

Trans-Pacific Partnership

IISIS Malaysia organized two forums on the Trans-Pacific Partnership (TPP). The first entitled 'The Trans-Pacific Partnership and China's Policy Responses,' was held on 26 March 2012 and the speaker was **Prof Lu Jianren**, Senior Research Fellow, Institute of Asia-Pacific Studies, Chinese Academy of Social Sciences and Director, Institute of Global Trade Studies, Zhejiang Shuren University, China; the forum was chaired by ISIS Senior Director, Economics, **Mr Steven Wong**. The second, on 29 March 2012, by **Prof Michael G Plummer**, the Eni Professor of International Economics at the John Hopkins University, SAIS-Bologna, US, was entitled 'Pathways to the Free Trade Area of the Asia Pacific Trans-Pacific Partnership, Asia Pacific Integration and Stakes for Malaysia.' It was chaired by ISIS Chief Executive **Dato' Dr Mahani Zainal Abidin**. ISIS Analyst **Zarina Zainuddin** reports.

The Trans Pacific Partnership (TPP) began as a multilateral free trade agreement signed in 2005 by Brunei, Chile, New Zealand and Singapore, which also belong to the Asia Pacific Economic Cooperation (Apec). The aim was to further liberalize the economies of the Asia Pacific region. The TPP gained momentum when the larger Apec economies, namely Australia, Malaysia, Peru, Vietnam and the United States began negotiations to join the group. Most recently, Japan, South Korea, Canada and Mexico indicated interest in joining in the TPP track.

In 2010, Apec recognized three pathways towards a region-wide free trade area: the Asian Track which includes Asean+3 and Asean+6, CJK (China, Japan Korea) and the TPP Track. The desired end was a Free Trade Area of the Asia Pacific (FTAAP).

Professor Lu Jianren pointed out the main differences between the Asian Track and the TPP track processes. While the TPP agreement is strict and binding, the Apec and Asian Track agreements favour non-binding and voluntary approaches. Given its nature, the TPP has the potential to speed up the integration of Asia Pacific and raise the bar with free trade agreements within the region, said Lu.

He believes that the TPP would have both negative and positive effects on East Asian integration; on the one hand, TPP's aggressive involvement would impact negatively on the role



Lu Jianren

of Asean plus Three mechanisms in promoting regional integration. On the other hand, it could have the reverse impact: the pressure of TPP spurring China and Asean to emphasize and actively promote the East Asia Free Trade Area (EAFTA).

China is pushing to 'pragmatically promote' EAFTA and to reaffirm Asean's central role in East Asian regional integration. According to Lu, China's cooperation strategy in Asia Pacific could be summarized as follows: 'East Asia as the core and Asia Pacific as the stage, to actively develop trade and economic relations with Apec members and to stabilize US-Sino relations.' To Lu,

East Asian cooperation is the 'foundation and supporting point of China's Asia Pacific strategy.'

Lu contends that China's initiative to begin negotiations on FTA talks amongst China-Japan-Korea (CJK) could be read as the response of the Chinese leadership towards the TPP. He acknowledged the difficulties faced by CJK and EAFTA in striving forward and envisages the two tracks being relegated should TPP make more progress in its trade negotiations.

How should China react to the TPP? China should not isolate itself, Lu said; given that China's national interests are closely linked to East Asia and the Asia Pacific, it should strive for 'win-win' cooperation. It should consider joining TPP negotiations, particularly as the overall impact of TPP is deemed to be positive for China. Lu envisages China taking multiple approaches involving strengthening its domestic economy as well as playing a greater role in Asia Pacific integration, in response to the TPP. These strategies could include:

- Speeding up its system reforms to adapt to new situations;
- Gearing up labour and environment standards in line with international conventions;
- Actively promoting economic integration in Asia Pacific region;
- Playing a leading role in the APEC, along with the US;
- Playing a constructive role in establishing the FTAAP;
- Deepening and enhancing trade exchanges and dialogues with TPP members on the other shore of the Pacific Ocean;
- Enhancing economic and trade relations with non-East Asian members in the Apec; and
- Enhancing dialogue and communications with the US for win-win cooperation, but not lose-lose opposition.

