

Trans-Pacific Partnership Agreement:  
An Analysis of Opportunities and Challenges

Lydia Yancan Li

May 7, 2012

Abstract

World trade declined dramatically following the financial crisis in 2008. Countries in the Asia-Pacific region initiated the Trans-Pacific Partnership Agreement (TPP) negotiations to facilitate trade recovery and economic growth. With nine current members and three potential partners, the TPP is currently viewed as the most important free trade agreement in the Asia-Pacific region. The TPP intends to present a comprehensive, high-standard trade framework that will lead the transition in international trade towards a more efficient and better-structured platform. It may help also promote multilateralising regionalism by supporting more equal trade partnerships and encouraging open discussion in sensitive trade issues. However, the TPP negotiations also face serious challenges due to the diverse economic conditions and various strategic motivations among its members. Whether the TPP negotiations are able to reach an agreement in the near future still remains a question. Yet, it is generally hoped that the TPP negotiations could make its way to the final agreement and works as a true twenty-first century model for fair and efficient free trade agreements in the future.

## I. Introduction

International trade serves as an important contributing factor to the world economy's prosperity. Trade has also promoted economic integration and cooperation among countries on both regional and global levels. Historically, there exists strong positive relationship between GDP growth and growth in goods and services trade each year. World trade has enjoyed steady growth before the dramatic decline after the 2008 financial crisis. According to the World Trade Organization's (WTO) International Trade Statistics, the total volume of world merchandise trade decreased by 13% in 2009, with a huge drop of 17% in North America. Compared to the high historical growth, the 11% decline of merchandise exports in Asia raised concerns among major Asian exporters.<sup>1</sup>

Leaders from major trading zones, especially the Asia-Pacific area<sup>2</sup>, are concerned about the decline in merchandise and services trade following the financial crisis. The Asia-Pacific region has always been actively engaged in trade among the Asia-Pacific Economic Cooperation (APEC) members. They also count for substantial proportion of world trade. As major exporters of merchandise and receivers of foreign direct investments, many Asian countries have suffered from the trade decline, such as Singapore, Malaysia and Vietnam.<sup>3</sup>

The WTO, along with other regional trade organizations aim to facilitate trade. With the WTO Doha Round of negotiations facing collapse, major Asia-Pacific countries seek to initiate a new Free Trade Agreement (FTA), which include the U.S. and other major trading partners among APEC members. In this case, the Trans-Pacific Partnership Agreement (TPP) has offered a perfect opportunity to build closer connections between key Asia-Pacific countries and boost rapid recovery in trade. According to the American Enterprise Institute (AEI), TPP can be viewed as the single most important Asia-Pacific trade initiative over the next several years. The TPP represents great trading opportunities among countries with growth potentials. TPP also lays out the blueprint of a twenty-first-century trade model.<sup>4</sup> This research paper will analyze TPP's potential economic benefits for its nine member countries by evaluating the advantage of the Asia-Pacific region and the special membership composition of the TPP.

The next part of this paper will introduce TPP's broader influence in regional integration. The TPP negotiations will foster regional integration through the "multilateralising regionalism" transition, which includes replacing numerous bilateral PTAs and sub-regional FTAs with a single comprehensive TPP framework. Also, TPP encourages open negotiations of sensitive

---

<sup>1</sup> Data Source: WTO International Trade Statistics 2010, available online at [www.wto.org](http://www.wto.org).

<sup>2</sup> The Asia-Pacific region is defined in the study of international trade as the current members of the Asia-Pacific Economic Cooperation (APEC) forum, including twenty-one member economies surrounding the Pacific Ocean. All nine existing TPP countries are members of the APEC.

<sup>3</sup> Organisation for Economic Co-operation and Development. "OECD Economic Outlook." *OECD Economic Outlook Special Chapters*. May 2011. [www.oecd.org](http://www.oecd.org).

<sup>4</sup> Barfield, Claude. "The Trans-Pacific Partnership: A Model for Twenty-First-Century Trade Agreements? ." AEI Public Policy Research, American Enterprise Institute, Washington D.C., June 2011.

issues related to trade liberalization. These negotiations lay foundation for further integration.

The last part of the paper will briefly summarize the challenges faced by TPP countries given their diverse levels of economic development and various motivations to join the negotiation. In order to reach a high-quality agreement on a comprehensive set of trade issues, the TPP member countries will face serious challenges during rounds of negotiations. The TPP agreement will only be enacted when issues concerning labor rights, intellectual property rights, environmental protection, and government procedures are resolved.

## **II. The Trans-Pacific Partnership Agreement**

The Trans-Pacific Strategic Economic Partnership Agreement, also known as the Trans-Pacific Partnership (TPP), is a multilateral free trade agreement that aims to foster trade within the Asia-Pacific region. The TPP is currently under negotiation among the United States, Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, and Vietnam. The TPP negotiation is also laying the foundation for a potential larger Free Trade Area of the Asia Pacific (FTAAP).<sup>5</sup> In November 2011, the leaders of these countries drafted the broad outlines of the TPP final agreement, which the TPP members would like to complete in 2012.

Unlike previous treaties or trade agreements, the TPP offers a high-standard framework for comprehensive multinational FTAs, covering negotiations concerning liberalization of merchandise and services trade, reduction of government procedures, protection of intellectual property, and other sensitive issues in international trade. If the TPP negotiation reaches an agreement among all member states, it will allow these countries to take advantage of a much more efficient free trade platform with effective regulations in areas like intellectual property and environmental protection.

