

# Current Status and Future Prospects of the TPP Negotiations

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Prepared for a seminar at RIETI

Tokyo, Japan  
31 January 2014

# What is the TPP?

- TPP involves 12 countries that together represent almost 40% of world GDP and 25% of global exports.
- While the TPP text is not yet public, the agreement is likely to closely approximate the Korea-US FTA in many areas.
- TPP-12 are “like minded” in pursuit of comprehensive liberalization covering goods and services, and WTO-plus rules on investment, competition, labor, environment, etc.
- TPP-12 are not alike in terms of size and development status but TPP rules will apply to all members (i.e. no S&D). However, TPP will allow asymmetric implementation of common obligations to accommodate different national circumstances.
- TPP will upgrade existing pacts among participants.

# TPP-12: Like-minded but Not Alike

	2012 GDP (US\$ billions)	Population (millions)	Human Development Index <sup>a</sup>	Economic freedom in the world index <sup>b</sup>
Australia	1,586	23.0	0.929	7.97
Brunei	18	0.4	0.838	n.a.
Canada	1,805	34.9	0.908	7.97
Chile	272	17.6	0.805	7.84
Malaysia	306	29.2	0.761	6.96
Mexico	1,208	114.9	0.770	6.66
New Zealand	181	4.5	0.907	8.27
Peru	185	30.5	0.725	7.61
Singapore	270	5.4	0.866	8.69
United States	15,610	314.7	0.910	7.69
Vietnam	135	90.4	0.593	6.54
Japan	5,981	127.3	0.901	7.64
<b>Total: TPP-12</b>	<b>27,557</b>	<b>793</b>		
<b>WORLD</b>	<b>71,897</b>			

<sup>a</sup> The Human Development Index (HDI) is published by the UNDP. The index comprises six indicators: life expectancy at birth, mean years of schooling, expected years of schooling, per capita gross national income (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.

<sup>b</sup> The index published by the Fraser Institute (2012) measures the degree to which the policies and institutions of countries are supportive of economic freedom. The index assesses five broad areas: 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 more economic freedom.

Source: IMF WEO 2012

## TPP talks in 2014: ready to close?

- TPP-12 committed to comprehensive liberalization of barriers to trade in agriculture, manufactures, and services.
- Ministers engaged in intensive talks to craft final deal – next session in February?
- Major bottleneck on market access reforms (especially agriculture and services).
- Other key “sticking points” nearing resolution:
  - IPRs in pharmaceuticals and new digital economy
  - Investor-state dispute procedures
  - Rules/enforcement on environment and labor
  - Disciplines on state-owned enterprises (SOEs)
- Deal possible in Spring 2014.

# Will the US Congress pass new Trade Promotion Authority (TPA) for the TPP?

- TPA voted by Congress in 2002 and expired in 2007.
- Draft TPA legislation tabled January 2014 by leaders of both parties; strongly supported by farm and service sector interests.
- But partisan differences about sensitive issues (labor, environment, and IP; currency manipulation) could delay passage.
- TPA passage desired but not required before TPP deal closes; TPA “fast track” provisions would apply to TPP and other current US trade initiatives retroactively.

# Japan's entry complicates talks but makes a big deal more likely.

- Japan increases total TPP output by almost 30%; adds a big competitor but also new export opportunities for TPP members.
- Japan supports strong TPP provisions on investment and IP.
- TPP countries will benefit from Japanese reforms that liberalize investment, insurance/other services, farm trade.
- Access to Japanese market should make it easier for TPP countries to be more flexible regarding requests on new trade reforms/rules.
- But more competition from Japanese manufacturers.
- Risk that Japanese attempts to temper farm reforms could cause delays in crafting the final terms of the TPP deal.

## Why Japan joined the TPP negotiations

- Reinforce efforts to reform domestic economic policies; complement the Third Arrow of Abenomics.
- Add new FTA partners – especially the United States; upgrade and expand bilateral and regional trade arrangements; complement other regional initiatives (RCEP, CJK)
- Avoid discrimination from other trade pacts.
- Strategic interest in strengthening the US-Japan bilateral alliance; complement and reinforce cooperation in other areas, including energy security.