Lu concludes that the US and China, given their current levels of development, are highly complementary, economically. Asia Pacific



Michael G Plummer

integration can maximize these complementary aspects, and benefits for both countries. China and the US share common interests in the Asia Pacific region, fundamental for the sustained cooperation of the two countries. Lu believes the wisest course of action would be reciprocal cooperation for a win-win result.

Professor Michael G Plummer focused most of his presentation on the results of a joint study which include a 'modeling' approach towards determining the benefits of the TPP on the countries in the Asia Pacific region.

According to Plummer, while the TPP would benefit all track members, it is the small, emerging economies such as Vietnam and Malaysia that would benefit the most. Other takeaway conclusions according to Plummer are that the 'rigorous' TPP template increases FTAAP gains, TPP and Asian tracks are complementary in the long run and that while the dynamic effects and investments are significant to track members, the TPP has a small negative effect on non-members. The FTAAP is the most desirable outcome because it gives the most benefits to the countries in the region.

Income gains by country (gains from trade and FDI)

	GDP (\$bill)	Income gain (\$bill)		% GDP	
		2025	TPP	FTAAP	TPP
Australia	1,426	5	13	0.4	0.9
Brunei	22	0	0	0.9	1.8
Canada	1,982	7	12	0.4	0.6
Chile	289	4	7	1.5	2.3
Japan	5,332	53	115	1.0	2.2
Korea	2,063	19	71	0.9	3.4
Malaysia	422	12	25	2.7	6.0
Mexico	1,999	12	42	0.6	2.1
New Zealand	206	2	3	1.0	1.4
Peru	311	8	9	2.5	2.9
Singapore	386	2	6	0.6	1.6
United States	20,337	39	143	0.2	0.7
Vietnam	235	36	66	15.5	28.0
TPP Economies	35,010	200	512	0.6	1.5
Others	66,957	-27	687	0.0	1.0
World	101,967	173	1,199	0.2	1.2

Smaller economies get largest % gains

Table 1

In the case of Malaysia, the model suggests that it is set to gain from the TPP, second only to Vietnam. As Plummer puts it, small economies, countries with fewer FTAs, especially vis-a-vis the US, and with less liberalized economies, gain the most. However, the results differ based on regional trade arrangements: the Asian Track, TPP and FTAAP. Malaysia would gain from all three agreements but would gain most from FTAAP. (see Table 1 and Chart 1)

The TPP would lead to an increase of 2.7 per cent in income gains, and six per cent with the FTAAP in place. Initially, with the implementation of the first phase of the Asian Track (CJK), Malaysia would be at a slight disadvantage due to profit erosion and trade diversions, but Plummer expects Malaysia to start gaining benefits from 2015 onwards, when the EAFTA kicks in.

According to Plummer, net gains for Malaysia due to changes in exports would be

US\$16 billion under the TPP agreement and a whopping US\$29 billion under the FTAAP regime. Manufacturing will garner for Malaysia the most gains, with the three biggest sector gains coming from the 'Food and Beverages', 'Machinery' and 'Other Machinery' sectors. In terms of imports, big increases are expected in the 'Other Agriculture', 'Textiles' and 'Private Services' sectors (see Table 2 and Table 3).

As for investments, Plummer expects Malaysia to increase its outward bound foreign direct Investments (FDI) to about 2.6 per cent. Malaysia is projected to become a net provider of FDI. The impact of inbound FDI is less as Malaysia is an open economy, hence the effects of FTAs would be minimal.

At the regional level, the Model also suggests that a positive TPP should generate substantial gains for the region, with big net gains for the world and little trade diversion. Plummer

Outward FDI by country (increases in FDI stocks)

	GDP (\$bill)	Stock increase (\$bill)		% GDP	
	2025	TPP	FTAAP	TPP	FTAAP
Australia	979	11	20	1.2	2.1
Brunei	2	0	0	0.1	0.0
Canada	1,367	28	29	2.1	2.1
Chile	170	12	10	7.1	5.7
Japan	2,011	67	137	3.4	6.8
Korea	727	14	113	1.9	15.5
Malaysia	460	12	19	2.6	4.1
Mexico	204	0	0	0.1	0.1
New Zealand	43	0	0	0.9	0.6
Peru	17	0	0	0.2	0.6
Singapore	1,191	6	31	0.5	2.6
United States	12,267	125	488	1.0	4.0
Vietnam	0	0	0	1.8	2.1
TPP economies	19,439	276	847	1.4	4.4
Others	36,643	0	499	0.0	1.4
World	56,082	276	1,345	0.5	2.4

Chart 1

said the deeper the accord, the more the gains will be, with distribution of gains being ‘pro-convergence,’ meaning the poorer the country, the more it will gain. The TPP is expected to be a big boost for regional production networks; costs of structural adjustments due to the TPP are deemed to be manageable.

