Abstract

The Trans-Pacific Partnership (TPP) is perhaps the most ambitious trade initiative — both in its scope and in the number of negotiating countries — to have been launched since the breakdown of the World Trade Organisation’s Doha round of negotiations.

The TPP, which has become US-led initiative since Washington formally joined the negotiating process in 2009, is widely perceived as a key component of the US’s recent ‘pivot’ towards Asia. The agreement’s provisions are designed to boost US trade policy by helping Washington increase exports to the Asia-Pacific region, and to do so on Washington’s own terms. The TPP is also often viewed as a platform for achieving wider US foreign policy goals, and specifically countering the rising influence of China in the region.

The potential economic gains for all participating countries are significant and projected to grow as the number of participants rises. Yet the obstacles to concluding the agreement are formidable and raise doubts about its feasibility. The uncertainty surrounding the TPP is further compounded by its closed-door negotiations, which leave many important questions unanswered.

The impact of the TPP on the EU is likely to be negative, making the EU’s efforts to conclude free trade agreements with various Asian economies more urgent than ever.
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1. Introduction

The stalemate in the World Trade Organisation’s Doha Development Round propelled many trading nations to seek alternatives to the multilateral approach in order to facilitate trade relations with other countries. A wave of bilateral free trade agreements (FTAs) was concluded among various Asian countries in the 2000s; FTAs were concluded within ASEAN and between ASEAN countries on the one hand and China, Japan and South Korea on the other. The notable absentees from this process of bilateral negotiation and agreement included some of Asia’s most important trading partners: the European Union (EU) and the United States (US). The EU and US concluded FTAs only with South Korea (entering into force in July 2011 and March 2012 respectively) and, in the case of the US, an FTA with Singapore (entering into force in January 2004).

The Trans-Pacific Partnership (TPP), an ambitious FTA that would link the US with a number of Pacific partners, has been heralded as signalling the US’s return to East Asia after a period of inattention under the Bush administration. The agreement’s ambitious scope and high number of participating countries — from all corners of the Asia-Pacific region — suggest that this major trade deal may have far-reaching consequences for its participants, as well as for their principal trading partners, including the EU.

This policy briefing will provide a comprehensive overview of the TPP and its possible impact on the EU. It will outline the historical origins of the TPP and its evolution to its present form and will analyse trends in Asia-Pacific FTAs, including what has been called the ‘noodle-bowl effect’. The key provisions of the TPP, a US-led initiative, will then be analysed through the prism of US economic and political objectives in the region. The potential gains from the TPP will be quantified, and the major obstacles to the agreement’s conclusion will be discussed. The final section will focus on the EU’s trade strategy in the region and the possible impact of the TPP on the Union’s established trade patterns.
2. Historical overview

The origins of the TPP can be traced back to the Trans-Pacific Strategic Economic Partnership, also known as the ‘Pacific 4’ (P-4), concluded between Brunei Darussalam, Chile, New Zealand and Singapore in June 2005. The P-4 was a comprehensive free trade agreement, with a scope that reached beyond mere tariff removal and other trade-facilitating measures, and into a wide range of economic and regulatory issues\(^1\). These issues included public procurement and provisions aimed at promoting further cooperation on intellectual property, competition and environmental and labour issues. Another important objective of the agreement was its inclusivity, as stipulated in Article 20.6, according to which ‘the Agreement is open to accession on terms to be agreed among the Parties, by any APEC Economy or other State. The terms of such accession shall take into account the circumstances of that APEC economy or other State, in particular with respect to timetables for liberalization.’\(^2\)

Negotiations among the P-4 signatories continued after the agreement entered into force in 2006 and were extended to include provisions on financial services and investment. This attracted interest from the US, which joined the negotiating countries in February 2008\(^3\). US President Barack Obama formally announced the US desire to engage with the P-4 countries in the process of ‘shaping a regional agreement that will have broad based membership and the high standards worthy of a 21\(^{st}\) century trade agreement’ in a speech in Tokyo in November 2009\(^4\).

The first round of TPP negotiations was held in Melbourne in March 2010 and included the original P-4 countries as well as the US, Australia, Peru and Vietnam. Malaysia formally joined in October 2010, Mexico in June 2012 and Canada in October 2012\(^5\). Thailand signalled its intention to join TPP talks during President Obama’s visit in November 2012\(^6\).

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\(^1\) New Zealand Ministry of Foreign Affairs and Trade, Trans-Pacific Strategic Partnership (P4) Agreement (25 July 2012)
\(^2\) Article 20.6, Trans-Pacific Strategic Economic Partnership
\(^3\) United States Trade Representative, United States to Join Sectoral Negotiations with Four Asia-Pacific Countries (03 February 2008)
\(^4\) The White House, Remarks by President Barack Obama at Suntory Hall (14 November 2009)
\(^5\) Reuters, Mexico to Join Trans-Pacific Partnership (18 June 2012); Bloomberg, Canada Joins Trans-Pacific Partnership Trade Negotiations (09 October 2012)
\(^6\) Reuters, Thailand says to join Trans-Pacific Partnership trade talks (18 November 2012)
The current position of Japan towards the TPP talks is somewhat unclear. Former Prime Minister Yoshiko Noda supported the initiative, but was defeated in elections in December 2012. The new Prime Minister, Shinzo Abe of the Liberal Democratic Party (LDP), has promised to ‘comprehensively consider’ joining the talks. Some analysts have argued that this will not happen unless Abe solidifies his hold on power in the upper house elections of July 2013; others have suggested that Abe will not join at any point. Until recently, the Abe administration maintained that Japan would not participate in TPP talks as long as negotiating countries uphold the position of comprehensive, all-encompassing tariff eliminations (‘no sanctuaries’). However, the most recent joint statement by Abe and President Obama said that under the TPP all goods would be