The TPP was originally initiated by Singapore, New Zealand, and Chile in 2003 as a path to further liberalizing trade in the Asia-Pacific region. Brunei joined the negotiations in 2005. In 2006, the original TPP entered into force.<sup>6</sup> The TPP has gathered much more attention since President George W. Bush notified his intention to negotiate with existing TPP members in 2008. On November 14, 2009, President Barack Obama announced that the U.S. would commit to “the goal of shaping a regional agreement that will have broad-based membership and the high standards worthy of a twenty-first century trade agreement.”<sup>7</sup> He also suggested that the U.S. would participate fully to shape the future of the Asia-Pacific region. With the commitment of the U.S., the TPP became substantially more attractive to other Asia-Pacific countries.

---

<sup>5</sup> Comment by Australian Minister for Trade Simon Crean, “The Trans-Pacific Partnership-Moving Forward,” Canberra, Australia, November 14, 2009. Available online at [www.usrsaustralia.state.gov](http://www.usrsaustralia.state.gov)

<sup>6</sup> Fergusson, Ian F., and Bruce Vaughn. "The Trans-Pacific Partnership Agreement." CRS Report for the Congress, Congressional Research Service, Washington D.C., 2011.

<sup>7</sup> Remarks by President Barack Obama at Suntory Hall, Tokyo, Japan, November 14, 2009. Audio record and press release available online at [www.whitehouse.gov](http://www.whitehouse.gov)

Along with the engagement of the U.S., three more countries joined the negotiation: Australia, Peru and Vietnam. This group of eight countries completed three rounds of intense negotiation in 2010. Topics discussed in these conferences mainly involved agricultural product trade, services trade, government procedures and labor issues. Malaysia was accepted as the ninth TPP negotiating partner in October 2010. Since then, six more rounds of negotiations took place.<sup>8</sup> The participation of the U.S. led to extensive development in the legal texts of the agreement, which included commitments covering all aspects of the trade and investment relationship between TPP members.

More recently, the TPP members conducted the tenth round of negotiation in Kuala Lumpur in December, 2011 and the eleventh round in Melbourne in March, 2012. Negotiations focused on financial services, sanitary and phytosanitary measures, legal issues, regulatory cooperation and government procurement. In addition, negotiators from TPP member states touched on more high-technology subjects in international trade, for example, telecommunication, e-commerce and fair market access.<sup>9</sup> At the same time, trade representatives of another three important players in the Asia-Pacific trading zone, Japan, Canada and Mexico, announced that they would seek cooperation with partner countries towards joining the TPP.<sup>10</sup> These decisions to consider joining the negotiation dramatically raised U.S. stakes in the deal, bringing more attention to the upcoming round of negotiation in Dallas on May 8, 2012.

### **III. The TPP Trade Benefits**

Following the financial crisis in 2008, countries in the Asia-Pacific region have suffered much from the decline in world trade. The volume of exports by the six WTO benchmark East Asian traders dropped by 7.5%, while their volume of imports decreased by 13% in 2009.<sup>11</sup> Correspondingly, the Federal Reserve analysis has shown a significant fall in both world and U.S. trade during the financial crisis. The fall in trade was more than expected, based on the historical relationships between trade volume and general economic indicators. The successive recovery in world trade, while robust from mid-2009 to mid-2010, gradually lost momentum after second quarter of 2010. The Fed also suggested that the gap between actual and equilibrium

---

<sup>8</sup> Office of the United States Trade Representatives (USTR). *TPP Negotiation Updates, Round 1-9, 2010-2011*.

<sup>9</sup> Office of the United States Trade Representatives (USTR). *TPP Negotiation Updates, Round 10 & 11, 2011-2012*.

<sup>10</sup> Stokes, Bruce. "Japan, the Trans-Pacific Partnership, and the United States ." *Trilateral Forum Tokyo Paper Series*, April 2012.

<sup>11</sup> Six WTO benchmark Asian Traders: Hong Kong, China; Malaysia; Republic of Korea; Singapore; Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Taipei, Chinese) and Thailand. Data Source: WTO International Trade Statistics 2010, available online at [www.wto.org](http://www.wto.org).

trade is closing only slowly and could persist for some time to come.<sup>12</sup>

The Trans-Pacific Partnership Agreement presents an opportunity to help countries recover from the trade decline while also offering new economic benefits based on the advantage of the Asia-Pacific region and unique features of the TPP framework. The TPP, especially with its potential expansion, is important largely because of the economic significance of the Asia-Pacific region for both the U.S. and the world. According to IMF statistics, this region has some of the fastest growing economies that produce over 50% of the world's GDP total. The region is home to more than 40% of the world population, it is also an important market for goods and services.<sup>13</sup> Thus, the Asia-Pacific region represents an important source and destination for world trade and investment.

