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The Trans-Pacific Partnership (TPP): Economic and Strategic Implications for the Asia-Pacific

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TPP, originally known as the Trans-Pacific Strategic Economic Partnership Agreement, is a nine member free trade agreement that aims to enhance economic integration in the Asia-Pacific region by further liberalising trade and investment. The agreement, which initially began with Brunei, Chile, New Zealand, and Singapore, was signed on 3 June 2005 and entered into force on 28 May 2006.

Five additional countries – Australia, Malaysia, Peru, the United States, and Vietnam – are negotiating to join the TPP, potentially taking the membership to 9. This will bring the combined GDP to US\$ 16.7 trillion (26 percent of the global GDP) and total trade worth US\$ 5 trillion. In addition, Japan, Korea¹, Mexico and Canada have also expressed their interest in joining the negotiations. With their economies in the partnership, the TPP will represent US\$ 26 trillion of combined GDP, or 41 percent of the global GDP. This way TPP could be considered as a bridge builder between Asia and the Americas and as a pathfinder for Free Trade Area of the Asia-Pacific (FTAAP), an APEC initiative.

Currently, the TPP is at an advanced stage of negotiation. It already held twelve rounds of negotiations till June 2012. The US hopes to finalise the “broad outlines” of existing agreements by November 2012.

¹ Korea has not expressed official interest in joining the TPP so far. But the Korean senior policymakers have indicated their continuing interest in the TPP.

MOTIVATIONS FOR TPP

One of the motivations behind the TPP is for the US to create a strong alternative template to advance its economic and strategic interests in Asia following the collapse of Doha Round and global economic slowdown. The TPP is expected to cover issues that were absent from the Doha negotiations or could not yield much progress there. These include services, investment, competition and regulatory coherence. These issues are seen as crucial for the next wave of economic integration and often involve sectors in which the US has comparative advantage.

Second, there are 39 bilateral and regional FTAs already in force involving APEC member countries. Part of the TPP's plan is to consolidate the existing agreements and establish common rules of origin for further integration.

Third, the TPP would help to level the playing field for businesses in the Asia-Pacific by focussing on liberalising 'behind the border' measures for cross-border trade and investment and strengthening regulatory reforms. Currently, the nine partners have different levels of economic development (*See Table below*). According to the World Bank's Doing Business Index, members are on various platforms- while Singapore, New Zealand, the US, Australia and Malaysia occupy 1st, 3rd, 4th, 15th and 18th position respectively, Peru, Chile, Brunei and Vietnam occupy 41st, 39th, 83rd and 98th position respectively. It is expected that the TPP will bridge the wide gaps, but this needs fundamental economic reforms for the still developing members.

Table: Level of Economic Development

Economy	Ease of Doing Business Rank	Starting a Business	Dealing With Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Singapore	1	4	3	5	14	8	2	4	1	12	2
New Zealand	3	1	2	31	3	4	1	36	27	10	18
US	4	13	17	17	16	4	5	72	20	7	15
Australia	15	2	42	37	38	8	65	53	30	17	17
Peru	41	55	101	82	22	24	17	85	56	111	100
Chile	39	27	90	41	53	48	29	45	62	67	110
Malaysia	18	50	113	59	59	1	4	41	29	31	47
Brunei	93	136	93	28	107	126	122	20	35	151	44
Vietnam	98	103	67	135	47	24	166	151	68	30	142

Source: World Bank Doing Business, 2012

EXPECTED STRUCTURE AND STUMBLING BLOCKS

The TPP has an ambitious agenda. It aims at a regular FTA with provisions for protecting intellectual property; at the creation of investor-friendly regulatory frameworks and policies; and at emerging issues, including measures to ensure that state-owned companies “compete fairly” with private companies and do not put the latter at a disadvantage.

While it is encouraging to see an unprecedented range of World Trade Organization Plus (WTO+) issues covered in the TPP, these will require significant reforms in domestic industrial and economic policies of most members. This will make negotiations tough, especially for countries whose economies comprise largely of state owned enterprises (SOEs).