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Footnotes:

7 Potential members include, in addition to Japan and Thailand, the Philippines (which would be required to amend the restrictive investment provisions of their constitution) and South Korea (which is monitoring the negotiating process but prioritising bilateral FTAs). For more information see The Manila Times, The Philippines and the TPP (13 January 2013) and The Asahi Shimbun, South Korea prioritizes Asia trade pacts over Pacific partnership (17 May 2012). Cambodia, Laos and Myanmar are unable to join the negotiating process as they are not APEC members.

8 The Financial Times, Noda vows to join trade deal talks (11 November 2012)

9 Bloomberg, Japan May Move on Joining US-led Trade Talks Under Abe (27 December 2012)

10 Ibid.; The Economist, Japanese foreign policy: Down-turn Abe (05 January 2013)

11 The Japan Times, Wanted: answers on TPP impact (11 January 2013)
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subject to negotiation but without any prior commitment to unilaterally eliminate all tariffs. This statement could be taken as a sign that Abe’s administration is seriously contemplating joining the agreement.

The latest round of TPP negotiations (round 15) took place in Auckland, New Zealand in December 2012. TPP negotiations are conducted behind closed doors, and it is therefore difficult to estimate how advanced they are or what stumbling blocks may exist among the participating countries. According to some sources, many complex issues — such as intellectual property rights (IPR), electronic commerce, cross-border data flow, state-owned enterprises (SOEs) and textile market access — have yet to be tackled. The once hoped-for deadline for concluding the agreement by October 2013 therefore seems unlikely to be met. The next full round of negotiations (round 16) will be held in Singapore in March 2013.

3. Overview Of FTAs in Asia-Pacific

As Figure 2 illustrates, the Asia-Pacific region experienced a dramatic increase in the number of bilateral, regional and trans-Pacific FTAs implemented from 2000 onwards. The number of bilateral FTAs in effect in the region more than quadrupled, from 25 in 2000 to 103 in 2012.

Figure 2: Bilateral FTAs and intra-regional trade in Asia-Pacific (1992-2012)

The ‘noodle bowl effect’, a dense web of separate, bilateral FTAs in Asia-Pacific, has created what has been called the ‘noodle bowl effect’, illustrated in Figure 3. Substantial disadvantages are associated with the ‘noodle bowl effect’, including:

12 The Financial Times, *Abe lays out vision of Japan power in Asia* (22 February 2013)
13 BusinessDay, *Complex issues remain Trans-Pacific Talks* (12 December 2012); East Asia Forum, *Will the TPP facilitate or disrupt supply chains?* (06 January 2013)
14 Asian Development Bank data
An increased costs of doing business (especially due to different rules of origin (ROO) regimes),

ii) protectionism,

iii) complex patterns of discrimination and exclusion,

iv) undermining of the multilateral trade system\textsuperscript{15}.

**Figure 3** – An example of the ‘noodle bowl effect’ (East Asia, 2006)\textsuperscript{16}

Small and medium-sized enterprises (SMEs) are often most severely affected by complex trade regimes. According to one study, the costs incurred by FTAs are more easily borne by larger, more established companies\textsuperscript{17}. The overlapping and intersecting nature of agreements makes third parties vulnerable to trade disputes between two countries\textsuperscript{18}. Figure 2 may also be seen as underlining the costs that the ‘noodle bowl’ carries: although the number of FTAs in force in Asia-Pacific has risen dramatically, statistical evidence suggests that it has not been matched by any greater growth of Asia’s intra-regional trade.

\textsuperscript{15} Ann Capling and John Ravenhill, *Multilateralising regionalism: what role for the Trans-Pacific Partnership Agreement?*, The Pacific Review 24 (5) (December 2011)


\textsuperscript{17} Masahiro Kawai and Ganeshan Wignaraja, Tangled up in trade? *The ‘noodle bowl’ of free trade agreements in East Asia* (September 2009)

\textsuperscript{18} Richard E. Baldwin, *Managing the Noodle Bowl: The Fragility of East Asian Regionalism*, ADB Working Paper Series on Regional Economic Integration no. 7 (February 2007), p. 18
4. Key provisions

4.1. Economic objectives of the TPP: A '21st century agreement' and a key US trade policy instrument

The TPP agreement aims to tackle economic interactions among its negotiating countries in the broadest possible manner and, in doing so, go further than any other free trade agreement. The TPP does not only include tariff reductions, but also a host of behind-the-border issues that could be deemed as belonging to the realm of domestic policy, such as government procurement, labour and environmental standards, investment policies and regulatory transparency, especially with regard to the position of state-owned enterprises (SOEs). Other areas covered by the TPP include agriculture, intellectual property and SMEs. Some of the agreement’s provisions, such as strict labour and environmental standards, can be found in the US’s FTAs with South Korea (KORUS), Panama and Colombia, approved in October 2011. These were ‘gold standard’ agreements with numerous WTO-plus provisions. For example, the KORUS FTA included stringent IP policies that extended copyright to 70 years (20 years longer than most WTO provisions) and addressed issues related to regulatory transparency, investment policies and services liberalisation. The scope of the TPP, however, extends beyond the US template set by these three FTAs and also covers trade facilitation, economic cooperation and development.