The existing members of the Trans-Pacific Partnership include some fastest growing economies in the Asia-Pacific region. Fast growing economies present numerous opportunities to their trading partners because of the expanding consumer markets as well as the high return in investments. In 2010, two-thirds of the Asian-Pacific countries had growth rate above the world average of 5.1%. Three-quarters of APEC members enjoyed higher growth than 3%, the steady-state growth rate of developed countries.<sup>14</sup> Among all APEC members, Singapore enjoys both the highest standard of living<sup>15</sup> and the highest real GDP growth of 14.47% in 2010. Besides, some other TPP member states, like Peru, Malaysia, and Vietnam, also have relatively high rates of GDP growth, which are 8.79%, 7.19% and 6.78% respectively. (Table I)

Given this situation, more economically developed countries like the U.S., Australia and New Zealand will be able to benefit from the TPP agreement. They trade with quickly growing economies like Vietnam, Peru and Chile. (Table I) For instance, U.S. merchandise exports to Peru increased by more than double from \$2.3 billion in 2005 to \$4.9 billion in 2009.<sup>16</sup> In addition, in the seven years since the U.S.-Chile FTA went into effect, U.S. exports to Chile quadrupled, increasing from \$2.7 billion in 2003 to \$10.9 billion in 2010.<sup>17</sup> We may conclude from historical cases that the volume of trade between more developed countries and less developed, fast-growing economies will increase significantly with further trade liberalization under the TPP framework.

---

<sup>12</sup> Gruber, Joseph W, Filippo di Mauro, Bernd Schnatz, and Nico Zorell. "Where are Global and U.S. Trade Heading in the Aftermath of the Trade Collapse: Issues and Alternative Scenarios." International Finance Discussion Papers, Board of Governors of the Federal Reserve System, Washington D.C., 2011.

<sup>13</sup> Data source: International Monetary Fund (IMF), *World Economic Outlook, September 2011*, available at [www.imf.org](http://www.imf.org).

<sup>14</sup> Williams, Brock R. "Trans-Pacific Partnership (TPP) Countries: Comparative Trade and Economic Analysis." CRS Report for Congress, Congressional Research Service, Washington D.C., 2012.

<sup>15</sup> Standard of living measured by GDP per Capital in purchasing power parity (PPP), adjusted for cost of living in each country. See Table I.

<sup>16</sup> Data source: The International Trade Administration (ITA), *U.S.-Peru Free Trade Agreement Reports*.

<sup>17</sup> Data source: The International Trade Administration (ITA), *U.S.-Chile Free Trade Agreement Reports*.

<b>Table I. APEC Member Economic Statistics, 2010</b>					
	<b>Member</b>	<b>GDP (billion USD)</b>	<b>Population (million)</b>	<b>GDP/Capita (PPP)</b>	<b>Real GDP Growth (%)</b>
<b>TPP Countries</b>	Australia	\$1,237	22.2	\$39,764	2.68
	Brunei	\$12	0.4	\$48,333	2.60
	Chile	\$203	17.2	\$15,040	5.19
	Malaysia	\$238	28.3	\$14,744	7.19
	New Zealand	\$141	4.4	\$27,130	1.66
	Peru	\$154	29.6	\$9,358	8.79
	Singapore	\$223	5.2	\$56,694	14.47
	Vietnam	\$104	88.3	\$3,143	6.78
	United States	\$14,527	310.0	\$46,860	3.03
	<b>Total</b>	<b>\$16,839</b>	<b>505.6</b>		
<b>Potential TPP countries</b>	Canada	\$1,577	34.1	\$39,171	3.22
	Japan	\$5,459	127.6	\$33,885	3.96
	Mexico	\$1,034	108.6	\$14,406	5.42
<b>Other APEC</b>	China	\$5,878	1341.4	\$7,544	10.33
	Hong Kong	\$224	7.1	\$45,944	6.97
	Indonesia	\$707	237.6	\$4,347	6.11
	South Korea	\$1,014	48.9	\$29,997	6.16
	Papua New Guinea	\$10	6.5	\$2,307	7.03
	Philippines	\$200	94.0	\$3,920	7.63
	Russia	\$1,480	142.9	\$15,612	4.00
	Taiwan	\$430	23.2	\$35,604	10.88
	Thailand	\$319	63.9	\$9,221	7.78
<b>APEC Total</b>		<b>\$35,171</b>	<b>2741.4</b>		

*Data Source: International Monetary Fund (IMF), World Economic Outlook, September 2011, available online at [www.imf.org](http://www.imf.org). Table format reference: Table I, CRS Report R42344, Brock Williams, 2012.*

In addition to the advantage of the rapid economic growth in the Asia-Pacific region, TPP is also beneficial to its member states due to its unique membership composition. International trade helps countries with diverse resources to benefit from their own comparative advantage. Trading partners should offer different products or services to benefit from this rule. Countries in the Asia-Pacific region have done well in this realm. The APEC member countries provide diverse resources, productions, and consumer markets. This is especially true when we compare North American advanced economies with fast growing trading partners in Asia and South America. The difference offers trading opportunities and allows countries to benefit from comparative advantage.

Despite this advantage, existing regional Free Trade Agreements in the Asia-Pacific region have failed to further facilitate goods and services trade and regional integration among APEC members. The major reason for this disappointment is the limitation to sub-regional trade ties

within the Asia-Pacific trading zone. For example, the Association of Southeast Asian Nations (ASEAN) agreements were popular among key Southeast Asian exporters, but this group did not include any countries on the other side of the Pacific Ocean. The ASEAN member states are far less diverse from each other than from their North American and Latin American counterparts. ASEAN countries, restricted by the sub-regional division, fail to benefit from trading with countries with substantially different resources and productions.<sup>18</sup>

