

Understanding the Trans-Pacific Partnership

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Introduction

- With the Doha Round of multilateral trade negotiations at an impasse, the Trans-Pacific Partnership (TPP) has taken center stage as the most significant trade initiative of the 21st century.
- TPP is a central pathway for region-wide economic integration efforts that envisage a Free Trade Area of the Asia Pacific (FTAAP) within a decade.
- Strategic value of the TPP: helps reinforce economic and political relationships among the Asia-Pacific countries.

TPP Participants: How Alike? How like-minded?

- Current 9 TPP participants:
 - Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States and Vietnam.
 - Mexico invited to join on June 18, 2012.
 - Canada and Japan in consultations to join.
- The TPP encompasses countries of varying size, level of development and priorities on sensitive issues.
- The core group has a combined GDP of \$17 trillion; the United States accounts for 85% of the total GDP.
- Total merchandise trade among the TPP participants is \$6 trillion; the United States accounts for roughly 60%.

Table 1. 2011 Economic Indicators (billions of \$US)

	GDP	Goods		Services	
		Exports	Imports	Exports	Imports
Australia	1,488	271	244	51	60
Brunei	16	19	11	4	0
Chile	248	81	74	13	14
Malaysia	279	227	188	36	38
New Zealand	162	38	37	10	11
Peru	174	46	38	5	6
Singapore	260	410	366	125	111
United States	15,094	1481	2265	600	412
Viet Nam	123	97	107	9	12
Subtotal: TPP 9	17,721	2,668	3,330	853	664
Canada	1,737	452	462	76	101
Japan	5,869	823	854	146	167
Korea	1,116	555	524	95	99
Mexico	1,155	350	361	15	30
Subtotal: TPP candidates	9,877	2,180	2,202	331	396
Total (TPP 9 + candidates)	27,598	4,848	5,532	1,184	1,061
Memorandum:					
World	69,660	18,217	18,381	4,150	3,868
TPP-9/world (%)	25	15	18	21	17
Candidates/world (%)	14	12	12	8	10
Total/world (%)	40	27	30	29	27

Table 2. 2011 Development Indicators

	Population (millions)	GDP (billions of US dollars)	HDI Index ^b	Economic freedom in the world index ^c
Australia	23	1,488	0.929	7.98
Brunei ^a	0	16	0.838	n.a.
Chile	17	248	0.805	7.77
Malaysia	29	279	0.761	6.68
New Zealand ^a	4	162	0.907	8.27
Peru	30	174	0.725	7.39
Singapore	5	260	0.866	8.68
United States	312	15,094	0.910	7.60
Viet Nam	89	123	0.593	6.48
Subtotal: TPP 9	510	17,843		
Canada	34	1,737	0.908	7.81
Japan	128	5,870	0.901	7.44
Korea	49	1,116	0.897	7.32
Mexico	114	1,155	0.770	6.74
Subtotal: TPP candidates	211	8,723		
World	7,022	69,660		

^a Figures for Brunei and New Zealand are from 2009.

^b 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 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.

^c The index measures the degree to which the policies and institutions of countries are supportive of economic freedom. The index comprises 42 data points to measure the degree of economic freedom in five broad areas. These include: 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 the more economic freedom. Data from the 2011 report is from 2009.

Sources: World Bank Development Indicators 2012, IMF WEO April 2012, UNDP, Fraser Institute.

TPP: Scope and Coverage

- The goal of the TPP is to create a trade regime that is “state of the art.”
- TPP objectives:
 - Dismantle tariff and non-tariff barriers to trade in goods and services
 - Craft a new trade rulebook on issues like labor, the environment, investment, competition policy, and state-owned enterprises.
 - Include cross-cutting issues like regulatory coherence, promoting SMEs and capacity building and development.
- The TPP also would upgrade existing FTAs in force between TPP participating countries.

FTAs among the TPP-9 and candidate countries

	Australia	Brunei	Chile	New Zealand	Malaysia	Peru	Singapore	US	Viet Nam	Canada	Japan	Korea	Mexico
Australia	 	*	A	A	A		A	A	*		C	C	
Brunei	*	 	A	A	*		A		*		*	*	
Chile	A	A	 	A	B	A	A	A	B	A	A	A	A
New Zealand	A	A	A	 	A		A		*		D	C	D
Malaysia	C	*	B	A	 		*	C	*		A	*	
Peru			A			 	A	A		A	A	A	A
Singapore	A	A	A	A	*	A	 	A	*	C	A	A	C
US	A		A		C	A	A	 		A		B	A
Viet Nam	*	*	B	*	*		*		 		*	D	
Canada			A			A	C	A		 	D	C	A
Japan	C	*	A	D	A	A	A		*	D	 	C	A
Korea	C	*	A	C	*	A	A	B	*	C	C	 	C
Mexico			A	D		A	C	A		A	A	C	

A – in effect; B – signed; C – under negotiation; D – under consideration;
 * indicates ASEAN and ASEAN + 1 agreements

TPP: Current Status

- In November 2011, TPP leaders issued a framework for the TPP accord and urged negotiators to finish the deal in 2012.
- Talks have accelerated. To date, 12 negotiating rounds have produced extensive text on more than 20 chapters.
- But creating a “high standard” agreement in terms of both trade liberalization and trading rules inevitably runs up against political pressures to maintain support for import-sensitive products.

Numerous issues unresolved:

- Market access in agriculture
 - Intellectual property rights
 - Barriers to services trade and investment
 - Rules governing state-owned enterprises
 - Investor-state dispute settlement
 - New issues related to the environment and labor.
- Almost all of these issues have been vetted in prior FTA negotiations, and current TPP participants have different approaches for dealing with them.

The main “sticking points”

- Agriculture: dairy, beef, sugar, rice.
- Textiles and apparel: liberalizing rules of origin
- Intellectual Property Rights (IPRs): copyrights and patents.
- Services and investment: GATS-plus market access for financial services, telecommunications, insurance, e-commerce, investor-state dispute settlement.
- State Owned Enterprises (SOEs): competitive neutrality among public and private enterprises.
- Environment: conservation, liberalization of barriers to trade in environmental goods and services.
- Labor: requirement to uphold the International Labor Organizations’ 1998 Declaration on Fundamental Principles and Rights at Work.

Candidate countries

- At the November 2011 APEC Ministerial Summit Canada, Japan and Mexico announced their intention to explore the possibility of joining the TPP talks. Mexico was accepted on June 18, 2012.
- Each country would add value to the pact but there are concerns that must be addressed:
 - **Canada:** system of supply management in agricultural goods (dairy, eggs, poultry) and standards on copyright and patents.
 - **Japan:** trade rules on state-owned enterprises and protection of agricultural sectors (rice, dairy).
 - **Korea** has not announced its intention to join negotiations. Korea's accession would not require substantial reforms that go beyond those already committed by the US and EU FTAs. Korea's main concern: will TPP follow KORUS precedent and exempt rice?

Whither China?

- Currently not participating in the negotiation, but it is a concern of the countries negotiating the pact.
- China already has trade agreements with most TPP countries.
- In the short run China is likely to pursue and deepen its ties with Asian neighbors before engaging with the TPP countries.
- However a comprehensive Asia-Pacific trade arrangement must eventually include China.

Conclusions

- The TPP is a big deal in the making.
- TPP negotiators have made notable progress, but are still grappling with a long list of sticking points.
- Given the work still to be done, the 2012 target date is over-ambitious. Negotiations will likely extend well into 2013 before an initial deal can be cut.
- Candidate countries will likely be part of the negotiations and signatories to the initial TPP deal.