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TPP: A win for ASEAN, A loss for WTO?

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Synopsis

With the TPP being concluded, what will be its impact on the regional and global levels? The TPP's effect on ASEAN states depends on whether the countries are part of the deal as well as their respective domestic policies. The burden is now on the WTO to stay relevant.

Commentary

ON 5 OCTOBER 2015, the Trans-Pacific Partnership (TPP) was finalised, ahead of widely-held expectations, as President Obama looked to push it through before the end of his tenure. The trade agreement, which covers 12 countries from both sides of the Pacific, has been billed as a '21st century trade agreement', supposedly of a higher quality compared to previous trade agreements.

TPP is considered a higher level FTA because this self-styled 'mega-FTA' includes more conditions than just lowering tariffs which are already relatively low, but also imposes labour standards and environmental conditions on the member countries.

ASEAN's potential winners

The effect of TPP on the ASEAN region will vary from country to country, due largely to the fact that only four of the 10 ASEAN nations are included in the TPP deal. Yet, Brunei, Malaysia, Singapore and Vietnam - the ASEAN TPP members - are expected to be 'winners' as they get greater access to other markets, particularly the lucrative markets of the United States and Japan.

Vietnam for example is expected to be amongst the biggest winners in the region, as taxes on its exports will drop significantly, benefitting its apparel and fishing industries and allowing Vietnam to take advantage of its abundant low cost labour. Singapore could also be considered a winner, though due to its mature economy and previous bilateral deals with the US and Japan, the benefits are likely to be marginal.

Whether the benefits of ASEAN's TPP members will be inclusive or fully realised will also be up to domestic economic policy and how governments prepare for the changes. The agreement will likely shape their policies, to meet the conditions of the deal. For example, the large number of government-linked companies (GLCs) or state-owned enterprises (SOEs) in Malaysia will face increased

competition as the TPP removes barriers from government procurement, meaning equal access to the markets. This could trigger a change of the country's policies regarding SOEs so that the firms can boost efficiency and better compete in a more open market.

Moreover, TPP provides more opportunities for SMEs to connect with production networks and access larger markets. However, to actually realise this, SMEs must have the capacity, which could be achieved by skills training, as well as the necessary supportive institutions and infrastructure. Additionally, effective support should also be provided for industries expected to 'lose' as the markets adjust to mitigate the damage, especially to the displaced workers who are too often a footnote in free trade deals.

ASEAN's potential losers

However, the TPP could cause a degree of trade diversion away from ASEAN's non-TPP members, with rapidly growing economies such as Cambodia potentially losing business, as its biggest export destination is currently the US. The automotive industries in these countries could also suffer. The TPP agreement requires at least 45% of auto parts are to be sourced from the TPP members so that the vehicles can be sold in the bloc duty-free. This can result that trade is likely to be diverted away from Thailand and other countries which have supplied parts to the auto MNCs.

Overall, however, it could be argued that the region could benefit as a whole. By taking advantage of the ASEAN Free Trade Area (AFTA), production networks could exist that span multiple countries in the region and finally ending in the most developed consumer nations within the TPP. The scope for potential production networks is greater than other free trade deals as the local content requirement is less than NAFTA (62.5%), giving more flexibility to ASEAN firms.

From a mega-deal to another: TPP and RCEP

Some might ask: After TPP, what next? One scenario is that TPP membership will expand over time. Because the TPP includes an open access clause which welcomes other nations to participate as long as they meet the conditions, non-TPP members feeling that they are losing out might be impelled to implement reforms at a faster pace to become eligible to join the club.

Another scenario is that due to its trade diversion effect, TPP is likely to speed up the conclusion of other FTAs, namely the the Regional Comprehensive Economic Partnership (RCEP) which negotiation is expected to be concluded by the end of this year. RCEP is a FTA among ASEAN nations together with Australia, China, India, Japan, New Zealand, and South Korea. Unlike TPP, RCEP includes China and India which are major economies and well-embedded in global value chains.

Upon its completion, RCEP will cover one-thirds of the global GDP. As the TPP deal has been struck, the stakes are even higher for the RCEP members, especially those not in the TPP club, to reach the deal so that they can recuperate from their losses from not taking part of the US-led agreement.

Also, the successful conclusion of TPP is likely to shape the RCEP agreement details. Its success will tempt the RCEP participants to increase the depth of their deal. As TPP raises the bar regarding how countries address the "WTO-Plus" issues such as investment, intellectual property rights (IPRs), and competition (which is also being discussed under RCEP), the negotiators will be tempted to craft out rules and regulations which will effectively enable RCEP to further foster trade and investment ties.

Eyes on Nairobi

Trading blocs, namely TPP, complicate the geography of the global trade governance as they usually beget rules and regulations which turn out to overlap or conflict with one another. The immediate future will witness a more fragmented world trading system as the emergence of trading blocs gathers pace.

What will happen to the WTO after TPP achieves trade liberalisation without the WTO's role? Some business communities have doubted the WTO's ability to further promote free trade as the organisation's large membership makes it difficult to strike a deal. Although the Bali Package was

reached in 2013, the negotiation almost collapsed. With TPP's conclusion, additional pressure is on the WTO to revamp its agenda for the upcoming 10th Ministerial Conference in Nairobi, Kenya in December.

The Nairobi meeting should include ways to tackle behind-the-borders obstacles, increase transparency of rules and regulations relating to trade facilitation, and adopt good international standards and practices. Doing so could help WTO to stay relevant. The burden has now fallen upon the WTO's shoulders. The future prospects of the international trading system will hinge on the Nairobi negotiations. For the time being, everyone will have to play a waiting game.

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