<b>Table II. Top Trade Categories Between the U.S. and Other TPP Countries</b>				
<b>Country</b>	<b>Top U.S. Imports</b>	<b>Percentage</b>	<b>Top U.S. Exports</b>	<b>Percentage</b>
Australia	Meat	16%	Machinery	25%
	Precious Metals	15%	Vehicles	13%
	Medical Instruments	11%	Medical Instruments	11%
Brunei	Knitted Apparel	37%	Machinery	31%
	Organic Chemicals	22%	Aircraft	21%
	Woven Apparel	6%	Medical Instruments	13%
Chile	Copper	35%	Machinery	25%
	Fruits and Nuts	24%	Mineral Fuels	24%
	Seafood	9%	Vehicles	12%
Malaysia	Electrical Machinery	47%	Electrical Machinery	56%
	Machinery	25%	Machinery	14%
	Medical Instruments	6%	Aircraft	7%
New Zealand	Meat	29%	Aircraft	26%
	Dairy, Eggs & Honey	10%	Machinery	18%
	Beverages	9%	Medical Instruments	8%
Peru	Mineral Fuel	25%	Machinery	28%
	Copper	15%	Mineral Fuels	17%
	Knitted Apparel	13%	Electrical Machinery	10%
Singapore	Machinery	31%	Machinery	21%
	Electrical Machinery	16%	Electrical Machinery	21%
	Organic Chemicals	16%	Aircraft	14%
Vietnam	Knitted Apparel	25%	Machinery	16%
	Woven Apparel	18%	Vehicles	11%
	Furniture, Bedding	14%	Animal Feed	9%

*Data Source: the United States Census Bureau, Country and Product Trade Data, available at [www.census.gov](http://www.census.gov)*

In this case, even though some Southeast and East Asian countries are currently enjoying huge GDP growth led by bilateral or small-scale FTAs, more stable and profitable trade

<sup>18</sup> Kali, Kaliappa, Peter Drysdale, and Shiro Armstrong. "Asian Trade Structures and Trade Potential: An Initial Analysis of South and East Asian Trade." Crawford School of Economics and Government, Australian National University, 2008.



partnerships in the Asia-Pacific region cannot be reached by frameworks limited to certain sub-regions. With economic diversity, countries in the Asia-Pacific region can seek a full-scale FTA framework in order to facilitate trade on a comprehensive level. As expected to meet such a requirement, TPP will offer its members an opportunity to take full advantage of the diversity among trading partners.

<b>Table III. U.S. Merchandise Trade Balance by Partner Country, 2011</b>						
	<b>Partner country</b>	<b>Imports (million USD)</b>	<b>Percent in total</b>	<b>Exports (million USD)</b>	<b>Percent in total</b>	<b>Balance (million USD)</b>
<b>TPP Countries</b>	Singapore	\$18,981.6	0.87%	\$28,224.1	2.17%	\$9,242.5
	Malaysia	\$25,675.7	1.17%	\$12,326.2	0.95%	-\$13,349.5
	Australia	\$10,172.8	0.47%	\$25,491.1	1.96%	\$15,318.3
	Chile	\$9,169.8	0.42%	\$14,497.9	1.12%	\$5,328.1
	Vietnam	\$17,364.3	0.79%	\$4,153.1	0.32%	-\$13,211.2
	Peru	\$6,152.8	0.28%	\$7,412.2	0.57%	\$1,259.4
	New Zealand	\$3,150.9	0.14%	\$3,350.2	0.26%	\$199.4
	Brunei	\$23.4	0.00%	\$181.4	0.01%	\$158.0
<b>Potential TPP Countries</b>	Canada	\$316,396.5	14.47%	\$233,773.6	17.99%	-\$82,622.9
	Mexico	\$262,671.0	12.01%	\$159,910.0	12.31%	-\$102,761.0
	Japan	\$127,901.2	5.85%	\$61,408.7	4.73%	-\$66,492.5
<b>Other Major U.S. Trading Partners in the Asia-Pacific Region</b>	China	\$398,466.8	18.22%	\$96,897.8	7.46%	-\$301,569.1
	Korea	\$56,006.0	2.56%	\$41,311.0	3.18%	-\$14,695.1
	Brazil	\$30,367.9	1.39%	\$37,274.8	2.87%	\$6,906.9
	Taiwan	\$41,213.3	1.88%	\$23,774.7	1.83%	-\$17,438.6
	Thailand	\$24,686.8	1.13%	\$9,989.4	0.77%	-\$14,697.4
	Hong Kong	\$4,291.8	0.20%	\$27,520.0	2.12%	\$23,228.2
	Indonesia	\$19,064.4	0.87%	\$7,237.9	0.56%	-\$11,826.5
	Philippines	\$9,111.9	0.42%	\$7,261.4	0.56%	-\$1,850.4
<b>U.S. World Trade Total</b>		\$2,186,951.5	100.00%	\$1,299,176.5	100.00%	-\$887,775.0

*Data Source: United States International Trade Commission, U.S. Trade Balance by Partner Country 2011, available online at <http://dataweb.usitc.gov>.*

TPP member states encompass great diversity. They have different stages of economic development, natural resources, and production focuses. As shown in Table II, almost all TPP members have a unique list of top categories of merchandise traded most with the U.S. Unsurprisingly, countries dedicate to exporting products they have comparative advantage in while importing the opposite. Take New Zealand as an example. The climate and resources in New Zealand allow it to become a producer of high-quality meat and dairy goods. As a major exporter of such agricultural products to the U.S. and the world, New Zealand imports aircrafts and machinery. It is quite different in the case of Brunei. Brunei enjoys comparative advantage in producing knitted or woven apparel. In exchange for similar categories of U.S. products,



Brunei exports apparel and organic chemicals, which is very different from New Zealand's meat and dairy exports. This difference represents the distinctive membership composition of the TPP, which largely allows countries to take advantage of various resources and production focus as a closely connected trading group.