The seemingly all-encompassing scope of the TPP has led politicians and analysts alike to laud it as a ‘21st century agreement’ and stress its ambition to address more recent developments in trade. Indeed, the world of 21st century trade could be described as the ‘trade-investment-services nexus’ — i.e., an intertwining of trade in goods, international investment in production facilities and technology, and infrastructure that coordinates the dispersed production processes. Trade networks are no longer simple or linear; they are complex and entangled, especially in the Asia-Pacific region, and require new trade rules to govern them, including increased IP protection, assurances on property rights, anticompetitive measures and business capital flows. The broad scope of the TPP is intended to ensure that such provisions are incorporated to the fullest possible extent.

The TPP is widely seen as a cornerstone of the current US trade policy. The

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19 The Washington Post, Obama gets win as Congress passes free-trade agreements (13 October 2011)
22 Ibid., p. 9
The TPP is seen as a cornerstone of the current US trade policy and a chance to boost its exports to Asia-Pacific agreement lies at the forefront of President Obama’s drive to increase US exports. Faced with declining consumer demand at home, Obama promised to double his country’s exports by 2015, thereby creating two million jobs\textsuperscript{23}. This promise was followed by two years of strong export growth — 20.9% in 2010 and 15.8% in 2011, as annual exports reached USD 1.48 trillion by 2011\textsuperscript{24}. Asia-Pacific was responsible for some 28% of total US exports during these two years and demand for US exports grew particularly in 2010 (27.4%). US export growth decreased, however, to 4.6% between November 2011 and November 2012. The drop in growth was even more striking for US exports to Asia-Pacific: exports increased by only 2%. These developments have taken place against the backdrop of a decreasing US market share in Asia-Pacific — identified as a cause for concern by the US Trade Representative (USTR) Ron Kirk\textsuperscript{25}. The Asian-Pacific economy is still the world’s most dynamic and holds much promise for the future. According to one estimate, the region’s middle class is expected to increase from 525 million people in 2009 to 1.75 billion by 2020, providing the US (and other trading partners) with great incentives for deeper economic engagement with the region\textsuperscript{26}.

**Figure 4** - Share of US merchandise exports to TPP countries, including Japan (2011)\textsuperscript{27}

The importance of the TPP for the US has also been underscored by the vigour with which the country has attempted to mould the agreement in its favour. As Figure 4 demonstrates, TPP countries absorbed 44.2% of

\textsuperscript{23} The White House, *Remarks by the President in State of the Union Address* (27 January 2010)

\textsuperscript{24} United States International Trade Commission (US ITC) data

\textsuperscript{25} Ronald Kirk, *Letters to Speaker of the House Nancy Pelosi and Senate President Pro Tempore Robert Byrd* (December 2009); Ron Kirk will step down from the post of the US trade representative in late February 2013 – his successor is still unknown. The New York Times, *U.S. Trade Representative Will Step Down* (22 January 2013)

\textsuperscript{26} Reuters, *After election, pressure grows on Obama in Asia-Pacific trade talks* (29 November 2012)

\textsuperscript{27} Author’s calculations based on US ITC data
‘Platinum standards’ of the TPP reflect US interests in a number of sectors

total US merchandise exports — worth USD 653.2 billion — in 2011. The TPP therefore presents a singular chance for the US to secure more favourable provisions for its exports, especially since the agreement’s provisions are intended to apply to its members in a non-discriminatory manner — i.e., equally to both developed and developing economies. The Obama administration has been encouraged by various lobby groups to include the most stringent ‘platinum standards’ in the TPP. For example, the US has advocated narrow, product-specific rules of origin ROOs with high threshold levels for determining eligibility28.

Among the rules the US wishes to include, the ‘yarn-forward’ rule is especially controversial. Under this rule, TPP signatories would only qualify for tariff concessions if their yarns and fabrics come from other TPP countries. In practice, this would mean that textile-producing countries like Vietnam would be required to buy yarn from a TPP signatory, rather than China, Vietnam’s usual supplier29. This led one commentator to conclude that in this particular chapter, ‘straightforward protectionism has morphed into mercantilism’30.

The IP provisions that the US advocates are also particularly strict and not without controversy. This is true for pharmaceuticals (for which the US wants increased exclusivity on patents, which would disadvantage generic manufacturers), ACTA-like provisions on copyright enforcement and the Internet (e.g. the right to stop imported products and the ‘secondary liability’ of internet providers). This position is hardly surprising, given the importance of IP for the US economy; in 2010, 40% of worldwide payments made to IP holders — around USD 100 billion — went to the US31. This has led some proponents to call for the inclusion of the highest possible IP standards in the final agreement and for their enforcement thereafter32.

