedents that could be adopted in broader regional or multilateral negotiations.

Pedro da Costa: So, do you see it as a template for bringing in perhaps China, India, or Korea, the other large economies in the region, into the fold and does it put them at a competitive disadvantage that kind of forces them into the fold anyway?

Jeff Schott: Well, that's a big question. Those countries have a big stake in the multilateral process so the first step might be take some of the precedents from the TPP, the new disciplines on state-owned enterprises that are in the TPP: The new rules on labor, the new rules on the environment. These are just three of many areas of the TPP that are very innovative where the rules could be quite attractive to many countries, including China.

The TPP, as I understand, will probably be open to a session to all countries, to basically any country that is willing and able to undertake its rigorous commitments.

Pedro da Costa: And what would the time-line be for that?

Jeff Schott: As soon as the agreement enters into force, the session, procedures, and process will be open. Now, when does the TPP enter into force? As quickly as governments could pass; and that goes back to your first question. But certainly no earlier than 2017 and perhaps later if the process slows down.

But then, if a country wants to join TPP and is willing to meet its high standards, it will have the ability to do so. And I think the objective is to broaden the participation as much as possible and indeed, to establish a platform that could then perhaps be transported back to Geneva and become a key component of a new multilateral accord.

Pedro da Costa: Okay. Thank you so much. We'll leave it there. If you'd like more information about our research on the TPP you can go to piie.com.