

Trans-Pacific Partnership:

An Assessment

Cathleen Cimon-Isaacs and Jeffrey J. Schott (editors), Peterson Institute for International Economics, 2016, ISBN: 978-0-88132-713-7

In February 2016, the Trans-Pacific Partnership (TPP) agreement was signed by the United States and 11 other countries around the Pacific Rim. As the first mega-regional agreement involving the United States signed in two decades, its economic and social impacts have been under serious discussion among economists.

The book *Trans-Pacific Partnership: An Assessment*, edited by Cimon-Isaacs and Jeffrey J. Schott, explains TPP rules and assesses their effects on member countries. According to them, TPP not only significantly reduces tariffs and non-tariff barriers, but also comprehensively covers other issues such as environment and labour treatment. It also breaks new grounds in regulations of state-owned enterprises (SOEs) and e-commerce.

The 20 chapters discuss the 20 different aspects of the TPP. In this review, they are classified into three main sections: economic estimation, standards and competition issues, and legal enforceability.

Economic estimation

Peter A. Petri and Michael G. Plummer develop a CGE model to estimate TPP's long-term economic impacts (Chapter 1). They find that by 2030, TPP increases annual real income by \$492 billion for the world and \$131 billion for the United States, boosting its annual exports by 9.1 per cent over baseline and creating 796 thousand domestic jobs in exporting activities. This estimate is higher than most similar studies reviewed by Gilbert and others (2016), which fall in between \$50-150 billion of annual income increase for the world. It is also higher than their simulation of \$14-40 billion for the world, and the differences, according to Gilbert et al., (2016), may result from a variety of reasons; one of them is that Petri and Plummer use a dynamic model under imperfect competition. However, as many economic benefits cannot be captured by a CGE model, Gilbert and others, believe even this high estimate still underestimates TPP's long term impact.

TPP will also cause structural change by reallocating labour and capital to more efficient industries. Countries are expected to specialize in goods they have comparative advantage in, and thus reach overall higher productivity. For example, the United States is modelled to rely on more traded services, advanced manufacturing and e-commerce. We will likely find more American financial products, American cars, and American movies in the markets of other TPP members. Moreover, the removal of

trade barriers in these sectors, such as prohibiting digital goods duties and ensuring cross-border data flows, will further benefit American exporters (Chapters 1, 8 and 17).

As these sectors are intensive in skilled labour, increased demand will likely raise average wages in the United States. In addition, expanded inward and outward FDI followed by TPP-driven structural adjustment will create more jobs and raise wages further. While inward FDI increases capital injection and technology spillover from foreign companies into the United States, outward FDI most likely will increase American firms' global market share. Both developments are expected to cause foreign and American companies to hire more and pay more (Chapter 10).

However, labour market adjustment will also bring unemployment and transition costs. Robert Z. Lawrence and Tyler Moran, in Chapter 2, conclude that the benefits will largely outweigh adjustment costs. In all three scenarios they analyze, the benefit-cost ratio will be between 2.9 and 17.7 from 2017 to 2026, and between 36.0 to 356.5 from 2027 to 2030. However, the United States should enhance a policy to compensate displaced workers, through initiatives such as expanded Trade Adjustment Assistance and wage loss insurance.

Standards and competition issues

TPP made new progress in several aspects with respect to the environment and trade. Jeffrey J. Schott refers to TPP as "the greenest trade accord ever negotiated" (Chapter 14). TPP limits fishing subsidies and illegal wildlife trade, while obligating members to enforce

multilateral environmental agreements signed before TPP.

To protect workers in all TPP members, and to prevent countries from competing through poor labour standards, the TPP obligates members to establish "acceptable working conditions" including minimum wage, working hours and health/safety regulations (Chapter 15). As part of the agreement, the United States also establishes bilateral labour plans with developing countries (including Brunei Darussalam, Malaysia and Viet Nam) to help them set up legal reforms.

In addition, the TPP forces members to reduce the unfair advantages currently in place for SOEs, by prohibiting discriminations and subsidies that adversely affect other firms. The TPP also requires transparency in the SOE sector. Specifically, every member must provide a public list of all SOEs and subsidies they receive (Chapter 19).

However, some crucial issues still lack regulation coverage. For example, no deal is reached regarding global warming and lower emissions. No specific baseline is set for the minimum wage, working hours, or health standards because of development variation in member countries. Also, a large number of sub-central level SOEs are exempt from TPP obligations, where sub-central SOEs are those owned by provinces and municipalities (Chapter 14, 15 and 19).

Legal enforceability

TPP ensures its enforceability through its dispute settlement mechanism (Chapters 11 and 12). This government-to-government

mechanism was set to ensure member's commitment to the TPP, through imposing various forms of retaliation and monetary compensation. Regulations mentioned above, including the environment, labour and SOE disciplines, are all under the protection of the new TPP dispute settlement system.

The TPP has a negative list approach for many regulations, such as those in the traded service sector, and investment rules. "Negative list" implies that new products and services, except specifically noted ones, will be generally covered. Thus, this approach will most likely expand liberalization in the future.

Controversial issues covered in the book

The Nobel-winning economist, Joseph Stiglitz, reportedly opposes TPP because "big corporations made the rules of trade, instead of American people or democratic societies" (Democracynow.org, 2015). He calls TPP a place where "big corporations protect themselves", an agreement that only "benefits a few and leaves a lot behind" (Long, 2016).