The same applies to the US emphasis on promoting and protecting SMEs, which have little experience with international trade and provide the bulk of US employment33. Agriculture has also been singled out as problematic, with major agricultural groups pushing to maintain the existing FTA

29 The Wall Street Journal, Obama’s Double Standard on TPP (08 May 2012)
30 Souraph Gupta, Will the TPP facilitate or disrupt supply chains? (13 January 2013)
31 Bernard K. Gordon, Trading Up in Asia: Why the United States Needs the Trans-Pacific Partnership, Foreign Affairs 91 (4) (July/August 2012)
32 The Wall Street Journal, America’s TPP Touchstone (03 October 2012)
33 Bernard K. Gordon, Trading Up in Asia: Why the United States Needs the Trans-Pacific Partnership, Foreign Affairs 91 (4) (July/August 2012)
market access provisions, especially in more sensitive sectors (e.g. sugar, dairy)\textsuperscript{34}. The ongoing Republican control of the US House of Representatives is considered to reinforce this position\textsuperscript{35}.

In sum, these issues have led some observers to conclude that the TPP has become a vehicle for the US industrial lobby\textsuperscript{36}. Other negotiating countries have also voiced their reservations. (These will be addressed at a later point in the paper.)

The TPP can be seen as an extension of the current US trade strategy, which aims to boost US exports in general and to reverse the trend of a falling US market share in the dynamically growing region of Asia-Pacific. USTR Kirk has written that the TPP ‘provides the opportunity to develop a new model for US trade negotiations and a new regional approach that focuses more on jobs, enhances US competitiveness and ensures that the benefits of our trade arrangements are shared by all Americans’\textsuperscript{37}. US economic interests play a very important role in this process.

4.2. Political objectives of the TPP

The TPP forms an essential part of Washington’s ‘pivot to Asia’

In addition to its economic objectives, the TPP should also be viewed through the prism of Washington’s foreign policy objectives in the region. The agreement forms an essential part of the US’s ‘pivot to Asia’. The country’s involvement in the Asia-Pacific region decreased significantly under the Bush administration, whose foreign policy imperatives centred on the ‘War on Terror’ with campaigns in Afghanistan and Iraq. China gained notable economic clout in the region during this period, becoming ASEAN’s top trading partner in 2009 and strengthening its trade links with all major countries in the region. China’s economic strength also allowed it to grow more assertive in the strategic arena, as confirmed by its growing military spending and territorial disputes with various ASEAN members in the South China Sea and with Japan in the East China Sea. Two developments in the region’s trade architecture — namely ‘ASEAN Plus Three’ and the Regional Comprehensive Economic Partnership or RCEP, both of which exclude the US — were also widely seen as signs of waning

\textsuperscript{34} Claude Barfield, \textit{The Trans-Pacific Partnership: A Model for Twenty-First Century Trade Agreements?}, International Economic Outlook no. 2, American Enterprise Institute (June 2011)

\textsuperscript{35} Jagdish Bhagwati, \textit{Why the TPP is undermining the Doha Round} (14 January 2013)

\textsuperscript{36} E.g. Jagdish Bhagwati, \textit{America’s Threat to Trans-Pacific Trade} (30 December 2011)

\textsuperscript{37} Ronald Kirk, \textit{Letters to Speaker of the House Nancy Pelosi and Senate President Pro Tempore Robert Byrd} (December 2009)

\textsuperscript{38} ASEAN Plus Three consists of ten ASEAN countries and China, Japan and South Korea; RCEP, also known as ASEAN Plus Six, consists of ASEAN Plus Three
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The agreement has important security and foreign policy ramifications – including possible containment of China.

US influence in Asia-Pacific

The TPP is widely seen as a part of the US strategy to re-engage with the region and to contain China’s influence there. Yet the US has repeatedly denied that policy specifically targets any one country in the region. Tom Donilon, US National Security Advisor, has stressed that the US interest in Asia-Pacific is neither an ‘attempt to contain any nation’ nor a ‘rebalancing towards Asia’; instead, Donilon said, the US is ‘rebalancing … within Asia … in a renewed way on Southeast Asia and ASEAN’. Commenting on the TPP itself, US Secretary of State Hillary Clinton said that Washington ‘welcome[s] the interest of any nation willing to meet the 21st century standards of the TPP — including China’. That said, the provisions of the TPP — environmental and labour standards as well as IP and SOEs reform — effectively preclude China from participating. China would only join the initiative on its own terms and any other scenario risks driving a wedge through the region, possibly provoking China into playing its own regionalism game. Some Chinese commentators have even gone so far as to argue that the TPP is ‘superficially an economic agreement’ with ‘an obvious political purpose to constrain China’s rise’. While these views are irreconcilable, they do underscore that the TPP has not only an economic dimension, but also important security and foreign policy ramifications. This is true not only for the US, but also for other participating countries — particularly some ASEAN members — which may see the agreement as a way to counter China’s assertiveness.

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countries and Australia, India and New Zealand. RCEP negotiations were formally launched in Phnom Penh, Cambodia in November 2012.