# Japan's prospective income and export gains

Agreement	<u>2015</u>		<u>2020</u>		<u>2025</u>	
	Billions	Share (%)	Billions	Share (%)	Billions	Share (%)
<b>Income</b>						
-TPP 12	11.2	0.2	84.8	1.7	104.6	2.0
-RCEP	negl	negl	50.3	1.0	95.8	1.8
-FTAAP-hybrid	27.9	0.6	155.2	3.1	228.1	4.3
<b>Exports</b>						
-TPP 12	15.7	1.6	133.6	11.8	139.7	11.2
-RCEP	negl	negl	151.0	13.4	225.1	18.0
-FTAAP-hybrid	71.4	7.1	328.5	29.1	423.1	33.8

Source: Petri and Plummer (2013), [www.asiapacifictrade.org](http://www.asiapacifictrade.org).

Note: All figures in constant 2007 dollars unless otherwise noted.

Negl = less than 0.05

RCEP = ASEAN + 6

FTAAP hybrid = consolidation of the TPP and Asian tracks to cover all 21 APEC economies.



## Will Korea follow Japan into the TPP?

- For Korea, TPP would be KORUS extended to new FTA partners (Japan, Australia, Canada, Mexico and New Zealand); revives Korea-Japan talks in regional context.
- Upgrades old pacts, especially ASEAN but even KORUS in some areas like SOEs.
- Complements ongoing talks on China-Korea FTA.
- Limited entry costs since Korea already pursuing many of the policy reforms likely to be required by the TPP as it implements the FTAs with US and EU.
- Korea would need to extend farm concessions to new partners, but little risk of reopening rice exemption.
- Significant cost of non-participation in terms of deferred benefits and minor trade diversion.

## Korea's prospective income and export gains

Agreement	<u>2015</u>		<u>2020</u>		<u>2025</u>	
	Billions	Share (%)	Billions	Share (%)	Billions	Share (%)
<b>Income</b>						
-TPP 12	-0.1	negl.	-2.4	-0.1	-2.8	-0.1
-TPP 13	3.5	0.2	34.9	2.0	45.8	2.2
-RCEP	negl.	negl.	42.6	2.5	82	3.9
-FTAAP-hybrid	16.0	1.1	82.0	4.7	129.3	6.1
<b>Exports</b>						
-TPP 12	-0.3	-0.1	-7.1	-1.1	-7.0	-1.0
-TTP 13	10.9	1.9	85.9	13.0	88.7	12.4
-RCEP	negl.	negl.	112.4	17.1	173.6	24.2
-FTAAP-hybrid	45.7	7.9	193.5	29.4	245.2	34.1

Source: Petri and Plummer (2013), [www.asiapacifictrade.org](http://www.asiapacifictrade.org).

Note: All figures in constant 2007 dollars unless otherwise noted.

Negl = less than 0.05

TPP-13 = including Korea.

RCEP = ASEAN + 6

FTAAP hybrid = consolidation of the TPP and Asian tracks to cover all 21 APEC economies.

## TPP: Implications for China

- TPP-12 countries account for about 35% of Chinese exports and 33% of Chinese imports. TPP-12 would have modest negative impact on Chinese income/trade.
- China isn't ready to accept TPP obligations on transparency and disciplines on government intervention in the market.
- China also deepening pacts with Asian neighbors via RCEP, China-Japan-Korea (CJK) and China-Korea pacts.
- CJK investment pact shows willingness to commit to incremental but substantive economic reforms in regional pacts.
- China-Korea FTA could bring China closer to KORUS FTA standards than RCEP or other Chinese pacts.
- China currently considering how future TPP participation could complement and reinforce domestic reforms approved by the Third Plenum in November 2013.

