

The Trans-Pacific Partnership: Implications for Canada, Agriculture, and the World Trading System

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The TPP: A Big Deal in the Making

- The GDP of TPP-11 countries is \$21 trillion or 30 percent of global output.
- TPP-11 countries export \$4.4 trillion of goods and services, or 20 percent of global exports.
- Developing comprehensive new rulebook for trade and investment in goods and services.
- Substantial upgrading of existing trade pacts among participating countries.
- Important stepping stone to broader Asia-Pacific and multilateral trade accords.

TPP-11: Like-minded but Not Alike

TPP-11	2011 GDP (\$US billions)	Population (millions)	Human Development Index ^a	Economic freedom in the world index ^b
Australia	1,488	22.7	0.929	7.97
Brunei	16	0.4	0.838	n.a.
Canada	1,737	34.4	0.908	7.97
Chile	248	17.4	0.805	7.84
Malaysia	279	28.7	0.761	6.96
Mexico	1,155	113.7	0.770	6.66
New Zealand	162	4.4	0.907	8.27
Peru	174	30.0	0.725	7.61
Singapore	260	5.3	0.866	8.69
United States	15,094	311.9	0.910	7.69
Vietnam	123	89.3	0.593	6.54
Total	20,734	658.2		

^a The Human Development Index (HDI) is published by the United Nations Development Program. 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.

^b The index 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.

Current Status of TPP Negotiations

- 15 negotiating rounds since launch in March 2010
 - 3 rounds set for 2013: March in Singapore; May in Peru; September (location TBD).
 - APEC Trade Minister's meeting in Surabaya in April – stocktaking / opportunity to revise offers.
- APEC leaders meeting in October: start of the end-game negotiations?
- TPP leader seeks to finish talks in 2013, but numerous “sticking points” remain.
- Key variable: whether US Congress renews “fast track” negotiating authority.

TPP Sticking Points: Market Access Issues

- Liberalization of trade barriers protecting dairy, sugar, and rice.
- Tariffs and origin rules affecting textiles, clothing, and footwear.
- Services trade reforms, especially financial services, insurance, and labor services.

TPP Sticking Points: Rulemaking Issues

- Intellectual Property Rights including pharmaceutical patents, copyrights covering the new digital economy.
- Investor-State Dispute procedures.
- Disciplines on State-Owned Enterprises to ensure “competitive neutrality.”
- Rules and enforcement of environmental policies including conservation and climate change.
- Rules and enforcement of labor standards and practices, including linkage to ILO Commitments.
- Disciplines on the use of capital controls.

Agriculture and the TPP (1)

- Agriculture accounts for only a small share of the total trade of TPP countries...but 64% of New Zealand exports and almost a quarter of exports by Chile and Vietnam.
- TPP-11 account for 30% of world farm exports and almost half of global exports of dairy products.
- TPP countries well positioned to serve growing demand for meat and dairy products in the Asia-Pacific region.
- Growth in demand for dairy products cannot be met by New Zealand, so great opportunity for US / Canadian farmers to increase exports...and US exports up sharply over past decade.
- Reform / restructuring of farm policies will be pivotal component of final TPP package.

Agricultural trade in 2011

Country	Total trade		Agriculture		Agriculture as a percent of total trade	
	Exports	Imports	Exports	Imports	Exports	Imports
TPP11						
Australia	270	244	34	14	13	6
Brunei	12	3	n.a.	1	n.a.	n.a.
Canada	388	403	60	36	15	9
Chile	81	75	19	6	23	8
Malaysia	227	188	39	21	17	11
Mexico	298	310	23	29	8	9
New Zealand	38	37	24	4	64	11
Peru	46	38	8	5	17	12
Singapore	410	366	10	14	2	4
United States	1,480	2,266	168	137	11	6
Viet Nam	97	107	22	13	23	12
<i>Subtotal</i>	3,348	4,035	407	280	12	7
Prospective countries						
Japan	770	694	11	96	1	14
Korea	466	425	13	35	3	8
<i>Subtotal</i>	1,236	1,119	24	131	4	22
Total (TPP11 + prospective countries)	4,584	5,155	431	410	9	8
<i>Memorandum</i>						
World trade	15,254	15,457	1,362	1,425	9	9
TPP11/world (percent)	22	26	30	20		
Total/world (percent)	30	33	32	29		

n.a. = not available

Note: Agricultural trade refers to Standard International Trade Classification (SITC) sections 0, 1, 2, 4, minus 27 and 28.

Source: WTO statistics database, 2012, <http://stat.wto.org>.

Agriculture and the TPP (2)

- Comprehensive coverage of agricultural products and policies, including SPS and other non-tariff measures.
- Liberalization of substantially all border measures but:
 - Long phase-out for sensitive products and partial liberalization for others (via expanded TRQs).
 - Limited number of product exceptions (only rice?).
- “White goods” problem:
 - Dairy: Demands for increased market access challenge US/ Canada/Mexico policies.
 - Sugar: Australia wants to expand market access provided by bilateral FTAs; United States and Mexico are reluctant.
 - Rice: pits export interests (e.g. US / Australia) vs. import protection and food security concerns.

How will the “Fiscal Cliff” legislation affect US farm policy? And US positions in the TPP negotiations?

