

Economic Analysis

What does the TPP mean for emerging Asia?

Sumedh Deorukhkar / Le Xia

The 'high standard' 12 nation¹ Trans-Pacific Partnership (TPP) agreement was successfully sealed yesterday following five years of relentless negotiations, with the endgame particularly focused on negotiating market access to sensitive agricultural products. The comprehensive free trade and investment initiative, which also involves the US and Japan, is the world's largest trade deal struck over the past two decades, with member countries accounting for 25% of international trade and 40% of the world's GDP. However, the TPP is still far from reality as it needs to be ratified by member nations, the bulk of which, particularly the US, Canada, and Japan, face a hostile political opposition at home. Notwithstanding the anticipated political bickering and potential bottlenecks in its successful passage, the TPP agreement has certainly overcome its first critical hurdle, i.e. bridging the gulf in positions of member nations on several sensitive and critical issues related to trade and regulatory framework.

The TPP portends significant global trade and strategic implications, not just from the multilateral trade environment perspective but also with regards to the strategic power struggle in the Asia Pacific region between the US and China. With the latter being excluded from the TPP agreement, the US and its Allies, primarily Japan, look at TPP as a key lever in their pivot Asia strategy aimed at countering China's rapidly growing economic clout in the region. The TPP eclipses most major free trade agreements currently underway in the world by its massive size, scope and depth of proposed concessions, which seek to eliminate tariff and non-tariff barriers to trade, ensure adherence to regulatory norms, lay down labor and environmental standards, and ensure protection of intellectual property rights (IPRs). For non-member developing economies in Asia, particularly China, India and Indonesia, the TPP presents key takeaways and has significant economic implications.

Adoption of TPP style 'high standard' trade rules and best practices to be beneficial for Asia... TPP's professed 'high standard' rules and disciplines if implemented successfully would push non-member countries to regularly update their trade regulatory framework in line with international best practices, expedite SOE reforms (particularly in China and Indonesia), strengthen existing supply chains, enhance efficiency levels in government procurement and enforce stricter regulations on protection of intellectual property rights.

...but emerging Asia is not ready to embrace such 'high standard' rules as laid down by the TPP: Faced with strong growth headwinds, emerging Asian economies don't want their hands being tied up by the non-trade elements in the TPP package such as labor and environment standards with market access, tighter protection of intellectual property rights, limited the flexibility of domestic policy options. These economies prefer to maintain political and macro stability while undergoing domestic structural rebalancing in the wake of turbulent a global financial environment.

¹ TPP members include Canada, The United States, Mexico, Peru, Chile, Japan, Vietnam, Singapore, Brunei, Malaysia, Australia and New Zealand.

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