

## Trans-Pacific Partnership

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The Trans-Pacific Partnership (TPP) is a trade agreement among twelve Pacific Rim countries signed on 4 February 2016 in Auckland.

- The TPP will now undergo a two-year ratification period in which at least six countries - that account for 85 per cent of the combined gross domestic production of the 12 TPP nations - must approve the final text for the deal to be implemented.
- The founding members of the Pacific Rim group are - Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam.
- The 12 nations account for some 40% of the world's economy.



## 1. Objective

To promote economic growth; support the creation and retention of jobs; enhance innovation, productivity and competitiveness; raise living standards; reduce poverty in our countries; and promote transparency, good governance, and enhanced labour and environmental protections.

## 2. Key Features

- Reduces over time thousands of small and large tariff and non-tariff barriers on trade between members.
- The 12 countries must open state procurement further to foreign competition and not give state-owned enterprises undue preference.
- Disputes with foreign investors are to be resolved before expert panels. the TPP Agreement provides for Investor-state dispute settlement (ISDS). ISDS is an instrument of public international law, which grants an investor the right to initiate dispute settlement proceedings against a foreign government. For example, if an investor invests in country "A", a member of a trade treaty, and country A breaches that treaty, then the investor may sue country A's government for the breach.
- Sets common standards for the cross-border issues of e-commerce and financial services.
- Requires countries to live up to the labour rights and fairness standards of the International Labour Organisation.
- Signatories are obliged to make strong efforts towards environmental protection.

### 3. Why focus on TPP by USA?

- The TPP is the main economic component of US President Barack Obama's strategic shift toward the Asia-Pacific.
- The alliance of broadly like-minded nations is seen as a counterweight to China, as Beijing expands its sphere of economic and political influence and promotes its way of doing business - seen as often running counter to Western standards.
- China's establishment of the Asian Infrastructure Investment Bank (AIIB), which could challenge Western-controlled institutions such as the International Monetary Fund (IMF) that currently set trading rules, has added a sense of urgency.
- The TPP also comes as global free trade talks move painstakingly slowly at the World Trade Organisation (WTO), which requires unanimous agreements and where negotiations often run afoul of conflicting interests between mature economies and emerging nations.

### 4. Criticisms

- Secrecy of negotiations: TPP negotiations were undertaken in considerable secrecy and the final text of the agreement was not made public.
- Unfair currency practices: The TPP has been criticised for not having strong provisions against unfair currency practices such as trade distortion by artificially low exchange rates.
- Cost of medicines: There are concerns about TPP's impact on healthcare in developed and less developed countries including potentially increased prices of medical drugs due to patent extensions, which could threaten millions of lives. Extending "data exclusivity" provisions would prevent drug regulatory agencies such as the Food and Drug Administration from registering a generic version of a drug for a certain number of years.
- Income inequality: Critics, have pointed out that the TPP will mainly benefit big businesses while pressuring small firms and farmers, who will have to compete with cheap foreign imports.
- Environment: TPP has been criticised for the language in the chapter covering environment. The chapter does not use the term 'climate change' instead, there is weak language on the transition to a low emissions economy.

### 5. Issues preventing India from joining TPP

- Many of the provisions relating to the protection of IPRs in the TPP are aimed at facilitating ever greening of patents, thereby delaying the entry of generic medicines into the market. With patented drugs continuing to remain monopolies in TPP countries for longer periods, pharmaceutical prices are likely to rise steeply in these markets. Given its public policy imperatives and health needs, the country has chosen to remain outside of the TPP.
- For India to either become party to the TPP or to sustain the shocks caused by its exclusion, the model of reforms must change from aspirational to one based on aggressive action. It would be extremely difficult and economically burdensome for India to expeditiously initiate and execute the reforms that would be expected if it decided to join the TPP.
- Further, the political climate limits the chances of wider consensus on the need to accelerate the pace of reforms in the labour, export infrastructure, environment, banking and taxation spaces. Thus, reforms would have to be phased, something that might not be possible if India joined TPP, even though it is believed that the TPP would allow a 20-year transition period for developing economies.
- The Investor-state dispute settlement (ISDS) under which the investor can sue the government is also an area of concern for India.

## 6. Implications for India

- The TPP will likely affect India's exports to the 12 Pacific countries. According to one estimate, trade worth \$2.7 billion will be diverted away from India. This number could increase to \$3.8 billion if South Korea joins the club. The costs could be even higher if India is unable to participate in global supply chains due to the TPP's rules on standards, labour and environment policies.
- In particular, in the face of competition from Vietnam, India's exports of textiles and clothing as well as leather products are likely to take a hit. However, this adverse impact would be confined mainly to the US market. In some of the major TPP economies, including Japan, Malaysia, Australia and Canada, India's exports may not suffer a tariff disadvantage as India already has FTAs with some of these countries or is at an advanced stage of concluding an FTA with others.
- Further, standardisation of intellectual property regimes across the TPP countries and rules on expropriation may make it more difficult for India to attract foreign investment over, say, a Vietnam.
- The rules of origin under the TPP coupled with the tariff reduction would further favour products from member nations leading to greater exclusion of India from global value chains.
- The TPP has altered India's bargaining power and negotiating positions. It has set a benchmark of sorts for trade agreements. Spill over effects of this will be evident in the Regional Comprehensive Economic Partnership negotiations between the ASEAN and six other countries, including India.