According to Petri, Plummer and Zhai (2011)², there are four issues that are expected to be highly controversial and are likely to be strongly supported by the US in accordance with its strategic and economic objectives

- Strict IPR regime – Stringent intellectual property rights laws can raise prices in developing economies, especially in healthcare, technology, entertainment, etc. With the WTO TRIPS already in place, countries may be reluctant to implement further measures.
- Strong Competition policy – requires competitive neutrality of State owned enterprises.
- Investor-state arbitration – several countries are said to favour this provision for issues involving foreign investments. This will allow companies to challenge government rulings in international tribunals.
- Labour standards- the US has suggested that ILO core labour standards to be enforced. In the short-run, labour standards could potentially decrease competitive capacity of the developing countries, especially for labour intensive industries.

In addition to the four areas, finding a common set of rules of origin will also be a challenge. Moreover, liberalising the agricultural sector will be highly sensitive for net agricultural importers. Government procurement is highly problematic, as only two TPP members have so far acceded to the WTO agreement on government procurement. There are also exclusions and slow implementation of services trade provisions.

² Peter A. Petri, Michael G. Plummer and Fan Zhai, “The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment”, East-West Center Working Papers, No.119, October 24, 2011

ECONOMIC IMPLICATIONS FOR ASIA-PACIFIC

The TPP, if successful, will be an unprecedented accomplishment in economic integration in the Asia-Pacific. It will seek not only to deepen regional integration but also to facilitate trade through production networks, most of which comprise of trade in Asia. This will be much more comprehensive compared to current bilateral and regional FTAs.

The economic value of TPP would depend on what could be finally agreed upon and hence could be included in the final agreement. It would depend on to what extent the agreement could strive for deeper “behind the border” integration measures, and could reach an acceptable compromise on the controversial issues. Implementation integrity from all TPP members would also be a key to its potential success.

For TPP, while new members would preferably have to be APEC members, it is also open to accession by non-APEC members. So future potential members who are interested are likely to keep a close watch on the progress of the negotiations, content and its coverage.

At present, the emerging economies of China and India are not part of TPP. But all current TPP members have important strategic and economic linkages with both. Substantial economic gains would be realised if these two eventually come on board.

STRATEGIC IMPLICATIONS

The US has stated that its objective in joining the negotiations is to ostensibly prevent the division in the Pacific. However, it is clear to most observers that it sees the TPP as a vehicle through which it can boost participation in Asia-Pacific affairs.

The TPP is viewed largely as a manifestation of Comprehensive Economic Partnership for East Asia (CEPEA; originating from the EAS) versus East Asia Free Trade Area (EAFTA; origins from ASEAN+3) tension. In other words, the TPP is another part of the ongoing Sino-US rivalry and “is a kind of economic warfare within the Asia Pacific region.”³ This is clearly evident from absence of China’s participation and from the fact that the TPP is being promoted when the US leaders are also reprimanding China for unfair trade practices.

Hence, while the US states that it aims to prevent division along the Asia-Pacific, there are views that it may actually be engineering this division. In fact, the TPP started as a small project without much attention and became widely known only after the US expressed its interest in 2008.

It is important to note that the TPP is not only advantageous to the US from trade and foreign policy perspectives, but is also tied to its domestic concerns. If successful, the Obama administration can boost its re-election credentials through efforts at domestic job creation. But it is uncertain how the US Congress will vote on this matter. Republicans are

³ Anthony Rowley, “What the TPP Is Really About,” *Business Times (Singapore)*, February 2, 2011

likely to oppose any deals approved by President Obama, regardless of whether the impact is positive or negative. Additionally, Democrats received strong backing from labour unions, which are not generally keen on FTAs. A case in point would be the US-Korea FTA which had to be re-negotiated to satisfy the demands of Congress.

CONCLUDING REMARKS

TPP is a very ambitious initiative towards deeper economic integration in the Asia-Pacific. But it should be managed with “great sophistication” so that it does not become another confrontational ground for the US and China. New members should be persuaded to join by explanation of the massive potential for mutual gains.

There also appears to be a “join now or regret later” sentiment surrounding TPP membership, as most of the framework and ground rules will be made by current members. The later a country joins, the less opportunity it will have in choosing the template for TPP.

However, the biggest challenge will be to work out compromises on the expected controversial areas in the negotiations and getting businesses to utilise the TPP itself. Political will to undertake deep regulatory reforms and implementation integrity of members will be crucial to its economic success. Developing TPP members in particular will have to support several initiatives with complementary domestic reforms if they have to become competitive and benefit from serious economic integration. That said, certain developing countries that wish to see continued US engagement in East Asia may be willing to commit to tough negotiations on controversial issues such as labour standards and competition policy- but only if the benefits outweigh the costs.

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