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Trade Flash

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Trans-Pacific Partnership (TPP): It's a deal!

The sagging global economy got a boost today as leaders from 12 Pacific Basin nations agreed on the largest new trade agreement in 20 years. The TPP is a mega-regional accord encompassing 40% of global GDP and providing for significant liberalisation. Covering trade-related aspects of industry, agriculture, services and investment, as well as environmental and labour issues, the accord will open markets and provide an enhanced rules-based framework for the conduct of trade, reducing red tape and uncertainty. It is a living accord able to handle new issues and open to new members. But first, it must be ratified by the 12.

Facts

After more than 5 years of negotiations and following an initial attempt to wrap up the negotiations last July in Hawaii, negotiators succeeded today in completing the TPP deal in Atlanta. Full details of the agreement have not yet been released, though the Office of the United States Trade Representative has posted a summary (linked below, in the references). The expansive scope of the negotiations is also known from various official releases including a 2011 ministerial statement of the TPP objectives.

The TPP is a “mega-regional” accord covering a diverse group of 12 nations across the Pacific Basin. Members include: Canada, Mexico and the United States in North America; Chile and Peru in South America; Brunei, Japan, Malaysia, Singapore and Vietnam in Asia; plus Australia and New Zealand.

The TPP members have a combined GDP of USD28 trillion and 870m in population. They account for 25% or more of global trade and constitute a trade region that is bigger than NAFTA (in fact, TPP encompasses NAFTA, the 1994 accord covering North America). In terms of aggregate GDP, the TPP area is larger than the EU.

Some big countries around the Pacific are not currently participating in TPP: China is notably absent as are Indonesia, Korea, Thailand and the Philippines. But, the TPP members have stressed that the agreement is open to new participants wishing to enter the high-standards accord. They hope to set important trade policy precedents via this agreement.

The agreement is set up as a living agreement, meaning that it establishes a framework to address new issues that may emerge in future.

The agreement must be signed and ratified by the 12 participants, a process that could take many months. Under recent legislation in the United States, the President cannot even enter into the agreement until 90 days after giving Congress notification of the intent to proceed. In the case of NAFTA, the ratification process took about a year.

At a press conference in Atlanta and in a White House press release, some specific elements of the accord were highlighted.

- Most but not all tariffs will be eliminated by the time the agreement in fully implemented. The White House press release refers to elimination of 18,000 tariffs being applied by TPP partners on US exports. But, there appear to be some product exceptions to the tariff elimination (e.g., in relation to some sensitive agricultural products) and in other cases the tariffs will be phased out over long periods (e.g, up to 15 years for some US auto parts imports from Japan).
- For a new class of drugs known as biologics, the agreement will offer 5 years of exclusive protection for test data submitted in satisfaction of regulatory requirements, as well as some further complementary protections via various national frameworks. In the course of discussion, the TPP member representatives indicated their desire to promote pharmaceutical innovation in a balanced manner with appropriate incentives.
- There was some discussion of improved access for dairy products in Japan and Canada, a mention of improved access to the US sugar market, as well as provisions for improved regulatory coherence, rules of origin for automotive products, and standardisation of customs procedures.

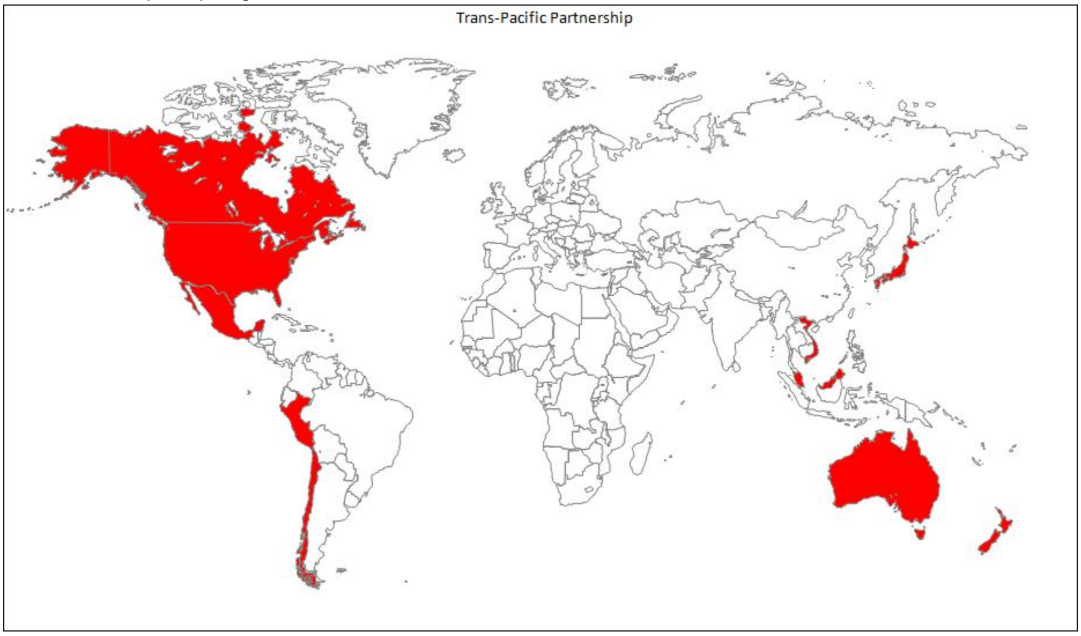
Implications

The TPP agreement comes at an important time as the global economy continues to exhibit signs of stress.

- First of all, an accord among countries representing a large swath of the global economy sends a positive signal worldwide. The substantial, co-ordinated policy initiative represents a meaningful step towards much-needed structural reforms and demonstrates the feasibility of such initiatives in the current environment.
- Secondly, provided it is ratified, the accord will roll out over a period of years. This will establish an agenda in favour of liberalisation over the medium to long term. It will help shape expectations and may lead to further reforms on additional issues or in additional economies.
- Third, increased market openness via trade policy reform on this scale can promote growth in a manner that compounds (i.e., there can be dynamic effects). Openness can provide opportunities for economies of scale and specialisation. Access to an expanded range of competitive inputs may help businesses to become more competitive, while at the same time openness will expose businesses to greater competition. The result can be innovation and improved productivity.
- Fourth, TPP will deliver some early direct benefits to consumers in terms of improved access to competitive products. Producers will also reap some early benefit via lower trade taxes. Trade facilitation may also help early on to reduce some deadweight losses (due to red tape) at the border or beyond in relation to traded products.

The TPP is already making a positive contribution in changing the global economic conversation. The next step will be a public discussion of the actual provisions and progress towards ratification. There may be some challenges in this regard. Increased openness via TPP will entail some adjustment and related concerns will need to be addressed as part of the discussion. However, once ratification is complete and TPP implementation is underway, the far-reaching welfare gains will begin to accrue in an ongoing manner (Petri et al, 2012, estimate these at roughly USD 300bn depending on the scenario).

Chart: Countries participating in the TPP



Source: HSBC (2015), *Trading Up: Why the Trans-Pacific Partnership is so important*, Douglas Lippoldt and Tadeusz Bara-Slupski

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