

TPP Implications for the World Trading System

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Setting the Stage



- 1. The TPP, signed in February 2016 is the most comprehensive trade deal negotiated** between developed and developing countries. Important for both the 12 member countries and non-participants, and the future of the World Trade Organization (WTO).
- 2. TPP not yet ratified but already affecting ongoing regional trade talks:** China-Japan-Korea FTA; ASEAN; Pacific Alliance; and Regional Comprehensive Economic Partnership (RCEP).
- 3. TPP reforms could also advance broader trade initiatives:**
 - Free Trade Area of the Asia-Pacific (FTAAP): **Highly Likely.**
 - New plurilateral initiatives based on TPP trade reforms and rulemaking: **Likely.**
 - Convergence with other megaregionals: **Not likely.**
- 4. US implementing legislation faces significant resistance**, but approval likely once pharma and currency concerns are addressed.
- 5. Timing:** Lame duck session in 2016 or early in next administration, given cost of delay on US strategic and economic interests. TPP entry into force before Brexit.

TPP: Economic Impact



Estimated effects of the TPP in 2030

Country	Real income		Exports	
	US\$ billions	% change over baseline	US\$ billions	% change over baseline
TPP-12	465	1.1	1,025	11.5
Non-TPP	27	0.0	81	0.3
ASEAN nie	-1	-0.4	-3	-2.8
China	-18	-0.1	9	0.2
EU	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).

- Regional trade agreements like TPP **inherently more discriminatory** and potentially trade diverting vs. multilateral efforts, due to preferential tariffs, restrictive rules of origin, etc.
- In terms of *net* economic impact, **TPP is a plus for the rest of the world** due to growth/“spillover effects” (Petri and Plummer 2016).
- TPP’s **accession clause mitigates possible trade and investment diversion** for key trading partners in Asia-Pacific.

Regional Economic Integration: China-Japan-Korea



- TPP motivated CJK partners to redouble trilateral integration efforts after decades of mixed results.
- Japan is an original TPP member; Korea is considering membership; China is analyzing the terms of TPP.
- CJK talks proceeding slowly; weak China-Korea FTA reduces prospects for a comprehensive NE Asia pact.
- Korea's TPP accession would revive Japan-Korea engagement, but will set too demanding a standard for China in CJK.

Regional Economic Integration: ASEAN, PA, RCEP




ASEAN and Pacific Alliance

- **TPP could be disruptive to integration efforts** among 10 ASEAN members and the 4 members of PA in Latin America.
- **TPP includes some members, but excludes others:**
 - Indonesia, Philippines, Thailand interested, but poorest ASEAN members (Cambodia, Laos, Myanmar) left behind; consider special TPP membership at “reduced rates.”
 - Among PA, only Colombia not in TPP; TPP could have more pronounced impact if PA expands to other countries.

Regional Comprehensive Economic Partnership

- **RCEP economic footprint:** RCEP accounts for 31% of global GDP and 28% of global trade; 7 of 16 members are in TPP.
- **TPP implications for RCEP:** (1) TPP first mover advantage in setting rules; (2) TPP agenda more substantial.
- **RCEP plays important role in ways TPP does not:** (1) advancing intra-ASEAN integration; (2) encouraging China and India to pursue incremental reforms.

RCEP Economic Footprint

RCEP member	GDP, 2015 (US\$ billions)	Population (millions)	Human Development Index	Total global goods trade, 2014 (US\$ billions)	Goods trade with RCEP, 2014 (US\$ billions)	RCEP % 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
RCEP % of global total	31	1,549		28		
TPP % of global total	37	3,519		24		

* = TPP members; Total trade = exports plus imports.

Sources: IMF, World Economic Outlook, April 2016; UNDP, 2015; World Bank's WITS database.

Can TPP Lead to an FTAAP?



- **Two feasible pathways for developing an FTAAP:**
 1. US-preferred TPP expansion strategy—**must resolve special arrangements for LDCs and participation by Taiwan.**
 2. Separate pact that serves as an umbrella covering different integration schemes in the Asia-Pacific region—**would entail TPP-minus obligations for other countries.**
- **Which approach prevails depends primarily on:**
 1. Timing of US TPP ratification.
 2. Pace of accession of new members once TPP enters into force.
 3. China's decision whether to participate in the TPP or not.

TPP Does Not Resolve Doha Stalemate



- Despite major progress with initiatives like the Trade Facilitation Agreement, WTO members still in a stalemate over how to address unfinished business of the Doha Round.
- TPP does importantly reinforce and expand on TFA commitments.
- But in “traditional areas,” TPP offers little innovation to break the Doha stalemate, e.g., avoided disciplines on domestic agricultural subsidies.
- In regards to development agenda, TPP does not break much new ground in chapters on (1) development, (2) cooperation and capacity building, (3) regulatory coherence, and (4) small and medium-sized enterprises, but SMEs benefit from TPP provisions on e-commerce and trade facilitation.

TPP Potential for Shaping Future Trade Deals



- Countries increasingly turning to plurilateral approach to advance tariff reforms and augment world trade rulebook:
 - E.g., Expanded Information Technology Agreement (ITA-2), Environmental Goods Agreement (EGA), Trade in Services Agreement (TiSA).
 - Several TPP countries are involved in these efforts—9 in the ITA-2, 6 in the EGA, 8 in the TiSA.
- WTO must continue to address new issues shaping 21st century trade to remain relevant as a negotiating forum.
- TPP breaks new ground in a number of areas that go beyond WTO obligations and could provide precedents for broader initiatives:
 - E-commerce and data flows
 - State-owned enterprises (SOEs)
 - Investment and investor-state dispute settlement (ISDS)
 - Labor and environment policies

From Megaregional to Multilateral?



	TPP	TTIP	RCEP	TPP + RCEP	TPP + TTIP	TPP + RCEP + TTIP
Number of countries	12	29	16	21	40	49
% share of global GDP	37	47	31	59	60	83
% share of global exports	28	25	36	53	43	68

Sources: IMF, World Economic Outlook, April 2016; UN Comtrade database.

- **Each megaregional covers a substantial share of global economy—could convergence of the pacts lead to revitalized multilateral trade reforms?**
- **TPP and RCEP:** Merger seen as a stepping stone toward an FTAAP, but in practice difficult given TPP higher standards.
- **TPP and TTIP:** Similarly built on high-standard, comprehensive agendas, but convergence politically difficult given TTIP's TPP-plus ambitions for regulatory cooperation. **Could European Union join the TPP? And/or UK?**



Conclusions

- On balance, *net* global economic impact of the TPP is positive, but *distribution* of benefits among rich and poor countries varies and adversely affects many developing countries.
- Some Asian countries will suffer modest trade and real income losses, could encourage them to seek TPP membership.
- TPP could create fissures within ASEAN and Pacific Alliance, so early TPP accession for non-participating countries such as Colombia and the ASEAN LDCs is desirable.
- TPP establishes a comprehensive template for FTAAP.
- TPP contains the seeds of WTO revival, if WTO members adopt innovative rules that complement more traditional issues under negotiation in Doha Round.