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The TPP and WTO: A Win-win or Zero-sum Situation?

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Synopsis

Will the TPP, as the world's largest regional trade agreement, bring to an end the WTO's multilateral agreements on international commerce? The recent discussion suggests that the TPP could function in parallel with the WTO, even though geopolitical concerns have been raised that the TPP could be a U.S. strategic tool to contain China.

Commentary

AFTER ALMOST six years of prolonged negotiations, the Trans-Pacific Partnership (TPP), the world's largest mega-trade deal, has been finally concluded by the United States and 11 other Pacific Rim countries on 5 October 2015. The TPP agreement was reached outside the World Trade Organization (WTO), which is the only international organization dealing with the issues and rules of trade between countries at a global level.

Unlike other previous bilateral or regional preferential trade agreements (PTAs), the conclusion of the TPP has generated different predictions on the future of the WTO. While some view the TPP as a complement to the existing multilateral trading system, others worry that the TPP may pose a threat to the WTO framework and only serve as the geostrategic tool of the United States in Asia.

TPP complementary to WTO

Optimists emphasise that the historic Pacific Rim trade accord would not doom the future of the WTO nor weaken the WTO's rule-based multilateral trading system. They claim that the TPP and the WTO can work in parallel, without one being at the

expense of the other and that the TPP would not divide the world economy into trading blocs that exclude the majority of the WTO members.

According to the WTO rule, members are allowed to sign bilateral or regional PTAs which grant each or one another favourable treatment, as long as all bilateral trade between signatory countries is covered by the PTAs. So some believe that TPP is nothing but another PTA, although its members account for nearly 40% of global GDP.

Interestingly, the rosy picture of the peaceful co-existence between the TPP and the WTO has been shared by Roberto Azevêdo, the current Director-General of the WTO, even before the conclusion of the TPP. At the RSIS-WTO Parliamentarian Workshop held in May 2015, Mr. Azevêdo dismissed the idea that the TPP free trade deal would harm the WTO's efforts to consolidate a multilateral trading system. While acknowledging the collapse of the WTO negotiations over the Doha Round, he pointed out that many issues that hinder trade talks are inherently bilateral rather than multilateral. Thus, the TPP and other free trade agreements not only provide more stable institutional mechanisms for the resolution of such issues but also strengthen the WTO's open, equitable, and non-discriminatory multilateral trading system.

Researchers and policy practitioners also suggest that the relationship between the TPP and the WTO should be considered parallel and complementary rather than competitive. Simon Lester, a trade policy analyst at the Cato Institute, a libertarian conservative think tank, maintains that the TPP cannot be a viable alternative to the WTO that has institutionalized an extensive set of rules and procedures on international commerce and domestic protectionism.

In a similar vein, Bernard Hokeman, a professor at the European University Institute and the World Bank's former head of international trade department, emphasises that the TPP will never replace the WTO agreement, especially in terms of promoting market access liberalisation and providing dispute resolution procedures for developing countries.

TPP signals dysfunction of WTO

Critics of the TPP mainly come from countries that are not part of the TPP and former WTO staff. They argue that the TPP is maneuvered by the United States to achieve its geopolitical goals and signals the dysfunction and irrelevance of WTO. While the conclusion of TPP was faster than expected, the WTO's long and inconclusive Doha Round is basically declared dead.

Supachai Panitchpakdi, former Director-General of the WTO from 2002 to 2005, says that TPP is a U.S.-centric trade deal which brings the global trading system back to the old days before the WTO was established in 1995. He argues that the Regional Comprehensive Economic Partnership (RCEP) is a better option for Asian developing countries, as it includes major Asian economies like China and India.

Pessimists believe that the TPP symbolises the resurgence of the balance of power notion held by realists and undermines the multilateralism spirit embraced by neo-

liberalists.

Another commonly held view is that the TPP is a US geopolitical strategy, by allying with Japan, to reinforce its 'pivot' in Asia and constrain or weaken China's increasing influence in Asia or even in the world. By leading the TPP without China's involvement, Washington is able to set the rules of the game in the trans-Pacific region, especially in opposition to the China-led Asian Infrastructure Investment Bank (AIIB).

However the TPP is a 'living agreement,' meaning that more parties are allowed to enter the agreement in the future. Some U.S. allies in Asia, including South Korea, Taiwan, Thailand, and the Philippines, have already expressed their interest in joining the TPP. If the TPP is expanded and includes more Asian countries, China's dominant role in inter-regional trade may be further weakened.

Diversification of international trade institutions

Despite existing concerns over the geopolitical elements of the TPP and its consequences on developing countries, it is too early to tell whether the TPP marks the failure of the WTO and a real departure from multilateralism. Even China, which is considered to be one of the biggest losers in the TPP deal, reacted to the agreement cautiously and somewhat positively. China's Minister of Commerce Gao Hucheng said that Asia-Pacific regional trade agreements, including the TPP, can contribute to trade and investment liberalisation, regional integration, and global economic growth.

It should be noted that the TPP and the WTO focus on different issue areas. The WTO agreements set out legally binding rules for the reduction of tariffs and subsidies and provide dispute settlement mechanisms for developing countries. The TPP, on the other hand, although having the potential to go further than the WTO in terms of tariff reductions, focuses more on a broad range of trade and trade-related issues, including intellectual property rights, foreign direct investment, government procurement, state-owned enterprises, labour and environment.

Given that such issues tend to generate strong oppositions from domestic interests and add more complexity to trade talks, the recent TPP agreement signals that governments now might prefer to address the effects of those regulatory policies on trade through regional and preferential trade agreements rather than the WTO's multilateral trade framework involving 159 members. Despite the possible disjunction from the WTO, the conclusion of the TPP suggests that institutional settings for trade cooperation have begun to diversify under the WTO's ongoing commitment to multilateralism.

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