40 Quoted in Peter Drysdale, America’s pivot to Asia and Asian akrasia (26 November 2012)
41 Bloomberg, Obama Heads to Asia as Clinton Touts Region’s Importance (17 November 2012)
42 Jagdish Bhagwati, America’s Threat to Trans-Pacific Trade (30 December 2011), Shiro Armstrong, Australia and the Future of the Trans-Pacific Partnership Agreement, EABER Working Paper Series no. 71 (December 2011)
44 Ding Gang quoted in Guoyou Song and Wen Jin Yuan, China’s Free Trade Agreement Strategies, Survival 35 (4) (Fall 2012)
45 Donald K. Emmerson, Challenging ASEAN: the American pivot in Southeast Asia (13 January 2013); for a more detailed discussion on security elements of US FTAs see Steven C. Denney and Brian D. Gleason, The Political Economy of Trade Policy in the KORUS FTA (31 May 2012)
5. Potential gains

Potential gains of the TPP are significant, although they also depend on the actual number of countries that ultimately participate. Three alternative scenarios can be imagined: 'TPP11', which includes only the current negotiating countries; 'TPP13', which includes the current negotiating countries as well as Japan and South Korea; and 'TPP16', which consists of TPP13 and Indonesia, Philippines and Thailand.

As Figure 5 and Figure 6 show, the benefits of the TPP are positively correlated to the number of participating countries. The net benefit to the US is estimated at USD 23.9 billion (0.1 % GDP) under the current TPP11 scenario, USD 77.5 billion (0.4 %) under TPP13 and USD 108.2 billion under TPP16 (0.5 %). The overall economic benefit of the TPP for the US is therefore relatively modest. Part of the projected benefits would be driven by exports: USD 54.8 billion (1.9 % growth over the baseline) under TPP11, USD 124.2 billion (4.4 % growth) billion under TPP13 and USD 190.5 billion (6.8 % growth) under TPP16. These gains would mainly come from advanced sectors, such as business and financial services, as well as food and agriculture. Manufacturing exports would also increase, but so would manufacturing imports, which would offset this growth. Investment provisions in this estimate provide one third of US gains. Outward foreign direct investment (FDI) stocks would increase by USD 169 billion (1.9 % growth) and inward FDI stocks by USD 47 billion (1 % growth). The

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46 Based on Peter A. Petri, Michael G. Plummer and Fan Zhai, *Note on Alternative TPP-Track Simulations* (20 November 2012); includes both trade and FDI effects

benefits are estimated to rise gradually — by one tenth of those accrued by 2025 in 2015 and by one half in 2020\textsuperscript{48}.

\textbf{Figure 6 - Export gains from alternative TPP tracks (2025)}\textsuperscript{49}

Japan, if it decides to join the TPP, is projected to gain the greatest total benefit from the TPP: USD 199.4 billion in income (2.2 \% growth) and USD 175.7 billion in exports (14 \% growth) under TPP13 and USD 128.8 billion (2.4 \% growth) and USD 202.5 billion (16.2 \% growth) under TPP16. The FDI that would enter the country following the liberalisation of Japan’s services would provide a sizeable portion of Japan’s income gains\textsuperscript{50}.

The simulation suggests that Vietnam would be the greatest relative benefactor of the TPP: USD 26.2 billion (7.7 \% growth) in income gains and USD 47.2 billion (19.8 \% growth) in export gains under TPP11; USD 46.1 billion (13.6 \% growth); USD 89.1 billion (37.3 \% growth) under TPP13; USD 48.7 billion (14.3 \% growth) and USD 92.1 billion (38.6 \%) under TPP16. Vietnam would become an important hub for textile, garment and other industries.

The simulation concludes that the TPP would be ‘incentive consistent’, as expanding its size would benefit ‘every existing and new member country at every stage’\textsuperscript{51}.

\textsuperscript{48} Ibid.
\textsuperscript{49} Based on Peter A. Petri, Michael G. Plummer and Fan Zhai, \textit{Note on Alternative TPP-Track Simulations} (20 November 2012)
\textsuperscript{50} Ibid.
\textsuperscript{51} Ibid.
6. Obstacles

6.1. Provisions: The 'one-size-fits-all' approach

One of the key US expectations for the TPP negotiations has been that the agreement would produce a domino effect, creating sufficient incentives for non-participating countries to join. This would lead to a more significant strategic and economic agreement, which would, in turn, attract even more non-participating countries. However, the architecture of the agreement — which applies its provisions to all participating countries equally and which may include the US-advocated 'platinum' (highest possible) standards — has put the appeal of the current version of TPP into question.

Figure 7 - Average scores of US and ASEAN FTA provisions on major issues

As Figure 7 suggests, the differences between average US and ASEAN FTA provisions are rather stark in a number of areas, especially in e-commerce, SOEs, government procurement, services, competition, IP and labour. Significant differences also exist in non-tariff measures, agriculture, customs, trade remedies and environment. It should be noted that, with the TPP, the US is trying to go beyond the standards of its current FTA

The US push for ‘platinum standards’ poses a serious harm for a successful outcome of the negotiating process.

agreements, which are represented in Figure 7 (most notably in IP).

