The TPP11: The Global Implications For Business

Prepare your business: TPP11 is coming

www.asiantradecentre.org
EXECUTIVE SUMMARY

Prepare your business for The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) or TPP11

ATC View

- The Trans-Pacific Partnership is coming with 11 members
- Entry into force date likely late 2018 or January 1, 2019
- Most of TPP agreement takes full effect on first day
- Businesses should pay attention to the effects of TPP11—even for non-members

- TPP is the most important trade agreement in 20 years because of interlinked nature of commitments
- Companies should not miss opportunity to use deal for competitive advantage

Source: www.GHY.com

SUGGESTED ACTIONS

- Reassess your current markets and potential markets
  TPP11 works only in member markets across the Asia Pacific. The benefits for goods, services, investment and more can be significant. Your business should assess the agreement carefully to avoid missing out on valuable opportunities and avoid downside risks.

- Reassess your supply chains and regional or global value chains
  If you are sourcing from and selling to different countries across the Asia Pacific, the TPP11 is likely to affect your business. Whether this means more challenges or more opportunities, a careful assessment of your current business model, together with good understanding of the TPP11, is needed.

- Evaluate new opportunities, challenges, competition and advantages
  If your business will be affected by the TPP11, you will need an in-depth evaluation on how your production costs, profits and profitability will be affected. This will lead to a more competitive pricing strategy and suitable business strategies for the short and long term.
TPP11: TIMELINES

Adjust your business plan with the timelines of TPP11

ATC View

When leaders from 11 TPP countries (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam) announced their intention to move forward with the trade agreement, most businesses will be caught off guard.

Most firms expected the agreement to fade away after the withdrawal of the United States. Hence, few have made contingency plans for implementation. Now, the clock is ticking before the agreement takes effect in 2018 or early 2019. Nearly all of the TPP agreement begins on the first day (entry into force), including all market opening for services, investment, most changes in customs procedures, the majority of tariff cuts and more.

Most of TPP11 is identical to what was negotiated originally—some commitments have been “suspended” for now, but the majority of the deal remains intact. For more details, see our Policy Brief 17-11 “TPP11: Unpacking the Suspended Provisions” at www.asiantradecentre.org

TPP11: WHAT HAPPENS NEXT?

NOVEMBER
• Leaders of 11 countries agree to move forward with TPP11

Q1
• TPP goes through a “legal scrub” to ensure consistency across chapters
• Leaders sign final text and schedules

REMAINDER OF YEAR
• Domestic level ratification (if necessary)
• Domestic level legal changes to come into compliance with TPP11 provisions
• Capacity building, as needed, to ensure readiness for entry into force

ENTRY INTO FORCE
• 60 days after the 6th country ratifies
• Majority of tariff cuts take effect
• All services and investment provisions take effect
• Most changes in all other chapter begin

2020 AND BEYOND
• Some provisions kick in (especially for intellectual property rights) for Malaysia, Vietnam
• Could be new members joining
The TPP provide substantial, quantifiable benefits for firms

ATC View

The final result will be a much more dynamic, integrated and competitive region with benefits that are limited to TPP member firms. Non-TPP member firms (including, now, many American importers and exporters)\(^1\) will not have access to these preferential benefits.

Many of the specific provisions of the TPP are likely to set the benchmarks for future trade agreements.

The fastest way to assess a trade agreement for quality is to look at the extent and depth of tariff cuts. Tariffs act like taxes applied on goods crossing borders. Higher levels of tariffs can limit trade and one key goal of free trade agreements is to cut down tariff levels. Better quality trade agreements have steeper tariff cuts overall in shorter time periods.

The TPP is a truly high quality agreement in this regard, especially compared to most alternatives, as it broadly starts with tariff cuts on 90% of all tariff lines on the very first day of the agreement (entry into force or EIF). Many of the tariffs fall all the way to 0 or become duty free on EIF.

For those tariffs that do not fall to 0 on EIF, the majority of tariffs fall to become duty free in relatively short time periods. Often, this is within 5-7 years and most are gone within 10 years.

Even agricultural products, which are highly sensitive in most countries, are included in the TPP and are not simply “carved out” or ignored. Every single tariff line is included for tariff cuts in the TPP and nearly all become duty free over time.

Once a good meets the product-specific rules of origin (ROOs) for the TPP, it qualifies for entry into all 11 markets without changes needed. The TPP also allows for cumulation—or the “adding up” of content for many products of raw materials or intermediate goods from across TPP markets.