Additionally, the three potential members of TPP, Canada, Japan and Mexico, are all among major trading partners of the United States. Together, these three countries are account for more than 30% of total U.S. imports and more than 35% of total U.S. exports, much higher than the sum of current TPP members. (Table III) Even though Canada and Japan have relatively lower economic growth than TPP members, the volume of their merchandise trade with other TPP member states as well as other APEC countries has been stably high. Thus, their engagement will not only increase U.S. stakes in the deal but also trigger more interests among Asian-Pacific countries to participate in the TPP negotiations.

### **III. TPP and Regional Integration**

As President Obama suggested in his Tokyo speech, the goal of TPP negotiations is to shape a twenty-first century regional trade agreement that will have broad-based membership and high standards.<sup>19</sup> Commonly agreed by leaders from current and potential members of TPP, the negotiations aim at producing a comprehensive, multinational framework in order to promote multilateral connections in trade instead of current bilateral or sub-regional trading partnerships. This goal of liberalizing regional trade on a non-discriminatory basis will fundamentally facilitate regional economic as well as political integration, as the interests of various trading partnerships can be considered on the same aggregate level.

The term “multilateralising regionalism” developed by Richard Baldwin is most suitable in describing this transition from multiple, small-scale trade partnerships to a single comprehensive framework that allows fair and efficient trade among countries.<sup>20</sup> Baldwin argues that high costs of trade are driving business and government to demand a more rational and global basis for international trade. In this sense, the TPP negotiations will lead its members towards multilateralising regionalism by taking the place of less fair bilateral Preferential Trade Agreements (PTAs), solving the problem caused by numerous, inconsistent trade agreements and encouraging open discussion of sensitive regulatory issues.

Existing trade agreements in the Asia-Pacific area are mostly bilateral Preferential Trade Agreements or trade agreements initiated by sub-regional trade organizations. Except for the bilateral and sub-regional agreements under the ASEAN framework, the majority of trade

---

<sup>19</sup> Remarks by President Barack Obama at Suntory Hall, Tokyo, Japan, November 14, 2009. Audio record and press release available online at [www.whitehouse.gov](http://www.whitehouse.gov)

<sup>20</sup> Baldwin, Richard, Simon Evenett, and Patrick Low. "Beyond Tariffs: Multilateralising Deeper RTA Commitments." In *Multilateralizing Regionalism: Challenges for the Global Trade System*, edited by Richard Baldwin. Cambridge: Cambridge University Press, 2009.

agreements in the Asia-Pacific region are bilateral PTAs. It is commonly believed that PTAs are not the best way to liberalize trade because of their inherent discrimination against less developed countries. Each of the PTAs includes provisions or regulations designed to serve the special interests of the two trading partners. This design often times satisfies only the interest of the more powerful one between the two countries and takes advantage from the weaker party. Examples can be seen in non-tariff barriers among bilateral agreements between Asian exporters and Western advanced economies.

By bringing a group of countries with different levels of economic development together, the TPP allows weaker partners to participate in a better-organized trade structure. Compared to the increase in volume of trade and amount of foreign direct investments, it is more important for these growing economies to learn from the experience of going beyond conventional market access negotiations to address comprehensive trade policies that have an impact on trade and investment. Besides, the TPP agreement is likely to follow the P4 model as a genuine regional trade agreement.<sup>21</sup> Each member state will set a single tariff schedule and apply equally to all other TPP countries. This question still remains undecided. However, if the genuine trade agreement model is applied, it will correspondingly tackle the unfairness in previous bilateral trade agreements and help less experienced members establish an equal relationship with its trading partners.<sup>22</sup>

In addition to trade discrimination against weaker economies, the large amount of existing trade agreements and the lack of coherence generated the “noodle bowl effect” in the Asia-Pacific.<sup>23</sup> As illustrated in Figure I, there are currently ten bilateral PTAs and three different multilateral FTAs among the TPP member states. The existence of numerous PTAs with various provisions and regulations in this region has distorted and diverted trade and investment, undermining an efficient, rules-based regional trading system. More specifically, the “noodle bowl” undermines the benefits of multilateral trade rules due to its potential to increase the costs of doing business, facilitate protectionism, and create complex patterns of discrimination and exclusion.<sup>24</sup> Leaders from Asian-Pacific countries have been to seeking a solution to the

---

<sup>21</sup> P4 Trading Bloc refers to the four countries initiated the original TPP agreement in 2005, including Brunei, Malaysia, Singapore and Vietnam. The P4 model of genuine regional trade agreement prevents member states from applying different tariff schedules to other partners, and thus creates a more equal trading platform. More detailed information is available at United Nations ESCAP website [www.unescap.org](http://www.unescap.org).

