

The Trans-Pacific Partnership – A Summary



What is the Trans-Pacific Partnership?

The Trans-Pacific Partnership (“TPP”) is a comprehensive trade agreement signed between 12 Pacific Rim countries, namely Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the United States. This was concluded on 5 October 2015, which finally brings to an end the five years of intense negotiation between the participating nations. TPP would create a mega-regional zone representing 40% of the global GDP and one-third of world trade. Conspicuously absent from this agreement, however, is China.

The TPP aims to promote economic growth; support job creation and retention; enhance innovation, productivity and competitiveness; raise standards of living; reduce poverty; promote transparency, good governance and enhance labour and environmental protections. Amongst other things, the TPP contains measures to eliminate or reduce tariff on most goods and services and tear down a host of non-tariff barriers across almost all trades and creates an investor-state dispute settlement mechanism.

The TPP is referred to as a landmark 21st Century agreement because it is uniquely different:

1. The complexities and ambitions of the TPP far surpass earlier trade agreements.

The scope and significance of the TPP extend far beyond traditional trade agreements. Excluding the chapter on “*Initial Provisions & General Definitions*”, the TPP has 29 chapters, dealing with a broad spectrum of issues from trade in goods, financial services, telecommunication and electronic commerce to sanitary standards for food, etc.

The TPP also addresses new trade challenges and covers new regulations on intellectual property rights, freeing up government procurement markets, generating a common understanding for e-commerce trade as well as data protection and others. With the wide span of regulatory and legal issues covered by the TPP, it is anticipated that the agreement might become central to participating nations’ foreign policies and perhaps, even on domestic lawmaking.

While most free-trade agreements (“FTAs”) focus on the removal of trade barriers between treaty nations, the TPP seeks to cut barriers to trade further by harmonising rules and promoting transparency in their respective regulatory environment. This implies opening up extremely sensitive agricultural markets which tend to be traditionally excluded from the FTAs.

The TPP is also intended to catalyse movements on other regional agreements in the Asia Pacific region and impart momentum to the even larger Transatlantic Trade and Investment Partnership which is currently in negotiation between the European Union and the United States.

2. It focuses on equality and inclusiveness.

Unlike other FTAs, the TPP include new elements with the objective to ensure that economies of all levels of development and business of all sizes can benefit from trade.

The TPP regulations apply equally to all participating countries though the lesser-developed nations will be permitted a longer time, where warranted, to develop its capacity so that they could then enforce its commitments in the agreement. The fundamental regulations will be applicable to all signatories including other nations that are willing to meet the standards of the TPP agreement and wish to join the TPP in future.

What are the implications of TPP?

Although the TPP countries may already have existing FTAs with one another, the TPP brings additional value through strengthening of regional production and supply chains brought about by reducing tariff rates for goods that are manufactured in phases across multiple TPP countries. This enables expansion in product scope and regional cumulation.

On ratification of the TPP agreement, duties would be reduced to 0% for most of the tariff lines. Most of the remaining duties will also see a reduction to 0% in a comparatively short timeline. This goes well beyond traditional agreements and even other mega pacts under negotiation, such as the Regional Comprehensive Economic Partnership.

With enhanced transparency to trade-related regulations across the TPP markets, it will also be simpler for businesses to comprehend and comply with these cross-regional regulations. Last but not least, the new standard established by the TPP is expected to set the cornerstone for future trade agreements to support standardisation of regulations, anti-corruption practices, prevention of currency manipulation, encourage good governance, and promote robust yet balanced regional standards in intellectual property and digital economy.

What's next?

Going forward, each TPP party shall ratify the agreement in accordance with its own domestic approval process. The TPP shall enter into force only when at least six parties, accounting for 85% of the GDP, ratify the agreement. This process is expected to take some time and even an optimistic estimate the entry into force to be as far as 1 July 2017.

Whilst we expect the TPP to create vast potential, i.e. new markets, lower costs, etc, for businesses, the benefits that could eventually be realised is dependent upon the ability of each participating nations' government to reform their domestic economic policy and environment, where necessary, to prepare for the change.

Hence, there is no urgency for businesses to rush into immediate reactions like changing of product sources, relocation of production/distribution centres, etc. At this juncture, it would be more prudent for businesses to analyse the opportunities that could be offered by the TPP, seek clarity in the new or enhanced regulations, etc, as part of their ongoing business planning.

If you wish to understand more on the TPP, please feel free to approach:

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