- Title VII of the American Taxpayer Relief Act of 2012: short-term extension of key parts of the 2008 Farm Bill.
- Main agricultural provisions:
 - Extends the Food, Conservation and Energy Act of 2008 through September 2013 for covered commodities and for peanuts, sugar cane and sugar beets.
 - Continues current dairy price support program through December 2013.
 - Extends biodiesel tax incentives.
- Uncertainty over agricultural reforms going forward.
- US officials may tread lightly in TPP talks on dairy reforms and sugar quota increases while Congress works on new farm bill.

Implications for Canada

- Canada already has FTAs in place with US, Mexico, Chile, Peru; talks with Singapore stalled. TPP will add more partners; update and consolidate existing pacts.
- In 2011 TPP countries accounted for 76% and 58 % of Canadian exports and imports respectively (\$340 billion and \$260 billion)...but mostly NAFTA (> 97%).
- Similar story with agricultural trade, with exports of \$25 billion (57% of total) and \$23 billions of imports (68% of total). Again, mostly intra-NAFTA trade.
- TPP should boost trade and investment and enhance competitiveness in key Asia-Pacific markets.
- TPP can also propel needed domestic reforms in areas like agriculture and intellectual property rights.
- TPP achieves upgrading of NAFTA without renegotiating NAFTA.

Canadian trade with TPP countries

	Trade value (\$ millions)		As a share of total trade (%)	
	2011			
	Exports	Imports	Exports	Imports
Australia	1,917	1,785	0.4	0.4
Brunei	4	8	0.0	0.0
Chile	827	1,931	0.2	0.4
Malaysia	769	2,162	0.2	0.5
Mexico	5,530	24,814	1.2	5.5
New Zealand	385	556	0.1	0.1
Peru	521	4,455	0.1	1.0
Singapore	812	1,572	0.2	0.3
Viet Nam	339	1,346	0.1	0.3
United States	331,755	223,172	73.7	49.5
TOTAL	342,859	261,801	76.1	58.1
<i>Memorandum</i>				
Canada trade with world	450,430	450,580		

Source: UNComtrade, 2012, <http://comtrade.un.org>.

Implications for NAFTA

- Update and augment pact signed 20 years ago.
- Regional rules of origin will help integrate North American firms in global supply chains and increase import competition in North American market.
- Expansion of environment and labor provisions and integration into the core agreement.
- No new disciplines on contingent protection policies.

Expanding Membership: Help or Hindrance to Completing the TPP?

Addition of Canada and Mexico should *not* slow down the talks but could complicate the end-game trade-offs:

- Supports “go slow” approach to dairy reform.
- Tempers scope of IPR provisions, especially re pharmaceutical patents, copyright enforcement, new digital issues.
- Favors consultative approaches to environment and labor issues and enforcement.

Expanding Membership: Help or Hindrance to Completing the TPP?

- What if Korea asks to join? And Japan then follows suit?
 - Then TPP becomes much bigger deal, covering 40% of world GDP vs. 30% for the TPP-11.
 - For Korea TPP should not require substantial adjustment beyond that required by the KORUS FTA... assuming KORUS precedent of excluding rice.
 - Will new Japanese government want to join? Can it afford not to join if Korea participates?
- Should non-APEC countries be welcomed in the future (i.e. Colombia/Pacific Alliance, India)?

TPP Going Forward

- New members could join after TPP is signed using accession clause but less likely that big countries could do so.
- TPP unlikely to be template for FTAAP.
- FTAAP more likely to be a hybrid pact among TPP and RCEP countries with reciprocal obligations between “hard law” of the TPP and consensus based Asian commitments.
- TPP disciplines would continue to apply among TPP members, just as WTO does not dilute FTA commitments.

RCEP and TPP: Complementary or Competing?

- ASEAN + 6 (Australia, China, India, Japan, Korea, New Zealand) pursuing intra-Asian integration in the Regional Comprehensive Economic Partnership (RCEP).
- RCEP aims to broaden and deepen ASEAN + 1 pacts with the other 6 by end of 2015; similar agenda / timetable as work on ASEAN Economic Community.
- Overlapping participation: 6 of 16 RCEP members in TPP; plus 3 others interested (Indonesia, Philippines, Thailand).
- Why are ASEAN countries also interested in TPP? Bigger payoff from TPP reforms and concern about cost of non-participation in terms of trade and investment diversion.
- RCEP gives China the option to continue incremental reforms that would improve readiness to join more comprehensive regional pacts in the future.

Whither China?

- Priority on deepening pacts with Asian neighbors for political and economic reasons.
- Not ready for TPP-style commitments to transparency and disciplines on government intervention in the marketplace.
- TPP members want to use TPP to help them better compete with China – rationale for overlapping membership with RCEP and TPP.
- CJK investment pact (signed May 2012) shows willingness of China to commit to incremental but substantive economic reforms through regional trade pacts.
- China-Korea talks could upgrade Chinese “template” and set precedents for a broader Asia-Pacific pact.

Implications for the WTO

- Creating template for trade rulemaking on new “21st century” issues.
- Pushing other super-regional initiatives to move toward TPP standard (TPP as model for US-EU pact?).
- WTO as forum for “multilateralizing regionalism.”

Conclusions

- Goal of concluding talks by the end of 2013 is very ambitious, but doable if officials remember that in trade negotiations, good things come in big packages.
- Negotiators must winnow the long list of sticking points and get political ok to change existing policies.
- By late 2013, US negotiators will need new fast track authority to secure best deal.
- The TPP is clearly a big deal in the making, and could lead to even bigger deals over time...in the region and in multilateral trade negotiations.