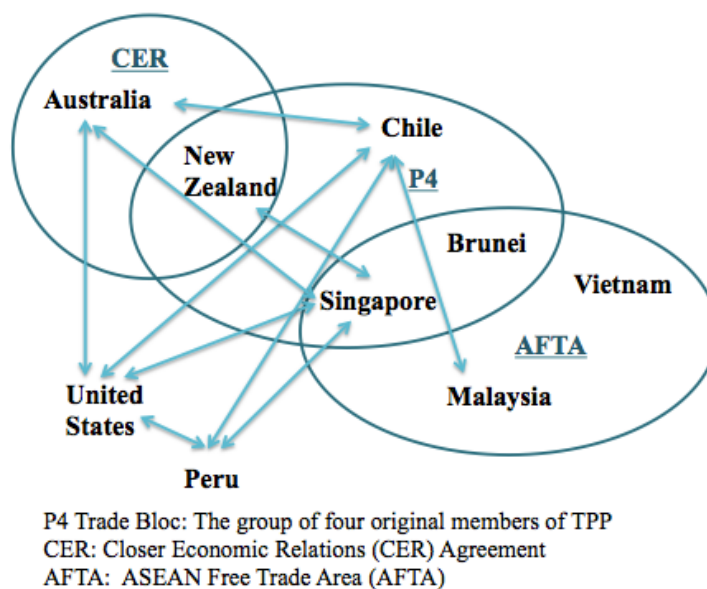
<sup>22</sup> Capling, Ann. "Multilateralising PTAs in the Asia-Pacific Region: A Comparison of the ASEAN-Australia-NZ FTA and the P4 Agreement." Asia-Pacific Trade Economists' Conference. Bangkok: United Nations ESCAP, November 2009.

<sup>23</sup> Kawai, Masahiro, and Ganeshan Wignaraja. "The Asian “Noodle Bowl”: Is It Serious for Business?" ADBI Working Paper Series, Asian Development Bank Institute, Tokyo, 2009.

<sup>24</sup> Capling, Ann, and John Ravenhill. "Multilateralising Regionalism: What Role for the Trans-Pacific Partnership Agreement?" *The Pacific Review* 24, no. 5 (December 2011): 553-575.

problems caused by numerous, inconsistent PTAs, as they wish to “tame the tangle.”<sup>25</sup>

**Figure I. Existing PTAs and FTAs Among TPP Countries<sup>26</sup>**



In order to solve this problem, the TPP is expected to produce a comprehensive, high-quality framework that will help to “tame the tangle” of PTAs in the Asia-Pacific region with the consistent support of its member countries. As a twenty-first century international trade model, the TPP negotiations help leaders from Asian-Pacific countries realize that the promotion of trade liberalization and integration by “untangling the noodle bowl” is much more important than the limited, short-term trade benefits offered by particular PTAs. With a more efficient and better structured trade framework, the TPP members will be able to enjoy the true benefits of free trade without worries about troubles caused by over-abundant PTAs.

Furthermore, the model of TPP negotiations will promote multilateralising regionalism as it allows countries to address concerns about not only legal contexts but also more sensitive domestic regulatory policies. For example, during previous rounds of TPP negotiation, representatives of member states discussed issues regarding reduction of government procedures required by each country for foreign investors to establish business. They also tackled sensitive issues concerning labor rights.<sup>27</sup> During the seventh round of negotiations in Ho Chi Minh City, Vietnam, TPP labor delegations carefully discussed the reforms feedback from the International Labor Organization, and they also toured a footwear factory in Dong Nai Province to get a first hand look at labor conditions in Vietnamese factories.<sup>28</sup> Regional economic integration is not

<sup>25</sup> Capling, Ann. "Multilateralising Regionalism: Australia's Role in 'Taming the Tangle' of Preferential Trade Agreements." East Asia Forum, Melbourne, 2009.

<sup>26</sup> Information Source: WTO International Trade Statistics 2010, available online at [www.wto.org](http://www.wto.org)

<sup>27</sup> Office of the United States Trade Representatives (USTR). *TPP Negotiation Updates, Round 9*, 2011.

<sup>28</sup> Office of the United States Trade Representatives (USTR). *TPP Negotiation Updates, Round 7*, 2011.

possible unless the disagreements over sensitive trade issues are fully discussed and eventually resolved. With such deep investigation and open negotiations, the TPP negotiators will ensure a high-quality trading structure which allows more efficient and transparent cooperation in the Asia-Pacific region.

## **V. Challenges Faced by TPP Negotiations**

As we have seen, leaders from the nine member states have very high expectations in the TPP negotiations. They are eager to enjoy the economic benefits of this new free trade coalition. They are even more interested in the agreement over comprehensive trade issues that will allow the TPP to become a true twenty-first century trade agreement. However, because of the divergent levels of economic development and differences in government policies, the high-standard requirements of the TPP agreement have proposed serious challenges to the negotiating partners. Although the previous rounds of negotiations have made steady progress, conflicting interests and complex structural issues are likely to slow down or even stop the negotiations.

One of the most important obstacles lies in the significant divisions in the motivations to form this trade coalition among the Asia-Pacific members. From the perspective of most TPP member states, the trade benefits and further economic integration in the Asia-Pacific region attract the attention of their leaders. However, as many scholars have suggested, international relations concerns and strategic motivations of specific countries also have substantial influence over the decisions made by the group.<sup>29</sup>

In general terms, the nine TPP members can be divided into three groups. The first group includes less developed economies seeking growth opportunities. They are attracted to the TPP model for their need of both investments and markets. This group includes Brunei, Malaysia, Peru and Vietnam, with a possible expansion to Mexico. The TPP offers them a great opportunity to form close trade ties with several advanced economies in the Asia-Pacific region at once, opening new markets for their productions while bringing capital and technological assistance to these countries. The second group is consisted of Australia, New Zealand and Singapore whose economies are relatively more developed and stable. They are interested in joining a broader free trade framework mainly due to their intention to explore new trading partners and potential markets.

