

The United States and the TPP: US Interests and Implications for the Asia-Pacific Region*

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Prepared for the 2016 Northeast Asia International Conference for Economic Development
Niigata, Japan
January 29, 2016

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The TPP: Central to US Trade Policy

- TPP is the most comprehensive FTA among developed and developing countries in terms of scope of coverage and depth of liberalization.
- A big deal in economic terms: TPP-12 account for 40 percent of global output and 25 percent of global exports.
- Represents US commercial *and* strategic interests: TPP reinforces US relations with close allies Japan and Australia, strengthens NAFTA, and forges new trade links with ASEAN members Malaysia and Vietnam.
- The deal means new opportunities for increased trade and investment—including farm trade barriers long resistant to reform—and should contribute to stronger economic growth.

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TPP: Estimated Gains in 2030



	Annual real income gains	
	billions of 2015 dollars	% change from baseline
Total world	492	0.4
Total TPP-12	465	1.1
United States	131	0.5
Japan	125	2.5
Malaysia	52	7.6
Vietnam	41	8.1
Total non-TPP members	27	negl.
European Union	48	0.2
China	-18	-0.1
India	-5	-0.1
Korea	-8	-0.3
Thailand	-7	-0.8

Source: Petri and Plummer (2016).

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TPP: Estimated Gains in 2030



- Overall, TPP-12 will see permanent, annual gains in real income of nearly \$500 billion, or 1 percent of GDP.
- The rest of world benefits modestly from TPP expansion, which offsets trade diversion due to TPP preferences.
- US and Japan account for *55 percent* of TPP gains, but in relative terms, Malaysia and Vietnam are biggest winners, since they have to make substantial changes in current policies that distort trade and investment.
- China suffers very modest reduction compared to baseline growth, though these negative effects expand sharply if other big Asian economies join the TPP later this decade.

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The TPP: Major US Objectives

- TPP means increased trade and investment, especially services and agriculture.
- TPP updates and augments economic integration between US and NAFTA partners; fills gaps in new areas like energy, trade-related environmental issues, electronic commerce and SOEs.
- TPP establishes new trade rights and obligations that fill holes in WTO rulebook and could help formulate new post-Nairobi negotiating agenda.
- TPP establishes comprehensive template for broader Asia-Pacific integration, i.e., FTAAP.
- TPP is also a critical contribution to US foreign policy and reassures region that United States is a reliable partner.

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TPP Timeline: Ratification in US

- TPP talks concluded on October 5, 2015 and the signing is planned for February 4, 2016.
- US Congress must pass implementing legislation to ensure US law is consistent with TPP obligations—“fast track” clock for an expedited vote does not begin until legislation is presented to the House.
- President Obama needs large majority of Republicans to vote for bill; most Democrats oppose.
- However, Republican leaders cite several complaints with TPP:
 - data exclusivity for patents on biologics;
 - exclusion of tobacco from investor-state dispute settlement;
 - carve-outs for financial service firms from data localization requirements.
- Democrats mostly opposed, citing concerns about labor, autos, investor-state dispute procedures.

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Three Scenarios for Congressional Vote

1. Resolve key problems with Republican leaders and push for a vote before the Summer 2016 recess. **Doable because both Republican leaders in Congress and President Obama want to ratify TPP. But can they work together?**
2. Delay a vote until a “lame duck” session of Congress in Nov-Dec 2016 after US elections. **Low probability event and only works if Republicans win presidency.**
3. Delay action until the next administration, when the TPP can be considered by a new Congress and president and possibly “improved.” **Risks long delay in US vote and TPP entry into force.**

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TPP: US Preferred Path Toward Regional Integration

- US favors TPP expansion model for broader Asia-Pacific economic integration. TPP open to new members—not just from APEC—after the pact enters into force.
 - Several countries considering TPP participation and could seek to enter TPP in “2nd tranche” negotiations, e.g., Korea, Indonesia, Thailand, Taiwan, the Philippines and others like Colombia.
- How TPP expansion evolves will turn importantly on:
- Ratification process by original members, especially US;
 - Whether Indonesia follows through on new commitments to reform and join the TPP later this decade;
 - Whether China wants to join and if so, when.
- TPP could be pathway to FTAAP but requires that the US and China work together.

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