The TPP has the potential to be a great template for Regional Trade Agreements (RTA) but perhaps the biggest contribution of the TPP to the world would be its impact on policy dynamics surrounding the anaemic Doha Round talks.

Plummer recalled the impact of the Apec Summit on the Uruguay Round (UR) a couple of decades ago. The UR stalled on the differences in positions regarding agriculture subsidies between Europe and US. All seemed lost until President Clinton hosted the Apec Summit, which brought together the fast growing Asia Pacific economies, prompting the Europeans to restart the UR. Plummer thinks something similar could occur with the TPP. Should the TPP and CJK go through, he thinks the rest of the world will take notice and there will be incentives to restart multilateral trade talks, starting with the Doha Round.

Malaysian export changes

	Baseline 2025	Change in exports USD2007bill.			
		TPP	Asian track	Two tracks	FTAAP
Primary products	35.6	0.2	0.4	0.4	0.7
Rice	0.0	0.0	0.0	0.0	0.0
Wheat	0.0	0.0	0.0	0.0	0.0
Other agriculture	10.3	-0.2	0.5	0.2	0.3
Mining	25.2	0.4	-0.1	0.2	0.4
Manufactures	275.2	15.6	12.5	25.9	25.9
Food, beverages	86.9	2.4	9.3	11.2	7.8
Textiles	7.3	0.3	-0.3	0.3	-0.1
Apparel, footwear	2.8	0.8	0.0	0.8	0.6
Chemicals	33.2	1.4	1.7	2.9	3.7
Metals	13.8	0.9	0.3	0.9	1.4
Electrical equipment	54.7	3.0	0.1	2.6	1.7
Machinery	40.4	3.9	1.3	4.7	6.1
Transport equipment	3.5	0.1	0.0	0.0	0.1
Other manufactures	32.6	2.8	0.2	2.5	4.5
Services	17.1	0.6	0.3	0.9	2.3
Utilities	0.1	0.0	0.0	0.0	0.0
Construction	1.3	0.1	0.1	0.1	0.4
Trade, transport, comm.	7.1	0.2	0.2	0.3	0.7
Private services	8.2	0.4	0.1	0.4	1.1
Public services	0.4	0.0	0.0	0.0	0.0
Total	327.9	16.4	13.2	27.1	28.8

Three largest

Table 2



Participants at the forum

Malaysian import changes

	Baseline	Change in imports in 2025, USD2007bill.			
	2025	TPP	Asian track	Two tracks	FTAAP
Primary products	37.8	2.5	3.0	5.3	4.4
Rice	4.9	0.4	0.3	0.7	0.5
Wheat	3.6	0.1	0.0	0.1	0.1
Other agriculture	24.5	1.6	2.4	3.8	3.1
Mining	4.8	0.4	0.3	0.6	0.8
Manufactures	223.4	9.2	7.8	14.9	17.6
Food, beverages	3.4	0.1	0.2	0.3	0.3
Textiles	42.0	1.6	1.7	3.0	3.7
Apparel, footwear	31.7	1.6	1.2	2.2	2.9
Chemicals	72.6	1.9	1.0	2.7	2.7
Metals	39.9	1.7	1.3	2.7	3.1
Electrical equipment	22.9	1.2	1.1	1.9	2.2
Machinery	11.0	1.0	1.3	2.1	2.7
Transport equipment	223.4	9.2	7.8	14.9	17.6
Other manufactures	3.4	0.1	0.2	0.3	0.3
Services	44.4	4.8	2.5	7.2	7.5
Utilities	0.0	0.0	0.0	0.0	0.0
Construction	1.0	0.1	0.0	0.1	0.1
Trade, transport, comm.	13.6	1.6	1.0	2.6	3.0
Private services	27.3	3.0	1.4	4.3	4.2
Public services	2.5	0.2	0.1	0.2	0.2
Total	305.6	16.5	13.3	27.3	29.5

Three largest

Table 3