The interests of the first two groups could largely coincide with each other with adequate negotiations over detailed terms of the trade agreement. However, the United States stands out as a unique player among the TPP members with much stronger strategic motivations and less interest in the economic benefits. According to United States Trade Representative Ambassador Ronald Kirk, the United States' objectives in the proposed TPP agreement include: i) engaging

---

<sup>29</sup> Sheng, Lijun. "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations." ISEAS Working Paper: International Politics & Security Issues, Institute of Southeast Asian Studies, Singapore, 2003.

in a comprehensive regional FTA that reduces trade barriers and increases opportunities for trade and investment; ii) playing a leading role in developing a broader platform for trade liberalization throughout the Asia-Pacific region; and iii) seeking the chance to establish new rules on emerging trade issues, such as regulatory coherence, supply chain management, and state-owned enterprises.<sup>30</sup>

Among these three objectives, the direct benefits from opportunities of trade and investment are obviously less appealing to the U.S. leaders. The share of trade with other TPP countries as a percentage of U.S. trade with the all APEC members is only 17%. The volume of merchandise trade between the U.S. and other TPP countries made up less than 5% of total U.S. trade.<sup>31</sup> Moreover, the U.S. has already signed a few FTAs with current and potential TPP nations. President Obama stated the U.S. interest in “shaping the future of this [Asia-Pacific] region and participating fully in appropriate organizations as they are established and evolve.”<sup>32</sup> Thus, even though there is potential increase in trade if the agreement comes into force, it is fair to argue that the U.S. is currently more concerned with its strategic engagement in the Asia-Pacific region rather than direct benefits from trade.<sup>33</sup>

During previous rounds of negotiations, the U.S. has made huge contribution to setting up the structure of the TPP agreement and helped draft complicated legal contexts. The U.S. negotiators have dominated discussion in new trade topics concerning regulatory coherence, rule of origin, and state-owned enterprises. The aggressive U.S. participation and its influence over less powerful partners have raised concerns. Professionals in the international trade arena are worried that the U.S. is gradually shaping the high-standard TPP trade agreement into an over-reaching multinational treaty that will become too hard for less developed economies to comply with. The U.S. strategic objectives have triggered disagreement among member states with competing interests. Conflicting positions of countries that aim at the high quality of the free trade agreement and those who focus on immediate trade benefits will prevent the negotiation from going forward smoothly.

In addition to the conflicts among countries with different motivations, there are also traditional disagreements among key players on questions related to trade barriers, intellectual property rights, investor-state relations, and other regulations. Countries like Singapore have already gone through substantial structural changes in earlier years and eliminated most tariff and non-tariff trade barriers. These countries do not have to make extremely hard transformations to comply with the TPP standards. However, less developed partners like

---

<sup>30</sup> Summarized from the letter from Ambassador Ronald Kirk, United States Trade Representative, to The Honorable Nancy Pelosi, Speaker of the United States House of Representatives. December 14, 2009. Full text available at [www.ustr.gov/webfm\\_send/1559](http://www.ustr.gov/webfm_send/1559).

<sup>31</sup> Calculation based on data presented in Table III.

<sup>32</sup> Remarks by President Barack Obama at Suntory Hall, Tokyo, Japan, November 14, 2009. Audio record and press release available online at [www.whitehouse.gov](http://www.whitehouse.gov).

<sup>33</sup> Solis, Mireya. "Last train for Asia-Pacific Integration? U.S. Objectives in the TPP Negotiations." Working Paper No. 201102, Waseda University Organization for Japan-US Studies, 2011.

Vietnam and Peru, are far behind in trade liberalization. They are also lack of necessary regulations to protect intellectual property rights, labor rights or the environment. It will be substantially more difficult for these countries to complete structural transitions in order to fully benefit from the TPP agreement. For these countries, the complicated, high standard framework might not be as attractive as less comprehensive bilateral FTAs which requires much less efforts and offers similar short-term trade benefits. Therefore, they may lose interest in negotiating the comprehensive TPP framework with all other partners and seek simple bilateral FTAs instead.

## **VI. Conclusion**

With nine current members and three potential partners, the Trans-Pacific Partnership Agreement has presented a promising free trade framework to facilitate trade recovery and economic growth among Asian-Pacific countries after the decline of global trade in 2009. This twenty-first century trade agreement covers both conventional and emerging trade issues. It is regarded as the most important free trade agreement in the Asia-Pacific region because of its comprehensive, high-standard trade framework that will lead the transition in international trade towards a more efficient and better structured platform. In addition to direct trade benefits, the TPP also has further influence in facilitating the economic integration in the Asia-Pacific region. It will help promote multilateralising regionalism by supporting more equal trade partnerships and encouraging open discussion in sensitive trade issues. The TPP may offer a solution to the Asian “noodle bowl effect” by replacing numerous PTAs with a single, wide-ranging free trade agreement.

Aimed at potential trade benefits and broader influence in regional integration, the TPP negotiations are undergoing smoothly among current member states. The U.S. is fully devoted to building this twenty-first century, high-standard free trade agreement based on its objectives to establish new rules on emerging trade issues and to shape the future of the Asia-Pacific region. Australia, New Zealand and Singapore are also supporters of the high-quality requirements. Many countries have been seeking the best way of trade liberalization with sufficient regulatory protection against violation of rights. The TPP may serve this purpose, and it has therefore attracted attention from not only other APEC members, but also other trade zones. This new comprehensive framework presented by the TPP members could potentially replace many current FTAs and PTAs, especially those that include major Asian exporters. Compared to this comprehensive multilateral trade agreement, the “not-so-high-standard,” “twentieth-century” Chinese export model may face new challenges. Disputes regarding violation of intellectual property rights, environmental destruction and the lack of regulatory coherence will become important disadvantages of the export model represented by China. Emerging issues concerning state-owned enterprises, supply chain management and electronic commerce will also challenge the traditional way of trade. In this case, the twentieth-century model will soon be replaced by the comprehensive TPP framework.