## 7. Way Forward

- Conclusion of free trade negotiations: Impelled by the looming onset of the TPP, India should conclude, on a priority basis, its ongoing free trade negotiations. These include the India-EU Bilateral Trade and Investment Agreement and the mega Regional Comprehensive Economic Partnership with the Association of Southeast Asian Nations, China and others. Benefits from these agreements will help mitigate some of the export losses that India may face in leather goods, textile, and plastics on account of trade diversion due to TPP. Aiming to diversify export destinations to hitherto untapped markets like Latin America and Africa would also help.
- Identify trade interests: India also needs to identify its trade interest areas and propose alternative negotiating templates. One such area is bio piracy, protection of traditional knowledge, and the link between the WTO's Trade-Related Aspects of Intellectual Property Rights agreement and the Convention on Biological Diversity. There have been several instances of bio piracy in the past, of Indian traditional knowledge, such as the patenting of the wound-healing properties of haldi (turmeric). Being among the 12 mega biodiversity-rich countries, India needs to bring this issue to the negotiating table in its own free trade agreements.
- Make products cost competitive: On the domestic front, India should accelerate the process of making its products more cost-competitive. There is no denying that India's infrastructural deficiency, including port congestion and poor road connectivity, is one of the main hurdles in attaining this cost competitiveness. Addressing these will have the dual effect of not only making India's exports cost-competitive, but will also make them more attractive for international lead firms to integrate India in global value chains.
- Harmonisation of industrial standards with international standards: The government should launch a comprehensive initiative to enable Indian exporters to not only comply with standards prevalent in the importing market, but also demonstrate the compliance through appropriate conformity-assessment procedures. India should resist any attempt to converge its domestic public standards with the dominant private standards in TPP countries. If India's public standards are harmonised with foreign standards, they will be equally applicable to domestic and export sales on account of the 'national treatment' principle of the WTO which prohibits less favourable treatment to imported products. The harmonised standards may result in most producers not only being excluded from export markets, but also being edged out of the domestic market, undermining the Make in India initiative in the process.

## 8. TPP and RCEP: Comparison

Some have suggested that the TPP would compete with existing and proposed free trade arrangements in Asia and pose a challenge to the economic unity between the ASEAN (Association of Southeast Asian Nations) states since some of them are members of the TPP and, moreover, the ASEAN itself is involved in negotiating a large trade agreement – the Regional Comprehensive Economic Partnership or the RCEP. The RCEP involves negotiations between 16 countries - the 10 members of the ASEAN and six regional partners (India, Japan, China, South Korea, Australia and New Zealand).

- There is clearly an overlap in the membership of these two trade agreements. However, this does not necessarily imply that the goals of the two agreements are antagonistic.
- The TPP seeks to vastly reduce tariff levels among member countries and standardise policies on various issues including safeguarding intellectual property rights. The ambit of the RCEP is not quite as vast. The two can therefore be seen as different rungs on a free-trade agreement ladder.
  - The RCEP will cover trade in goods and services, investment, economic and technical cooperation, intellectual property, competition, legal and institutional matters, and other issues. The TPP includes 30 chapters covering trade and trade-related issues, beginning with trade in goods and continuing through customs and trade facilitation; sanitary and phytosanitary measures; technical barriers to trade; trade remedies; investment; services; electronic commerce; government procurement; intellectual property; labour; environment; 'horizontal' chapters meant to ensure that TPP fulfils its potential for development, competitiveness, and inclusiveness; dispute settlement, exceptions, and institutional provisions.

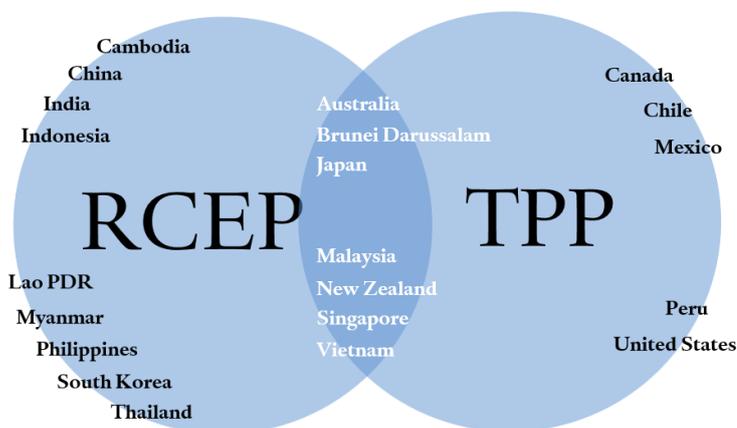


Figure 1: Overlap of Countries in Negotiations for Regional Comprehensive Economic Partnership and Trans-Pacific Partnership

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