

## I. INTRODUCTION

The TransPacific Partnership (TPP) is a regional trade agreement being negotiated between the U.S. and eight other Asia-Pacific economies. Currently, the negotiating countries are Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, and Vietnam, all of which are part of Asia-Pacific Economic Council (APEC). The members hope to have an agreement on the TPP framework at the next APEC meeting in Honolulu this coming November. The TPP's purpose is to create stronger economic integration, deepen common interests and ties, and to eventually expand to include other Asia-Pacific economies.

## II. ADVANTAGES

The TPP provides California, especially the Los Angeles region, greater opportunities for expanding trade and increasing global market access. California's economy is deeply connected to the economies of Asia-Pacific and many of the TPP members are key trading partners of the Los Angeles Customs District (Australia #6, Singapore #7, Vietnam #8, and Malaysia #10)<sup>1</sup>. In addition, the U.S. has free trade agreements (FTA) with four TPP members (Australia, Chile, Peru, and Singapore). Anticipating the TPP in your international business strategy will help your firm prepare for future opportunities in trade. It will give you insight on future market access that arises from lower trade barriers helping you to expand your business.

The TPP provides the U.S. with two key economic advantages. First, the agreement increases and enhances U.S. economic engagement in Asia-Pacific.<sup>2</sup> Intra-Asian trade pacts have increased in the past decade offsetting U.S. economic influence in the region and discriminating against American exports. Consequently, an Asian trading bloc is being created

---

<sup>1</sup> World City (2011). Los Angeles Trade Numbers

<sup>2</sup> Peterson Institute for International Economics. (2010, January 25). Submission to the USTR of a Trans-Pacific Partnership. Fred Bergsten and Jeffery Schott. Retrieved from [www.piie.com](http://www.piie.com)

that excludes the U.S. thus drawing a line down the Pacific. An East Asia Free Trade Area could cost the U.S. \$25 billion in annual exports.<sup>3</sup> In addition, East Asia tends to prefer economic integration within its region rather than through the World Trade Organization (WTO).<sup>4</sup> The U.S. must break this trend if it wishes to benefit from the rapid economic growth of Asia's emerging markets. U.S. exports in goods and services have slowed to Asia-Pacific in recent years due to loss of market share. USTR Ron Kirk announced the TPP can reverse "the significant decline in the U.S. share of key Asia-Pacific markets over the past decade"<sup>5</sup> due to rising Asian trade regional agreements. Second, the TPP would accomplish security objectives.<sup>6</sup> When the U.S. increases security engagements with other countries closer economic ties develop. This would also act as a balance against Chinese dominance in Asia-Pacific. Ultimately, the TPP lies in the U.S. interests because it would prevent a future exclusion of American goods, services, and investment in Asian markets.

### III. NEGOTIATIONS

The original TPP members were Brunei, Chile, New Zealand, and Singapore. The goal was to eliminate all tariffs between the countries by 2015.<sup>7</sup> The negotiations began in 2006 with the U.S. joining the talks in 2009. Five rounds of negotiations have been held. The first round included discussions on industrial goods, agriculture, telecommunications, financial services, customs, rules of origin, government procurement, environment, and trade capacity building.<sup>8</sup> The second round discussed common market access, schedules of existing FTAs, the

---

<sup>3</sup> Ibid

<sup>4</sup> Ibid

<sup>5</sup> Ibid

<sup>6</sup> Ibid

<sup>7</sup> Cato Institute. (March 15, 2010). Is the Trans-Pacific Partnership Worth the Fuss. Free Trade Bulletin No. 40. Sallie James. Washington, DC

<sup>8</sup> United States Congressional Research Service. (11/1/2010). The Trans-Pacific Partnership Agreement. Ian Fergusson and Bruce Vaughn. Washington, DC: U.S. Government Printing Office

relationships between current FTAs and TPP, and regulatory coherence.<sup>9</sup> The third round negotiated the topics from the first round plus textiles, IPR, investment, and technical barriers to trade.<sup>10</sup> Rounds four, five, and six continued the work on narrowing gaps in the issues from the first three. The participants hope to have a working framework created by November 2011.

The negotiators will have to build upon and incorporate the new texts from existing trade agreements among members. Inevitably, changes will have to be made to the FTAs to accommodate the TPP text. Associations will lobby hard to Congress and the USTR to prevent concessions, some of which will be unavoidable. Two options are available to address these overlaps in market-access: 1) aim for common market-access rules or 2) keep existing bilateral market-access schedules in place.<sup>11</sup> The U.S. supports option two for both offensive and defensive reasons. Defensively, the U.S. bilateral agreements have special carve outs for phased tariff reductions and product-specific rules-of-origin (ROO) that Washington does not want open for negotiations.<sup>12</sup> Offensively, these bilateral agreements contain WTO provisions, such as IPR, that the U.S. wants to preserve.<sup>13</sup>

