

November 8, 2011 2:42 pm

Trans-Pacific Partnership: Far-reaching agreement could form powerful new trade bloc

By David Pilling



TPPING point: the ruling Democratic party of Japan faces trouble over fears that signing up to the partnership would threaten the country's farming industry

Just what the global trading system needs: another acronym. The TPP, or Trans-Pacific Partnership to give it its full title, is a proposed trade agreement between, to put it politely, a disparate collection of nations.

The TPP is intended to build on an existing arrangement, the Trans-Pacific Strategic Economic Partnership, of which Singapore, Brunei, Chile and New Zealand are already members. But the new TPP has taken on a life of its own.

Spearheaded by the US, other countries to show early interest in joining the founding members are Australia, Malaysia, Peru and Vietnam. Japan is also agonising over whether to throw its lot in with the grouping, though, predictably, the proposal has antagonised its farmers.

On the face of it, the countries involved in negotiations, which recently concluded their ninth round in Lima, are a motley crew. In addition to the world's largest economy, they include two smallish Andean nations, two developed economies in Australasia, a rich city state, a small oil-rich kingdom and a poor communist country. China is notable by its absence.

Yet, at least in theory, the nine negotiating partners are all committed to signing what has been called a "state-of-the-art" trade agreement that would go further than existing arrangements. The idea is for the TPP to be a structure on to which other nations, including possibly South Korea, and eventually even China, could be bolted.

Ronald Kirk, the US trade representative, launched the initiative domestically in late 2009, saying the putative deal "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 agreements are shared by all Americans".

This is not, in other words, intended to be just another deal that is good for multinational companies but of uncertain benefit to US workers.

Last month, Thomas Donohue, chief executive of the US chamber of commerce, fleshed out his own vision, saying: "This must be an agreement with high standards. These standards will set the bar on regulatory coherence, investment and intellectual property."

Simon Tay, chairman of the Singapore Institute of International Affairs, says talk of the agreement has energised the wider Asia-Pacific Economic Co-operation group (Apec), which meets in Hawaii this week.

The nine governments are discussing "deep commitments that go beyond tariff reduction and pass existing World Trade Organization standards".

So what is so special about the TPP? Iwan Azis, head of the Asian Development Bank's regional integration office, says the agreement is intended to deal with what he calls "behind the border" issues. These include areas of what could be deemed domestic policy, such as government procurement, which go beyond the normal scope of trade agreements.

Other areas likely to be covered include rules governing the conduct of state-owned enterprises, which sometimes benefit from cheap financing or government protection. China, in particular, is often criticised for seeking to ensure the success of national champions.

The TPP would also include labour, environmental and intellectual property standards. Finally, it is supposed to help bring benefits to small and medium-sized companies from trade integration.

"As a concept, this is definitely something big," says Mr Azis of the ADB. "This is so

comprehensive, it is like a Grade A agreement. But when it comes to realisation, we have to be a little less optimistic about how this is going to proceed.”

Indeed, the path to a comprehensive TPP will not be easy. The negotiating partners have already struggled. As a result, Barack Obama, the US president, is unlikely to announce anything beyond the broadest of principles at the Apec summit.

Negotiations are stuck on several points. Some participants, for example, are wary that standards designed to protect the intellectual property of the pharmaceutical industry could restrict poor countries’ access to life-saving medicines.

Malaysia, which has a sizeable state sector, is worried about what entry to the TPP might mean. It is unlikely to move forward decisively until elections are held sometime next year.

There are even concerns that the US, whose government has a controlling stake in General Motors, not to mention the US Postal Service, could fall foul of some of the agreement’s stipulations.

The controversy that the TPP has caused in Japan is also a harbinger of difficulties ahead. Opponents have threatened to leave the ruling Democratic Party of Japan over fears that signing up would threaten the country’s farming industry. Japan produces just 40 per cent of its calorific intake and many officials are opposed to becoming even more dependent on foreign food.

Japan’s angst could be repeated elsewhere. Many trade agreements put sensitive issues to one side. But if the TPP is to be genuinely more all-embracing, it will also be that much harder to conclude.

Ironically, one of the attractions of the TPP for Japan – the absence of China – is also one of the agreement’s biggest potential pitfalls. Akihisa Nagashima, a special adviser to Yoshihiko Noda, Japan’s prime minister, has said the TPP would “create a strategic environment, where China would see Japan as a formidable neighbour that cannot be pushed around”.

But China is now at the very centre of an Asian supply chain that is itself at the heart of the global manufacturing industry. “Any agreement that does not include China will not be so relevant,” says Mr Azis.

If the TPP smacks of “an anyone-but-China club”, it is likely to be highly divisive in a region where Beijing is becoming more dominant, politically as well as economically. Commentary in the Chinese press often casts the TPP as an “aggressive” US-led ploy to “squeeze China out”.

There is, undoubtedly, an element of seeking to wrest back global trade for nations perceived to play by the rules. But there is also a deeply pragmatic driving force behind the TPP.

The US has watched intra-Asian trade balloon, while trade between Asia and other emerging countries, from Brazil to South Africa, has flourished.

The TPP is an attempt to regain the initiative by opening up Asia-Pacific markets more fully to US business. Mr Kirk has said that “a declining US market share in Asia-Pacific countries means fewer US jobs”.

Everything now depends on the willingness of negotiating partners to follow through.

Joining TPP will require give as well as take. But making sacrifices and pooling one’s interests for the sake of a higher common goal is never easy. Just ask the Greek prime minister.

Printed from: <http://www.ft.com/cms/s/0/47dd4d14-06cc-11e1-90de-00144feabdc0.html>

Print a single copy of this article for personal use. Contact us if you wish to print more to distribute to others.

© THE FINANCIAL TIMES LTD 2011 FT and ‘Financial Times’ are trademarks of The Financial Times Ltd.