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# The Trans-Pacific Partnership: Setting the Standard and Raising the Bar

By Laura Dawson and Kent Hughes

## **SUMMARY**

The Trans-Pacific Partnership (TPP) provides new market access in traditional trading areas, generates greater certainty for U.S. exporters to emerging markets, and builds competitiveness in the innovation economy. Although the TPP is far from perfect, it will help U.S. businesses compete and prosper in new markets and will consolidate U.S. rebalancing to Asia. These gains will all depend on whether the agreement is ratified by the United States through approval by Congress and by other countries through their own procedures.

## **The rebalance to Asia**

The geopolitical implications of the TPP far outweigh the importance of its advances in global trade rules and even the economic opportunity expected from the more open markets it promotes. In pursuing the negotiations, President Barack Obama stressed the importance of rebalancing U.S. geopolitical and economic interests toward the Asia-Pacific region. By finalizing the TPP, the United States makes clear its commitment to its Asian allies.

## **Market openings**

The TPP countries—Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam—possess 40 percent of global gross domestic product and conduct 26 percent of world trade. Under the TPP, tariff-free trade will begin immediately for some products and be introduced gradually over several years for more protected products, such as U.S. light trucks. TPP countries are expected to receive increased private sector investment from outside as future market opportunities in the Asia-Pacific region become clear.

## **What about manufacturing?**

Conventional assembly-type manufacturing should benefit from new market opportunities, but advanced economies will face competition from emerging economies with lower wage scales. Technology-intensive advanced manufacturing, such as telecommunications and aerospace, offers the strongest advantages for the United States.

## **What are the new trade advantages?**

The TPP sets the twenty-first-century standard for international trade in goods, services, ideas, and investment. It updates U.S. arrangements with Canada and Mexico, perhaps reshaping NAFTA. It also brings Japan inside a major regional trading bloc and strengthens the rule of law for economies entering the trading system, such as Vietnam.

The TPP also provides new rules for sectors where weak or nonexistent commercial norms create uncertainty for exporters and investors. Other rules will prevent some kinds of governmental blocking of international data flows. Strengthened intellectual property rights will also increase return on investment for innovators, promote research and development, and attract venture capital from outside the region.

Negotiators report that the TPP is the most environment-friendly trade agreement ever and adds formal dispute settlement provisions. Reports also suggest that labor rights will expand significantly in Vietnam.

By far, the TPP's most important and innovative trade contributions are measures to level the playing field for private companies competing with state-owned enterprises. Within the TPP bloc, Vietnam, Malaysia, and Singapore will be most affected, but the TPP is likely to set a global benchmark in other emerging economies, including China.

### **Was the TPP designed to contain China?**

The Obama administration and the other eleven TPP countries deny that containing China is behind the agreement. Other countries, including China, are free to join the TPP. Although China initially expressed concern about the TPP, it has since become an active observer, and many experts think that China will seek membership someday. Meanwhile, China has led a set of negotiations called the Regional Comprehensive Economic Partnership—with membership overlapping with the TPP—that have adopted many TPP provisions.

### **Is there room for improvement?**

Trade agreements are constantly evolving. New rules are introduced in one agreement and progressively improved upon in others. The TPP negotiations marked one of the first serious attempts to curb the trade-distorting impacts of currency manipulation, a key priority for the U.S. Congress. The TPP itself, however, does not include any currency-related provision except for a voluntary side agreement. Real progress on this issue will require prolonged and serious efforts from many sides.

### **The road ahead**

Many TPP countries will face domestic opposition to approving its provisions. U.S. negotiators accepted a shorter period than U.S. drug companies sought—shorter than in U.S. law—for protection of data that overseas companies might use to develop competing medicines. Mexico and Canada accepted lower thresholds and Japan accepted a significantly higher threshold than they sought for value added to autos and auto parts before high tariffs would be applied. Canada made modest concessions in dairy market protections and Australia and New Zealand accepted less market access for dairy exports. Tobacco companies lost some protection provided to other foreign investors.

Nevertheless, completing the TPP negotiations proves that the United States, its allies, and its trading partners can take big steps toward a more prosperous future despite political gridlock in the United States. Although the economic benefits of TPP trade will depend on the time required for implementation, the national security impacts and the demonstration of positive American leadership are immediate.

## Recommendations for Next Steps

- The TPP marks an important step in America's rebalance to Asia. The president and Congress need to emphasize both the economic and defense-related benefits of this rebalance, which of course depend on actual approval of the agreement.
- Building on first steps in the TPP, the United States must redouble its efforts to eliminate the use of undervalued currencies to gain trade advantage, leveraging existing resources available through international financial institutions (See [www.wilsoncenter.org/publication/how-the-international-monetary-fund-and-world-trade-organization-can-promote-fair-trade](http://www.wilsoncenter.org/publication/how-the-international-monetary-fund-and-world-trade-organization-can-promote-fair-trade)).
- Using the momentum of successful negotiations, it is time to open exploratory talks with other Asian-Pacific countries interested in joining the TPP, such as South Korea and the Philippines. Meanwhile, the president should move to broaden economic discussions with China and India, major economies that did not participate in the TPP negotiations.
- Every trade agreement has losers as well as winners. The TPP will be no exception. Policymakers must work with business leaders to promote innovative industries and advanced manufacturing enterprises while also developing adjustment policies for sectors that may be disadvantaged by new global competition.

**Laura Dawson** is director of the Canada Institute at the Wilson Center.

**Kent H. Hughes** is a public policy scholar at the Wilson Center and the author of *Building the Next American Century: The Past and Future of American Economic Competitiveness*.

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Woodrow Wilson International Center for Scholars  
One Woodrow Wilson Plaza  
1300 Pennsylvania Avenue NW  
Washington, DC 20004-3027