#### IV. ISSUES

Reaching a consensus for the TPP will involve major concessions from the U.S. in sensitive areas such as agriculture, IPR, industrial and service sectors, ROO, and regulation.<sup>14</sup> Negotiators established groups to write chapters on the following trade issues: industrial goods, agriculture, sanitary and phytosanitary standards, telecommunications, financial services, ROO,

---

<sup>9</sup> Ibid

<sup>10</sup> Ibid

<sup>11</sup> American Enterprise Institute (June 2011). *The Trans-Pacific Partnership: A Model for Twenty-First-Century Trade Agreements?* (International Economic Outlook No. 2). Claude Barfield. Washington, DC

<sup>12</sup> Ibid

<sup>13</sup> Ibid

<sup>14</sup> Palmer, Doug. (May 17, 2011). U.S. to advance Pacific free trade as APEC host. (Reuters)

government procurement, environment, trade capacity, textiles, technical barriers to trade, investment, and IPR.<sup>15</sup>

Recent U.S. trade agreements have expanded to include provisions on labor and environmental issues. These are not merely exception clauses but obligations. However, developing countries are hesitant to agree to such provisions. Agreements now call for recognition of international labor standards. This reflects a growing trend in FTAs encompassing more than just economic and trade issues. What remains uncertain is how much the U.S. will press for labor and environmental provisions. Measures that are too stringent could derail negotiations.

IPR is a major interest for California businesses and TPP negotiations on this issue should be closely monitored. The state is a global leader in producing IP in many industries including “film, recording, fashion, pharmaceutical and high-tech industries.”<sup>16</sup> Due to weak IPR in many countries, most notably from Asia, California’s economy loses \$34 billion per year to counterfeiting and piracy.<sup>17</sup> IP intensive industries support 19 million workers and support more than 60% of U.S. global exports.<sup>18</sup> The current TPP framework has little devoted to the topic and only calls for members’ policies to be consistent with World Intellectual Property Organization standards.

The U.S. has always pushed for high IPR protection in its trade agreements, most recently in the South Korea FTA. In fact, Congressional leaders have written a letter to President Obama calling on him to build upon the KORUS standards and make no exception clauses in the

---

<sup>15</sup> American Enterprise Institute. The Trans-Pacific Partnership: A Model for Twenty-First-Century Trade Agreements?

<sup>16</sup> California Chamber of Commerce (2008). CalChamber Establishes A New Intellectual Property Rights Working Group. Retrieved 6/20/11 <http://www.calchamber.com/headlines/pages/01092008ts.aspx>

<sup>17</sup> Ibid

<sup>18</sup> Tsui, Amy. (May 18, 2011). Hatch, Cantwell, 26 Senators Write Obama urging Strongest IP Protection for TPP Talks (BNA)

TPP. The U.S. even seeks IPR protection that goes beyond the standards found in U.S. law.<sup>19</sup> This will require TPP member to go above and beyond the requirements found in the WTO Trade Related Aspects of Intellectual Property (TRIPS) agreement and the World Intellectual Property Organization's treaty. The U.S. has the most to gain of all the parties in having high IPR standards. Unfortunately, holding out for high IPR provisions may dissuade future potential members from joining.

The U.S. will have difficulty in getting others to agree to these high standards. For example, the USTR's office criticized Brunei for its high piracy rates and weak government track record on enforcement.<sup>20</sup> In addition, the U.S. Special 301 report in 2009 placed Chile, Peru, Vietnam, and Malaysia on its watch list of IPR protection.<sup>21</sup> Vietnam may give the most opposition to high IPR standards. In fact, New Zealand directly challenged the U.S. arguments for high IPR.<sup>22</sup> The U.S. is especially pushing for the "right to stop imported products that have allegedly violated a copyright holder's rights"<sup>23</sup> and strong patent extension on software, pharmaceuticals, and entertainment. The other TPP members have shorter patent extension periods and terms as well as well shorter copyright terms. Thus, the U.S. will either have to throw its weight around or make compromises on IPR.

Agriculture is always an issue of contention when writing trade agreements and the TPP is no exception. Arguments will be made over subsidies, quotas, and health regulations. Major U.S. agricultural groups, most notably sugar and dairy, are lobbying the USTR to maintain existing FTA market-access provisions. The U.S. beef and dairy industries would face more competition from Australia and New Zealand. In fact, U.S. dairy farmers demanded exclusion

---

<sup>19</sup> Congressional Research Service. (11/1/2010). The Trans-Pacific Partnership Agreement

<sup>20</sup> Ibid

<sup>21</sup> Ibid

<sup>22</sup> American Enterprise Institute. The Trans-Pacific Partnership: A Model for Twenty-First-Century Trade Agreements?

