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"A nation must think before it acts." - Robert Strausz-Hupé

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Why We Need the Trans-Pacific Partnership and How to Get It Right

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The United States and 11 other countries are negotiating an enormous trade agreement, the Trans-Pacific Partnership (TPP), which will have a major impact on the world economy and help shape the future rules governing international trade. These negotiations began in earnest in 2008 among the United States, Australia, Brunei Darussalam, Chile, New Zealand, Peru, Singapore and Vietnam. Subsequently, they have expanded to include Canada, Japan and Mexico. Today, they are arguably the most important trade negotiations since the World Trade Organization went into effect in 1995.

Success in these negotiations is significant for both U.S. commercial and foreign policy interests. It is important to conclude these negotiations in 2015, however, because the agreement will need to gain Congressional approval to go into effect. In 2016, all members of the House and one-third of the Senate will be up for election, and many members of Congress will be under substantial pressure to oppose further opening the U.S. markets. Because of these political concerns, trade negotiators always have sought to conclude agreements in non-election years.

The Trans-Pacific Partnership agreement would build on current international trade rules contained in the World Trade Organization (WTO); however, it would go far beyond these trade commitments in many respects. First, all of the 12 countries would eliminate trade barriers almost completely among themselves, with just a few product exceptions. In contrast, under the WTO, countries maintain some tariffs which on particular products can be very high.

Additionally, the agreement would cover several new areas that are not addressed currently in any significant way under WTO trade rules. One important new area would be rules on how state-owned enterprises may operate in global competition without having an unfair trade advantage over market oriented firms. A second new area relates to digital commerce; some countries require that data centers be located in their geographic area and impose restrictions on the free flow of data across borders. TPP negotiators are hoping to develop rules of the road for digital commerce.

A third new area relates to regulations. Different regulations among countries governing such areas as product safety or the environment often represent a bigger barrier to trade than formal trade restrictions—even where the differing regulations achieve the same objectives. The United States is seeking greater transparency in the regulatory process with an opportunity for the TPP partners to comment on proposed regulations.

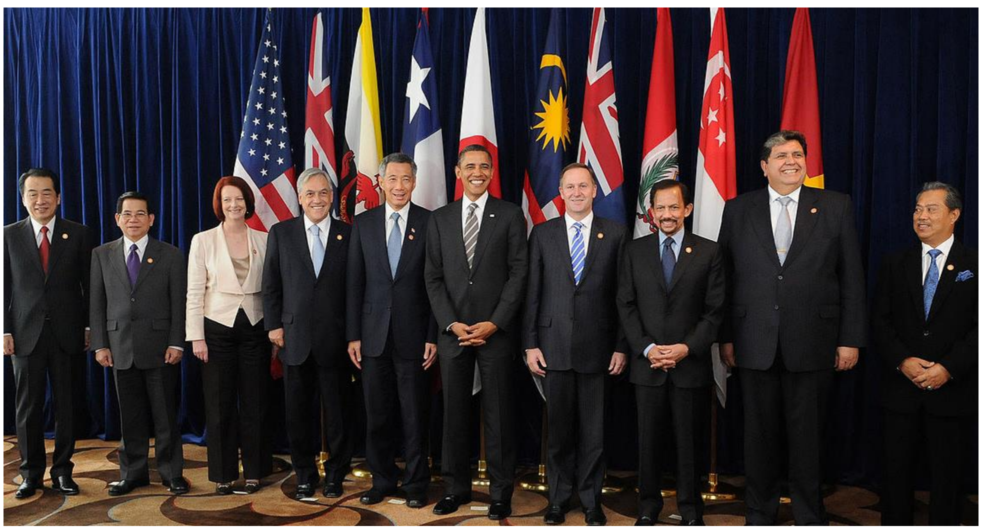
The TPP negotiations appear to be reaching their end game, although there are difficult issues still to be resolved. One of the most difficult areas is agriculture, where several participating countries maintain substantial import protections. For example, Malaysia has a 40 percent tariff on poultry; the United States and Canada protect their dairy markets and America maintains a high tariff on sugar imports.

Japan is the key to successful negotiations on agriculture. The country has astronomically high tariffs on rice, as well as high barriers to imports of wheat, pork, beef, sugar and dairy. Japan's agricultural sector is very inefficient; for example, rice is grown on small plots of land and is extremely labor intensive. Prime Minister Shinzō Abe wants to restructure Japan's economy to restart economic growth. Reducing barriers to agricultural products could be a major feature of this initiative. If Abe agrees to reduce agricultural trade barriers, while simultaneously implementing domestic reforms, many workers could shift from producing high cost agricultural products to producing goods that would compete in world markets. Were Japan to open its agricultural market, it would make it far easier for the United States and Canada to reduce their barriers on dairy, sugar and other products. This, in turn, would give Vietnam, Malaysia, and others more flexibility to reduce their barriers.

Of course, other market access issues are also important. For example, the U.S. auto industry is demanding real access to the Japanese market, which is currently protected by a number of non-tariff barriers and an artificially undervalued currency. And the Vietnamese are demanding improved access to the U.S. textile and apparel markets, if they are to proceed in opening their market and moving from a state-controlled economy to a more market-driven one.