If Washington succeeds in making the TPP into what it considers a '21st century agreement', it is likely that the substantial gap that already exists between US and ASEAN FTAs would widen. Several emerging economies taking part in the negotiating process have already expressed their dissatisfaction with certain provisions — for example, Vietnam with new trade rules for SOEs, and Malaysia with government procurement. One analyst remarked that numerous '21st century provisions' would not only be difficult to accept by emerging economies but also quite punitive in their overall effect. On the other hand, the simulation described above suggests that Vietnam and Malaysia would accrue the greatest relative benefits from joining the TPP.

Australia and New Zealand have also expressed reservations about US demands on the investor-state dispute resolutions chapter. Australia previously resisted this in the US-Australia FTA, and the issue became a contentious one for trade unions and other advocacy groups there and in New Zealand. With the exception of the US, both developing and developed economies are united in their opposition to stringent IP provisions. New Zealand argued that overly strong protection — beyond the provisions already included in the WTO’s Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) — would impede innovation in developed countries and economic development in developing TPP countries. Negotiators from Chile reportedly questioned whether joining the TPP would be worth its costs if it included additional demands on intellectual property.

It remains to be seen whether the US and other TPP countries can reconcile their positions on a number of key provisions of the agreement, and whether these would be deemed acceptable by other significant countries in the region that have yet to join the TPP, such as Japan or Indonesia.

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57 Ibid.
58 Bernard K. Gordon, Trading Up in Asia: Why the United States Needs the Trans-Pacific Partnership, Foreign Affairs 91 (4) (July/August 2012)
6.2. Existing FTAs: Disentangling or maintaining the 'noodle bowl'?

As Figure 8 demonstrates, the current TPP negotiating countries (and Japan) share a dense web of FTAs. The effect of this web is two-fold. Firstly, it puts the negotiating parties under pressure to find new sources of trade gains from the agreement and dismantle the remaining barriers, which are hard to negotiate. Secondly, the existing FTAs affect the TPP’s architecture. One of the key questions at the earlier stages of TPP negotiations was whether the TPP would replace these existing bilateral trade agreements. Australia, New Zealand and Singapore pressed for a comprehensive regional agreement, which would supersede these FTAs, arguing that this approach would reduce or eliminate the 'noodle bowl' problem. The US, on the other hand, preferred to maintain its current FTAs while negotiating new FTAs with the remaining negotiating countries and including them into the TPP. This is seen as a both defensive and offensive move by the US — defensive, because it enables the US to maintain the exceptions, phased tariff reductions and product-specific ROOs it negotiated in the past, and offensive, because such an approach would prevent WTO-plus provisions from whittling away from TPP negotiations. This issue was reportedly settled in favour of the US in the second round of TPP negotiations in 2010.

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59 Patrick Messerlin, The TPP and the EU policy in East Asia (China Mainland excluded) (May 2012)
60 Ibid.
62 Ibid.
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A second, related issue, concerns tariff schedules. Australia, New Zealand and Singapore want a single tariff schedule, while the US — unwilling to re-open the issue of existing market access commitments — wants different tariff schedules for different members\(^{64}\). This issue has yet to be resolved.

The architecture of the TPP matters. If the aim of multilateralisation is to simplify trade relations between negotiating countries, the TPP may not considered a success\(^{65}\). More importantly, the fact that existing FTAs will remain in place means that there will not be equal treatment between those countries that already have FTAs and those that do not. This will almost certainly lead to the creation of double standards and discourage new members from joining the TPP.

In sum, it remains to be seen whether the US and other TPP countries can reconcile their positions on a number of key provisions of the agreement and whether these — as well as the agreement’s architecture — will be acceptable to those countries in the region that have yet to join the TPP, such as Japan or Indonesia.

7. The TPP and the European Union

7.1. EU trade strategy

FTAs featured prominently in the EU’s 2010 *Trade, Growth and World Affairs* communication, which covers the external aspects of the EU2020 trade strategy. The primary economic criteria for identifying new FTA partners included in the communication are market potential (economic size and growth) and the existing level of protection against EU export interests (tariff and non-tariff barriers). New FTAs were to be 'comprehensive and ambitious in coverage', addressing a broad range of issues such as investment, liberalisation of services, removal of non-tariff barriers, simple and modern ROO provisions and sustainable development.

The EU has currently 29 FTAs in force, 10 under negotiation and 8 that have been completed but have yet to enter into force\(^{66}\). As far as Asia is concerned, the EU-Korea FTA entered into force on 1 July 2011, but EU-ASEAN FTA negotiations collapsed in 2009. This prompted the Commission to follow a more scattered approach by focusing on bilateral negotiations.

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\(^{64}\) Ibid.

\(^{65}\) Ibid.

\(^{66}\) European Commission, *The EU’s free trade agreements – where are we?* (30 November 2012)

\(^{67}\) European Commission, *Overview of FTA and other trade negotiations* (14 January 2013)

\(^{68}\) Reuters, *EU to launch free trade negotiations with Japan: EU officials* (29 November 2012); European Commission, *Overview of FTA and other trade negotiations* (14 January 2013)
EU-ASEAN FTA negotiations offer an interesting comparison with the TPP. The scattered approaches the EU has adopted in its trade negotiations have its advantages but requires both time and resources, which it may not have in great abundance.