<sup>23</sup> Ibid

for dairy due to fear of strong competition from New Zealand, the world's largest dairy exporter, but the USTR rejected their request. There is potential for long-term agricultural gains but currently, as the TPP stands, there are minimal gains from trade as most participants are minor markets for U.S. farmers.<sup>24</sup> The agriculture industry will see bigger benefits as the TPP expands.

All TPP parties, except Brunei, have high levels of binding commitments on trade in services and investment. The Coalition of Service Industries is lobbying for the USTR to “include the right to establish and own 100% of any investment, choice of juridical form, full national treatment and elimination of non-prudential regulatory barriers.”<sup>25</sup> The U.S. is advocating “most-favored-nation treatment for investment, rules governing expropriation, free transfer of capital, no performance requirements, and special provisions for financial services.”<sup>26</sup> The U.S. wants the investment chapter to include a provision on resolving investor-state disputes. However, labor groups and the Green Party in Australia and New Zealand are opposed to such arbitration.

A special consideration in the TPP talks is Vietnam. The country's economy is the poorest and least-developed of the TPP participants but has strong economic growth, a growing income, and has a future need for high value-added imports.<sup>27</sup> Of all the other TPP members, the U.S. has the biggest potential for gains in trade with Vietnam. The country can be an important export market for California businesses. The country is the Los Angeles Custom District's eighth largest trade partner with 2010 exports valuing over \$1.5 billion and imports of \$5.9 billion.<sup>28</sup> Most of the goods exported lie in the agriculture industry. There will be controversies

---

<sup>24</sup> American Farm Bureau Federation. (March 11, 2009). Letter to USTR: Comments on Proposed Trans-Pacific Partnership Free Trade Agreement.

<sup>25</sup> TPP Digest. (2011) Services. Retrieved June 22, 2011. <http://tpdigest.org/>

<sup>26</sup> American Enterprise Institute. The Trans-Pacific Partnership: A Model for Twenty-First-Century Trade Agreements?

<sup>27</sup> Ibid

<sup>28</sup> Los Angeles Trade Numbers

in the negotiations in regards to Vietnam's state-owned enterprises (SOE). WTO accession required big changes to the country's economy and even more will be asked of Hanoi for the TPP. Provisions will impinge directly on the beleaguered state sector and Vietnam could hold the talks hostage.<sup>29</sup> Vietnam's SOEs will not be able to compete against TPP's private sector and thus some will have to be sacrificed. Some scholars believe Vietnam should abstain from TPP talks and join once it can make necessary progress in regards to SOEs. Overall, Vietnam provides the biggest trade incentives for the U.S. but intense diplomacy must be used in order for it to align itself with the TPP's goals and U.S. interests.

#### V. The Future of the TPP

The U.S. pay-off in joining TPP rests in expanding it to other major economies of Asia-Pacific. The TPP's non-FTA partners are not big markets for US exporters thus making potential gains minimal. Most of the TPP participants are medium and high income countries with the only outlier being Vietnam. However, TPP members only make up 5.3% of U.S. trade because the opportunities for trade are low given the economies' size. Therefore, major economic gains will only come when other Asian economies join the TPP in the future. Global macroeconomic activity is shifting to Asia as the region's share of world output will increase from 16% in 2010 to 33% in 2030.<sup>30</sup> As Asia's emerging markets join the TPP greater market-access becomes available to California businesses.

The ultimate goal of the TPP is for it to eventually transform into a FTA for Asia Pacific. The fact that the U.S. is a member may be the factor that gets other economies to join. Momentum is necessary to get other countries on board. Most likely, Japan, South Korea,

---

<sup>29</sup> Heritage Foundation. (May 23, 2011). Vietnam's State Sector Should Not Dictate the Trans-Pacific Partnership. Derek Scissors and Derek Lohman.

<sup>30</sup> Petri, Peter, Michael Plummer, and Fan Zhai. (October 20, 2010). TPP Assessment Study. Peterson Institute for International Economics.

Mexico, and Canada will join the talks in the near-future. However, Japan continues to defer its decision because of domestic issues at home, namely the March disaster. Extending the TPP to Japan, South Korea, Canada, and Mexico brings the US export market to 46% in the TPP.<sup>31</sup> There is disagreement among think tanks whether China should join or not. The economic advantages are great if the U.S. has complete market access to China's economy. However, part of the TPP's benefits to the U.S. is that it acts as a counterweight to Chinese influence in the region.

## VI. Conclusion

A successful TPP agreement would send a message to the U.S.' trading partners there is an alternative to Doha. It will also demonstrate that a high standard agreement can be met without abandoning key effective principles and provisions. California's cultural linkage to Asia Pacific gives it an advantage over the other 49 states. In addition, future expansion will provide greater opportunity for the state's core industries. California's innovation, talented workforce, and global connections give it an additional competitive advantage in the TPP.

---

<sup>31</sup> Peterson Institute for International Economics (October 25, 2011). Getting to the FTAAP via the TPP Turnpike. Jeffery Schott.