Whether the TPP negotiations are able to reach an agreement in the near future still remains highly debatable. High-quality requirements and diverse economic conditions will bring challenges to member countries. Yet, the TPP negotiation is expected to make its way to the final agreement and works as a true twenty-first century model for fair and efficient free trade agreements in the future.

---

## References

- Baldwin, Richard. "Multilateralising regionalism: spaghetti bowls as building blocs on the path to global free trade." *The World Economy* 29, no. 11 (2006): 1451-518.
- United States Congress. "The Trade Reform, Accountability, Development and Employment (TRADE) Act of 2009."
- USTR. *TPP Negotiation Updates*. 2011-2012. <http://www.ustr.gov/tpp>.
- Williams, Brock R. "Trans-Pacific Partnership (TPP) Countries: Comparative Trade and Economic Analysis." CRS Report for Congress, Congressional Research Service, Washington D.C., 2012.
- World Trade Organization. "Multilateralizing Regionalism: Challenges for the Global Trading System." WTO Research and Analysis, 2009.
- Baldwin, Richard , Simon Evenett, and Patrick Low. "Beyond Tariffs: Multilaterising Deeper RTA Commitments." In *Multilateralizing Regionalism: Challenges for the Golbal Trade Systme*, edited by Richard Baldwin. Cambridge: Cambreidge University Press, 2009.
- Barfield, Claude. "The Trans-Pacific Partnership: A Model for Twenty-First-Century Trade Agreements? ." AEI Public Policy Research, American Enterprise Institute, Washington D.C., June 2011.
- Barfield, Claude, and Philip I. Levy. "Tales of the South Pacific: President Obama and the Trans-Pacific Partnership." AIE International Economic Outlook, American Enterprise Institute, Washington D.C., 2009.
- Bergsten, C. Fred, and Jeffrey J. Schott. "Submission to the USTR in Support of a Trans-Pacific Partnership Agreement." Peterson Institute for International Economics , January 2010.
- Capling, Ann. "Multilateralising PTAs in the Asia-Pacific Region: A Comparison of the ASEAN-Australia-NZ FTA and the P4 Agreement." *Asia-Pacific Trade Economists' Conference*. Bangkok: United Nations ESCAP, November 2009.
- Capling, Ann. "Multilateralising Regionalism: Australia's Role in 'Taming the Tangle' of Preferential Trade Agreements." East Asia Forum, Melbourne, 2009.
- Capling, Ann, and John Ravenhill. "Multilateralising Regionalism: What Role for the Trans-Pacific PArtnership Agreement?" *The Pacific Review* 24, no. 5 (December 2011): 553-575.
- Fergusson, Ian F., and Bruce Vaughn. "The Trans-Pacific Partnership Agreement." CRS Report for the Congress, Congressional Research Service, Washington D.C., 2011.
- Gruber, Joseph W, Filippo di Mauro, Bernd Schnatz, and Nico Zorell. "Where are Global and U.S. Trade Heading in the Aftermath of the Trade Collapse: Issues and Alternative Scenarios." International Finance Discussion Papers, Board of Governors of the Federal Reserve System, Washington D.C., 2011.



- James, Sallie. "Is the Trans-Pacific Partnership Worth the Fuss?" Free Trade Bulletin, Center for Trade Policy Studies, Washington D.C., 2010.
- Kawai, Masahiro , and Ganeshan Wignaraja. "The Asian "Noodle Bowl": Is It Serious for Business?" ADBI Working Paper Series, Asian Development Bank Institute, Tokyo, 2009.
- Kali, Kaliappa, Peter Drysdale, and Shiro Armstrong. "Asian Trade Structures and Trade Potential: An Initial Analysis of South and East Asian Trade." Crawford School of Economics and Government , Australian National University, 2008.
- Organisation for Economic Co-operation and Development. "OECD Economic Outlook." *OECD Economic Outlook Special Chapters*. May 2011. [www.oecd.org](http://www.oecd.org).
- Sheng, Lijun. "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations." ISEAS Working Paper: International Politics & Security Issues, Institute of Southeast Asian Studies, Singapore, 2003.
- Solis, Mireya. "Last train for Asia-Pacific Integration? U.S. Objectives in the TPP Negotiations." Working Paper No. 201102, Waseda University Organization for Japan-US Studies, 2011.
- Stokes, Bruce. "Japan, the Trans-Pacific Partnership, and the United States ." *Trilateral Forum Tokyo Paper Series*, April 2012.
- United States Congress. "The Trade Reform, Accountability, Development and Employment (TRADE) Act of 2009."
- USTR. *TPP Negotiation Updates*. 2011-2012. <http://www.ustr.gov/tpp>.
- Williams, Brock R. "Trans-Pacific Partnership (TPP) Countries: Comparative Trade and Economic Analysis." CRS Report for Congress, Congressional Research Service, Washington D.C., 2012.
- World Trade Organization. "Multilateralizing Regionalism: Challenges for the Global Trading System." WTO Research and Analysis, 2009.