# China and the TPP

Agreement	<u>2015</u>		<u>2020</u>		<u>2025</u>	
	Billions	Share(%)	Billions	Share(%)	Billions	Share(%)
<b>Income</b>						
-TPP-12	-2.0	negl	-20.6	-0.2	-34.8	-0.2
-TPP-16	-3.2	negl	-45.9	-0.4	-82.4	-0.5
-RCEP	negl	negl	94.4	0.8	249.7	1.4
-FTAAP-hybrid	13.0	0.2	86.4	0.7	699.9	4.1
<b>Exports</b>						
-TPP-12	-3.5	-0.1	-35.6	-1.1	-43.7	-1.0
-TPP-16	-6.3	-0.3	-83.0	-2.5	-107.8	-2.3
-RCEP	negl	negl	358.8	10.7	638.3	13.9
-FTAAP-hybrid	83.9	3.5	310.9	9.2	1505.3	32.7

Source: Petri and Plummer (2013), asiapacifictrade.org.

Note. All figures in constant 2007 dollars unless otherwise noted.

Negl = less than .05

RCEP = ASEAN+6

FTAAP hybrid = consolidation of TPP and Asian tracks to cover all 21 APEC economies.

# Prospects for TPP expansion

- Several Asian countries considering joining TPP in the coming years.
- Candidate countries need to ask to join, then consult with each TPP participant. All countries have to approve new members.
- Consultations examine whether new participants are “like-minded” in desire to accept high quality agreement and willing to resolve specific trade problems.
- With TPP talks nearing conclusion by mid-2014, not enough time for new countries to join before the deal is signed.
- In that event, candidate countries could enter TPP in “2nd tranche” negotiations – could involve Indonesia, Thailand, Korea, the Philippines, and possibly China.

# Implications for regional economic integration

- TPP and RCEP are complementary; both involve a large number of countries accounting for a substantial share of world output and exports.
- TPP limited to APEC members; RCEP limited to ASEAN FTA partners.
- Overlapping participation: 7 of 16 RCEP members in TPP (8 with Korea); plus 3 others (Indonesia, Philippines, Thailand).
- RCEP countries joining TPP for bigger payoff from TPP reforms and to avoid cost of non-participation (trade and investment diversion).
- TPP could affect trade pacts among NE Asian countries; for China and Korea, the TPP and their own bilateral pact take precedence over nascent CJK trilateral trade talks.

# TPP and RCEP: Overlapping Membership

	TPP	RCEP	In both TPP-12 + RCEP	In both TPP-16 + RCEP
<b>Number of Countries</b>	<b>12</b>	<b>16</b>	<b>7</b>	<b>11</b>
<b>Aggregate Share of World GDP (%)</b>	<b>38</b>	<b>29</b>	<b>12</b>	<b>15</b>
<b>Aggregate Share of World Exports (%)</b>	<b>24</b>	<b>30</b>	<b>10</b>	<b>16</b>

Note: A TPP-16 scenario would include Korea, Indonesia, Philippines, and Thailand.

Source: IMF, Direction of Trade Statistics, 2013.

## But RCEP and TPP have different standards and time horizons

- RCEP aims to broaden and deepen ASEAN + 1 pacts by end of 2015; similar agenda / timetable as work on ASEAN Economic Community (AEC).
- RCEP will provide special preferences for poorer countries, plus exemptions for LDCs.
- Both cover extensive areas of economic activity (goods, services, IPR, regulatory policies), but RCEP aims at softer commitments than the hard law TPP obligations.
- RCEP likely to yield two key outcomes by end of 2015:
  1. Accelerating progress on the AEC.
  2. Providing China a platform to continue incremental reforms that improve readiness to join more comprehensive regional and global pacts going forward.



# Conclusions

- The TPP is the most substantial Asia-Pacific trade pact under negotiation in terms of depth of prospective trade liberalization and scope of rulemaking obligations.
- TPP's "high standards" would complement domestic reforms and thus boost productivity growth across the economy.
- However, TPP participation would impose binding obligations that would constrain the use of some longstanding policies.
- First mover effects could be very important and encourage convergence toward the TPP as the primary platform for regional economic integration.