

FINANCIAL REVIEW

The Trans-Pacific Partnership explained

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October 6, 2015

What is it? A 12 country trade pact that accounts for 40 per cent of world GDP which goes beyond traditional tariff cutting to embrace a new trade agenda of common regulation and legal rules. It is Australia's largest trade group.

Who's in? The group started as a low profile meeting of New Zealand, Singapore, Chile and Brunei, but when the US took it over as a way to boost its stature in Asia it gradually expanded to include Australia, Vietnam, Mexico, Malaysia, Peru, Canada and Japan.

Who's out? Major regional economies such as China and India are not included raising questions about how much the deal really boosts overall trade in the region. South Korea, Colombia, Philippines and Taiwan have said they would like to join.

What's all the fuss about? The TPP has drawn criticism from an unusually wide range of interest groups ranging from libertarians such as the Cato Institute to manufacturing unions to Australian sugar farmers.

This is because it is attempting to reduce barriers to traditional goods trade while also establishing new regulatory standards. Some groups are worried about the US imposing standards across the region which benefit its large companies especially those in information technology and pharmaceuticals. Other are more worried about specific bilateral changes such as whether Vietnamese textiles get access to the US or US beef gets access to Japan.

What's the value for Australia? Australia's direct gains are hard to identify because it already has trade agreements with eight of the members and has relatively low trade barriers. But the government sees the TPP as a stepping stone to a wider regional trade deal with clear modern rules which would underpin economic growth cross the whole region. The most controversial issues are whether sugar farmers get better access to the US market and whether US drug companies are able to weaken the Pharmaceutical Benefits Scheme. One major study says the TPP will increase Australian economic growth by 0.5 per cent by 2025 (that's equivalent to about \$8 billion today), while another says the increase will only be 0.3 per cent by that time. It will depend on the final details of the deal and even then will be difficult to quantify the long term effects.

So who wins? The biggest winners are exporters from countries with no existing trade agreement with the US, which is the biggest member economy, such as Vietnamese textile makers. In the longer term it might be the US companies with long term patent rights for

products which will be more in demand as Asia modernises such as pharmaceutical and software makers.

What happens next? The trade minister agreement has to be ratified by legislatures in most countries and the most difficult test will be the US Congress where President Barack Obama needs Republican support. But there will be complicated debate in Australia because of the complexity of the issues with criticism from many diverse groups. Canada has an election in October making it difficult for it to accept dairy imports. Malaysia's government is in turmoil and unlikely to get domestic support for liberalisation policies.