EU-ASEAN FTA negotiations offer an interesting comparison with the US-led TPP initiative. Both the EU and ASEAN had a clear economic interest in concluding the FTA as well as a proven past record in concluding FTAs (for ASEAN, for example, FTAs were in place with Japan, China and South Korea). Analysts generally identify two main reasons for the failure of the EU-ASEAN FTA negotiations — one political and one economic. The political reason centred on the EU’s unwillingness to include Cambodia, Laos and Burma/Myanmar in the FTA, arguing that their level of economic development — and, in the case of Burma/Myanmar, the human rights record — failed to justify their participation. ASEAN, however, refused to compromise on regional solidarity. The economic reason stemmed from the great diversity in ASEAN countries’ trade policies, caused by their differing levels of development and trade dependency. These complexities prevented the EU from negotiating a comprehensive FTA and led the Union to pursue bilateral approach instead.

Unlike the EU, the US is not attempting to conclude a deal with ASEAN as a whole; the current ASEAN TPP negotiating countries include Brunei, Malaysia, Singapore and Vietnam. Thailand expressed its interest to join in November 2012 (supporting those who believed the negotiations would have a domino effect). Two notable absentees include Indonesia and the Philippines.

To sum up, the EU initially sought to negotiate with a block of Asian countries but was later forced to follow a more scattered approach. The US has instead decided to focus on a handful of countries willing to engage in trade negotiations, in the hope that they will eventually form a much wider block.

Concluding FTAs with emerging Asian economies features prominently on the list of EU trade policy priorities. However, the EU seems to be at a disadvantage vis-à-vis the US: according to one analyst, the EU has only opened negotiations with countries whose combined GDP is less than 15% of that of the TPP candidates. The omission of Australia and, until very recently, of Japan in the EU’s trade negotiations is notable. Yet the scattered approach the EU has adopted in its trade negotiations with third countries has its advantages. The EU should be able to work towards the goals of Trade, Growth and World Affairs and €U2020 on its own terms.

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69 Xuan Luc Doan, Opportunities and Challenges in EU-ASEAN Trade Relations (02 July 2012)
70 Hosuk Lee-Makiyama, Upholding Europe’s mandate on trade (November 2012)
while avoiding the pitfalls of negotiating with a block of countries as diverse as those of ASEAN. It is clear, however, that this approach will require both time and resources, which the EU may not have in great abundance, and may negatively affect its goal of concluding bilateral FTAs.

7.2. The impact of the TPP on the EU

The impact of the TPP on the EU is a matter of speculation, like the potential benefits of the TPP to its members or even the feasibility of the agreement itself. The matter could be approached from two different angles: by looking at the EU’s established trade patterns or by examining the possible trade generation and diversion effects caused by the TPP.

Figure 9 – EU trade with Asian ASEM countries (2009-2011)\(^7\)

‘Developing Asia’ remains a hotbed of growth and thus an important export destination. According to the IMF, the region’s economy grew by 8% in 2011, slowed to 6.6% in 2012 and is expected to reach 7.1% in 2013\(^7\). As Figure 9 illustrates, EU exports to Asian ASEM swiftly recovered from the 2009 downturn, increasing in merely two years from EUR 221 billion in 2009 to EUR 330.7 billion in 2011. Imports grew from EUR 400.3 billion in 2009 to EUR 532.9 billion in 2011. The most recent statistics reveal that demand in the EU has stagnated as a result of the current economic crisis; imports from Asian ASEM countries decreased from EUR 497.8 billion in the year up to November 2011 and to EUR 494.1 billion in

\(^7\) Eurostat data from European Commission, ASEM - Trade Statistics (21 March 2012); Asian ASEM Countries consist of Brunei, Cambodia, China, India, Indonesia, Japan, South Korea, Laos, Malaysia, Mongolia, Myanmar, Pakistan, Philippines, Singapore, Thailand and Vietnam.

\(^7\) IMF, World Economic Outlook Update (23 January 2013)
the year up to November 2012. EU exports grew within the same period from EUR 301.3 billion to EUR 331.7 billion. Asian ASEM countries are export-dependent, and the current euro crisis, coupled with the projected negative economic outlook of the euro area for 2013 (-0.2 % GDP growth) and set against the positive economic outlook of the US (2.0 % growth), might increase the relative importance of the US market for these countries, at least in the short run.

The EU’s outlook is slightly more positive in case of TPP countries, where EU imports increased slightly, from EUR 81.7 billion (EUR 145.5 billion including Japan) in the year up to November 2011 to EUR 87.9 billion (EUR 147.6 billion) in the year up to November 2012. EU exports increased within the same time frame from EUR 83.1 billion (EUR 127.9 billion including Japan) to EUR 95.2 billion (EUR 146.6 billion). The countries currently negotiating the TPP (including Thailand) were responsible for 27.1 % of the EU’s 2011 exports. As Figure 10 suggests, this figure would grow by an additional 3.2 percentage points, to 30.3 %, if Japan decided to join the negotiations.