Admittedly, TPP cuts the non-tariff barriers, sets time limits on border transit to eliminate delays (Chapter 16), and significantly reduces tariffs between members ("Upon the implementation of the TPP, nearly three quarters of non-zero tariffs will be removed, and in the long run 99 percent of goods trade will be liberalized", (Chapter 3). However, liberalization has met great difficulty in a limited number of sensitive and specially protected sectors, such as agriculture, autos, and apparel.

Tariffs on these sensitive sectors in advanced economies (the United States, Japan and Canada) have long elimination periods—

over a decade. Furthermore, little progress has been made in liberalizing sectors such as Japanese rice, American sugar and Canadian dairy. Moreover, in the auto sector, the TPP establishes Regional Content Requirements, the value share of finished autos produced by TPP members. This Regional Content Requirement is a sign of large producers defending their domestic markets against foreign penetration, a contrast to small member countries that open up immediately (Chapters 4 and 5).

A more concerning example of trade protectionism is the Rules of Origin in the apparel sector. Rules of Origin require apparel exporters, such as Viet Nam, to import its fabric inputs from TPP member countries (such as the United States) to benefit from tariff reduction. Expensive inputs from the United States instead of cheap sources from China and Thailand will certainly increase the production cost of Vietnamese apparel, and this increase may topple the benefit of the tariff cut (Chapter 6).

Rules of Origin create trade diversion; in this case, Viet Nam shifts its input purchasing from non-members such as China and Thailand to member countries. These developing non-members (China, Thailand, Bangladesh and Cambodia) suffer even more when large importers (such as the United States) shift most of the apparel and low-end imports to member countries (Viet Nam, Brunei Darussalam and Malaysia) because of lowered tariffs.

Empirical studies give the same result as the book suggests. Gilbert and others (2016) find that non-members will suffer from economic loss once the TPP is enforced. Their suggestion is a possible expansion of membership. Membership of Republic of Korea and

China in the agreement would immensely increase the economic benefit of TPP to the world. Several other scholars from non-member developing countries have measured these possible negative effects. For example, Rahman and Ara (2015) predicted that TPP could cause significant loss for excluded South Asian countries; Lu (2015) concluded that trade diversion under the TPP could severely hurt China's textile and apparel export.

Hence, we come to the discussion covered in the Overview and Chapter 19, the potential entry of China. China joining the TPP, though economically attractive, has met some political and social difficulties. The Chinese government sets up its own discriminatory technology standards (which TPP bans) to favour domestic products. China is also differentiated in terms of labour treatment, market openness and SOE standards. The huge number of SOEs (especially sub-central ones), together with associated unfair advantage and low transparency, have become major hurdles to China's entry into TPP.

These problems that exist for China also exist for some TPP current members. Chapter 16 raises the question whether TPP standards are too high for its developing members. Such discipline of SOEs, protection of intellectual property, criteria for labour treatment, and anti-corruption of customs, may be unachievable (or even not appropriate at their level of development) for low-income countries such as Viet Nam, Brunei Darussalam and Malaysia. Enforcement may cost economic growth and thus, may result in countries' lower commitment to TPP.

To address this problem, Caroline Freund in Chapter 16, suggests "what the European

Commission calls 'aid for trade.'" She thinks the agreement can be made more "development-enhancing" if the United States can offer grants or technology assistance to low-income countries in these areas mentioned.

In conclusion, *Trans-Pacific Partnership: An Assessment* is a thorough overview of what truly happens under TPP. It assesses TPP's impact comprehensively, and demonstrates to us the economic benefit and social progress TPP brings to both member and non-member countries. Potential expansion and topics such as displaced workers' compensation, country-level trade capacity aid, special protected sectors, contentious issues of GMOs, and lower emissions, have been postponed for future discussion.

Issues not covered in the book

Despite offering a thorough overview, the book has not deeply examined several key aspects of the TPP. One of these topics is the United States' leadership in the Asian-Pacific region and its strategic interest in ratifying the TPP (Noland, 2016). According to Noland, TPP plays a crucial role in keeping "US trade system" (US-style trade regulations) and deterring China from leading policymaking in the Asian-Pacific area. Douglas Irwin also calls TPP "an opportunity to shape the rules of international trade" for the United States (Irwin, 2016). However, this possible political benefit for the US, which is a major motivation for the country to sign the TPP in the first place, has not been well assessed by current literature.

Another topic worth future discussion is assessment of TPP through the lenses of development, particularly Goal 17 of the Sustain-

able Development Goals. From the above discussion, especially taking into account possible trade diversion and distributional impacts, development concern is not negligible when assessing the TPP. The TPP includes a chapter on Development (TPP Agreement Chapter 23) and also on Cooperation and capacity building (TPP Agreement Chapter 21), but its potential developmental impacts on both members and non-members arise from the provisions in all chapters. While analysts at present agree that direct trade-loss for the non-members might not amount to too much (e.g. IMF, 2016), there is also an issue of how far the TPP goes in support of both the spirit of the WTO/ GATT rules, including on RTAs, and the commitments under the Sustainable Development Goal 17, specifically the identified targets under trade (17.10, 17.11 and 17.12)¹. The bottom line – the TPP analysts need to ask one more question: is the TPP making the world a more equitable place?

¹ These targets are: 17.10 - Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda. 17.11 - Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020. 17.12 - Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access.

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