The Importance of the Trans-Pacific Partnership Negotiations

Successfully concluding the Trans-Pacific Partnership would be very significant for the United States for both commercial and foreign policy reasons. The 12 countries negotiating the TPP agreement have a combined gross domestic product of $27.9 trillion dollars and a total population of some 800 million (see Table 1). In terms of wealth, the 12 countries range from $67,525 per capita income for Australia down to just $1,755 per capita for Vietnam.



A summit with leaders of the member states of the Trans-Pacific Strategic Economic Partnership Agreement (TPP). Pictured, from left, are Naoto Kan (Japan), Nguyễn Minh Triết (Vietnam), Julia Gillard (Australia), Sebastián Piñera (Chile), Lee Hsien Loong (Singapore), Barack Obama (United States), John Key (New Zealand), Hassanal Bolkiah (Brunei), Alan García (Peru), and Muhyiddin Yassin (Malaysia).

The United States already has free trade agreements (FTAs) with six of the TPP countries (Australia, Canada, Chile, Mexico, Peru and Singapore); however, some of these agreements were negotiated some time ago (e.g., the North American Free Trade Agreement with Mexico and Canada, which went into effect in 1994). The TPP agreement would update these existing FTAs by extending market openings and making some improvements in the rules.

However, we do not have agreements with five of the countries (Brunei, Japan, Malaysia, New Zealand and Vietnam). These countries have a combined GDP of more than $6 trillion. Japan, the world's third largest economy, of course, is far and away the most important of these five, but both Malaysia and Vietnam are likely to be significant markets in the future.

A study based on an econometric model by the Petersen Institute estimates that "world income would rise by $295 billion per year on the TPP track, including by $78 billion per year for the United States."[1] While this model is based on a number of

[1] Peter A. Petri, Michael G. Plummer and Fan Zhai, "The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative

assumptions, some of which may prove to be incorrect, the conclusion appears to be accurate: the TPP will have a substantial impact if it is successfully negotiated and implemented.

Table 1 Twelve Countries Negotiating TTP

Country	GDP (Billions $)	Population (Millions)	GDP Per Capita
Australia	1,534.4	22.7	$67,525
Brunei	16.9	0.4	$41,127
Canada	1,821.4	34.8	$52,409
Chile	266.3	17.5	$15,246
Japan	5,954.5	127.6	$46,679
Malaysia	305.3	29.2	$10,440
Mexico	1,186.5	120.8	$ 9,818
New Zealand	171.5	4.4	$38,678
Peru	192.6	30	$ 6,424
Singapore	286.9	5.3	$54,007
United States	16,163.2	313.9	$51,496
Vietnam	155.8	88.8	$ 1,755

World Bank, World Development Indicators, 2012, http://databank.worldbank.org/data/home.aspx.

If the TPP negotiations are not successful, the United States could face severe negative consequences. There is an extremely important alternative trade negotiation to the TPP: the agreement being negotiated between the ten countries of the Association of Southeast Asian Nations[2] (ASEAN) with China, Australia, India, Japan, Korea and New Zealand, known as the Regional Comprehensive Economic Partnership (RCEP). These negotiations are not as far along as the TPP and they are not as ambitious, but nonetheless they would have a far-reaching impact.

China is also negotiating a trilateral free trade agreement with South Korea and Japan and a bilateral free trade agreement with Australia. If the TPP falters, both the RCEP and China's negotiations for free trade agreements likely will accelerate and gain new prominence. The result would be that U.S. exporters would face a substantial competitive disadvantage in the Asian market.

In addition to the negative commercial impact, U.S. foreign policy would also suffer. In announcing the "Asian pivot" in 2011, then-Secretary of State Hillary Clinton outlined six key elements. These included: "strengthening bilateral security alliances; deepening our working relationships with emerging powers, including with China; engaging with regional multilateral institutions; expanding trade and investment; forging a broad-based military presence; and advancing democracy and human rights."[3]

Concluding the TPP is central to U.S. credibility in achieving these goals. If the TPP negotiations fail, China would lie at the center of Asian-Pacific trade and the United States essentially would be relegated to the sidelines. To get to closure and to have an agreement that can be a template for 21st century trade agreements, three important changes are needed to the model

Assessment," White Paper Series, p. ix, www.eastwestcenter.org/...and-asia-pacific-integration-quantitative.

[2] The ten members of ASEAN are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

[3] Hillary Clinton, "America's Pacific Century," *Foreign Policy*, Oct. 11, 2011, http://foreignpolicy.com/2011/10/11/americas-pacific-century/.

reportedly being advocated by the U.S. First, the Investor-State Dispute Settlement rules must be clarified to prevent abusive suits. Secondly, the rules to protect the intellectual property of pharmaceuticals must be carefully calibrated to not unduly burden consumers while still providing incentives to develop new drugs. And thirdly, negotiators must include provisions to prevent currency manipulation for the purpose of gaining an unfair commercial advantage.

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