

ECIPE Bulletin No. 09/2013

A Trans-Pacific Partnership worth its weight in gold – but what is taking so long?

By Lisa Brandt (lisa.brandt@ecipe.org), Trade Policy Analyst at ECIPE

A gold standard – nothing less. The expectations on the Trans-Pacific Partnership are high. TPP is central to the United States’ foreign policy strategy towards Asia. But at the negotiating table, it seems difficult to resolve contentious issues. The U.S. insists on including so-called 21st century trade issues, but what can it offer in return? Behind the scenes, the strategic interests differ between the U.S. and its TPP-partners. For several countries, TPP is not the only game in town.

With hundreds of delegates participating in each negotiation round, TPP is now a logistic challenge, in addition to a political one. The negotiations were never going to be easy, that was clear from the outset. There are significant economic and political differences between the twelve countries involved, now including Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam. The GDP per capita in 2012 varied for instance from \$43,063 in the U.S. and \$37,228 in Australia, to \$6,764 in Malaysia and \$931 in Vietnam (constant 2005 US\$).

The United States is the driver of the process. TPP is a cornerstone in President Obama’s pivot to Asia. The aim is to promote the U.S. commercial presence and competitiveness in a region that covers around 40% of global trade. TPP would have economic benefits. But it is also underpinned by geo-political ambitions. The U.S. is keen to promote stability in the region and establish a set of rules that can serve as a future template for international economic relations. Both the Obama administration and the business community want to get TPP done as soon as possible, without compromising on substance. In their view, TPP should be a state-of-the-art agreement.

But despite the high ambitions, the 19th round of negotiations finished without any conclusive result.

This trade deal seems to depend as much on the TPP-countries’ acceptance of 21st century issues as on the inclination of the U.S. to open up its own market to imports of goods.

Looking first at the substance of the TPP, all countries are interested in high-standard rules, yet several issues are contentious. In addition to tariffs on industrial- and agricultural products, the negotiations address what have been labelled as 21st century issues, like intellectual property rights, services and investment, cross-border data flows, public procurement and state-owned enterprises. On top of this, the U.S. Congress recently recommended that provisions on currency manipulation be included.

In short, quite a comprehensive list of requests. The U.S. nevertheless insists on addressing all these issues, while reminding its TPP partners that they have committed to a high-standard agreement. But other countries do not necessarily want exactly the same as the United States. Vietnam and Malaysia are

not overly enthusiastic about strict disciplines on state-owned enterprises, for instance, or about binding labour standards and environmental regulations. Australia has opposed supranational investor-state arbitration panels. Moreover, civil society groups criticise provisions on intellectual property rights and the possible impact on access to medicines. Cross-border data flows are also difficult to discuss as the regimes in the TPP countries differ.

Another challenge is related to the political process within the United States. First of all, TPP will have to square the interests of domestic lobby groups if it is ever to materialise. Generally, there is support for the deal among the business community. However, parts of the farm lobby and some industrial sectors may not see any benefits from TPP. The automobile industry was enthusiastic about TPP until Japan joined. The textile, apparel and footwear industries fear competition from Vietnam and the dairy and sugar industries are concerned about competition from countries like New Zealand and Australia. These classic 19th century market access issues are politically sensitive and will require political resolve, which has not yet been forthcoming. A recent U.S. offer on tariffs reportedly covered only 5% of Vietnam's trade, for instance.

Second, TPP will probably not pass Congress without Trade Promotion Authority (TPA), given that difficult concessions may be necessary in order to promote the economy as a whole and create jobs and growth. Under the TPA procedure, Congress can adopt or reject a proposed trade agreement, but it does not have the power to add amendments. The Obama Administration has been talking about asking Congress for such a fast track for quite some time. However, no TPA initiative has been tabled. As coalitions against the fast track are rapidly emerging in Congress, the Administration fears that it will not achieve what it wants, at least not without spending a good deal of political capital.

Moreover, seen from a geo-political perspective, one of the reasons why the U.S. wants a high-standard agreement relates to China, even though the U.S. denies that the TPP is a strategy of containment. Indeed, a trade agreement is certainly not a good containment strategy. Still, there is an obvious interest from the American side in establishing rules and standards that will help to push China in the direction of greater openness to trade and more transparent government interventions.

At the same time, some of the TPP partners in Asia are wary of the possible consequences for their relations to China if TPP goes too far in areas like SOEs, IPRs, currency manipulation, data flows or investor-state dispute settlement. While China is a major competitor, its economic growth and increasing demand for goods and services have played out rather well for neighbouring countries. Australia, for instance, has a trade surplus with China and the two are currently negotiating an FTA. So, it is not that these countries do not want rules. But they want TPP to fit in with other trading arrangements too.

Finally, TPP may be *the* 21st century trade agreement in the eyes of the United States. It could promote growth and economic integration in the Asia-Pacific and provide an impetus to break the current deadlock at the multilateral level. At the end of the day, however, TPP is only one of several trade initiatives in South-East Asia. Several TPP countries are involved in the Regional Comprehensive Economic Partnership (ASEAN+6), and then there is also the China-Japan-Korea FTA as well as the Asia-Pacific Economic Cooperation, which all provide opportunities for economic integration. This also explains why not all countries in South-East Asia are participating in the TPP, or push as much as the U.S. for it. The scope of the alternative initiatives are less ambitious than TPP, but they nevertheless present strategic options for countries that do not feel politically or economically ready to join the TPP. In the future, it will be important to assure that these agreements are interoperable, especially if they are ever to untangle the existing noodle-bowl of trade agreements in South-East Asia. But, as in the TPP negotiations, both strategic economic and political interests come into play and influence preferences.