In theory, the impact of the TPP would be two-fold: generating trade among its members as a result of the removal of tariff and non-tariff barriers and diverting trade from non-TPP countries to TPP countries. The level of trade diversion would depend on three key factors — namely, the initial protection of the TPP member states; the success of the TPP in implementing a ‘deep’ liberalisation by removing many tariff and non-

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73 Eurostat
74 IMF, World Economic Outlook Update (23 January 2013)
75 Eurostat
76 Author’s calculations based on Eurostat data
The Trans-Pacific Partnership and its impact on EU trade
tariff barriers; and the long-term competition dynamics that common
rules adopted by TPP countries would create within their markets.\(^77\)

The extent to which the TPP can generate deep liberalisation will also
matter for the EU. Lowered tariff barriers among TPP members seem likely
to divert their trade away from the EU: yet this diversion could be
stemmed if the EU concluded FTAs with those countries. If the TPP led to
the adoption of common — and quite stringent — norms in a broad
range of sectors, however, this would pose a more significant challenge
for non-TPP trade partners, including the EU.

\[\text{Figure 11 – Effects on EU GDP}
\]
\[\text{(% from FTAs and RTAs in}
\]
\[\text{Asia-Pacific}^{78}\]

Japan’s decision to join the
TPP would have a major
impact on EU trade but
could be countered by
concluding a Japan-EU FTA

The simulation outlined in Figure 11 suggests that the potential effect
of the TPP on the EU GDP could be as much as -0.14\% — i.e. higher than that
of RCEP (-0.12\%) or the trilateral China-Japan-South Korea (CJK) FTA (-
0.09\%). Several authors suggest that the greatest possible threat to trade
and market access that the TPP poses for the EU would come from Japan
— were it to join the TPP — as it ‘represents the biggest risk of
discriminatory impacts linked to East Asian TPP countries’ and would be
the greatest net benefiter.\(^79\) A Japan-EU FTA therefore regularly tops the
list of suggested measures that would enable the EU to mitigate the risk of
diversion posed by the TPP. A Japan-EU FTA is also projected to
increase the Union’s GDP by 0.12\%.

The conclusion of the transatlantic FTA with the US, recently announced
on both sides of the Atlantic, is another possible means of mitigating the
‘dangers’ of the TPP. For the EU, it may be important to advance
negotiations on this agreement before those of the TPP progress, as this
would allow the EU to set the agenda rather than ‘take it or leave it’.\(^80\)

\(^77\) Patrick Messerlin, *The TPP and the EU policy in East Asia (China Mainland
excluded)* (May 2012)
\(^78\) Hosuk Lee-Makiyama, *Upholding Europe’s mandate on trade* (November 2012)
\(^79\) Patrick Messerlin, *The TPP and the EU policy in East Asia (China Mainland
excluded)* (May 2012), Hosuk Lee-Makiyama, *Upholding Europe’s mandate on
trade* (November 2012), Peter A. Petri, Michael G. Plummer and Fan Zhai, *Note on
Alternative TPP-Track Simulations* (20 November 2012)
\(^80\) Hosuk Lee-Makiyama, *Upholding Europe’s mandate on trade* (November 2012)
Negotiating FTAs with non-TPP countries would also be advantageous for the EU. A prime candidate is India, with which FTA negotiations are currently underway. India is considered a particularly desirable partner given its projected future growth and its lack of a similar agreement with the US\textsuperscript{81}. Taiwan has also been identified as a possible candidate for an EU FTA, thanks to the activities of its companies in mainland China\textsuperscript{82}. Yet Taiwan remains a politically sensitive option.

8. Conclusion

The TPP is an ambitious initiative with major importance to US trade and foreign policy. The ambition of the TPP and its importance to US trade and foreign policy are hard to deny. The TPP presents a singular opportunity to facilitate US trade relations with a number of countries from the Asia-Pacific region and to create a ‘21\textsuperscript{st} century agreement’ with ‘platinum-standard’ provisions that will benefit US businesses and likely provide a much-desired boost to US exports. The agreement’s significance for US foreign policy in the region stems from Washington’s desire to counter China’s growing influence in the region and to forge closer links with countries that may feel threatened by the rise of Beijing.

The TPP gives rise to many different questions. Some of these concern the agreement’s likelihood, since many negotiating countries have expressed their disagreement with a number of provisions championed by the US. The secretive nature of the negotiating process only adds to the uncertainty of whether and how the US will be able to reconcile these differences. Other questions centre on the TPP membership, as major regional economies, including Japan, Indonesia and the Philippines, have yet to decide to join the talks.

The impact of the TPP on the EU is equally hard to predict. Simulations suggest that trade diversion caused by the TPP would damage EU trade. Again, however, much depends on the scope of the agreement and the number of participating countries, with Japan's position being of major importance. Regardless of the outcome of TPP negotiations the EU should strive to achieve the goals outlined in Trade, Growth and World Affairs and EU2020 trade strategies. Concluding further FTAs with dynamic economies from the Asia-Pacific region should remain the top priority of the EU’s trade policy, particularly given that the potential for EU exports in many of these rapidly growing markets remains unfulfilled.

\textsuperscript{81} Gauri Khanekar, EU-Asia trade: in need of a strategy (January 2013)
\textsuperscript{82} Patrick Messerlin, The TPP and the EU policy in East Asia (China Mainland excluded) (May 2012)