The TPP also promotes efficient and transparent customs procedures to make it easier to move goods in and out of TPP countries.

The agreement opens up nearly every single service and investment sector to TPP member firms. This includes important market access in areas not normally included in trade agreements.

For specific, practical examples of TPP benefits for food and other types of market access, please see the Asian Trade Centre booklets, Fresh and Frozen Food, Processed Food and Market Access for Goods at www.asiantradecentre.org

\(^1\)With some caveats—some provisions will “spill over” to non-members. For example, better protections for intellectual property are likely to benefit all firms and not just TPP firms. Non-member firms may be able to take advantage of some provisions, if they are clever, careful and have good specialist help.

EXAMPLE: FOOTWEAR (HS CODE: 64)

Tariff reduction for tennis shoes, basketball shoes, gym shoes and the like (HS code: 640411)

Note: Under textile and footwear sections, each country has their own way to categorize different types of footwear. The tariff equivalence in this chart is based on the author’s judgment.
**EXAMPLE: TEXTILE AND GARMENT (HS CODES: 42, 62)**

Tariff reduction for Belts (HS code: 4203.30)

![Graph showing tariff reduction for Belts](image)

Note: Brunei and New Zealand have the same tariff schedule for Belts.

Tariff Reduction for Women Cotton Pyjamas (HS Code: 6208.21)

![Graph showing tariff reduction for Women Cotton Pyjamas](image)

**EXAMPLE: UNCOOKED PASTA (HS CODE: 1902.11)**

Tariff reduction for uncooked pasta containing eggs (HS code: 1902.11)

![Graph showing tariff reduction for uncooked pasta containing eggs](image)

Note: Canada and Chile have the same tariff schedule for uncooked pasta containing eggs; Malaysia and New Zealand have the same tariff schedule for uncooked pasta containing eggs.

**EXAMPLE: SHAMPOO (HS CODE: 3305.10)**

Tariff Elimination for Shampoo (HS code: 3305.10)

![Graph showing tariff elimination for Shampoo](image)

Note: Australia and New Zealand have the same tariff schedule for Shampoo.

**EXAMPLE: EELS (HS CODE: 0302.74)**

Tariff Elimination for Eels (HS code: 0302.74)

![Graph showing tariff elimination for Eels](image)

**EXAMPLE: AVOCADO (HS CODE: 0804.40)**

Tariff Schedule - Avocado (HS code: 0804.40)

![Graph showing tariff schedule for Avocado](image)

**EXAMPLE: RED SALMON (HS CODE: 0303.11)**

Tariff Schedule - Red Salmon (HS code: 0303.11)

![Graph showing tariff schedule for Red Salmon](image)

**EXAMPLE: CITRUS JAM (HS CODE: 2007.91)**

Tariff Schedule - Citrus Jam (HS code: 2007.91)

![Graph showing tariff schedule for Citrus Jam](image)
TPP11: ALIGNING THE RULES

While the TPP does not create a global “rule book,” it will help firms comply with standards

ATC View

The TPP text runs to hundreds of pages. In many areas, the agreement will be creating new rules for doing business. For example, some new provisions can be found in intellectual property rights. Some of these rules help clear up the confusion when offline rules collide with an increasingly digital world.

The TPP has an e-commerce chapter, intended to clarify the rules around movement of data between member countries. This will help ensure that large and small firms continue to have access to critically important information needed to run their businesses. The agreement also has chapters on standards for food (sanitary and phytosanitary) and other goods (technical barriers to trade) that includes increased transparency in crafting new regulations for the future. The agreement helps provide new input for business feedback prior to the imposition of new rules.

For some members, the extent of changes in a post-TPP11 world will be modest. In others, the domestic level reforms could be more significant. Businesses will need to keep an eye on how individual TPP countries implement the TPP rules and comply with the requirements of the agreement in the future.

TPP11: WHAT WE KNOW AND WHAT WE DON’T KNOW

Businesses need to monitor implementation and enforcement plans for each TPP11 member country

WHAT WE KNOW

More competition for local businesses
• More foreign suppliers of goods and services means potentially more competition for local players

More choices for consumers
• More supplies of goods with better variety, more affordable prices and better quality will benefit consumers the most
• In some members, it could lead to increased consumer surplus, more domestic consumption, or increased imports

WHAT WE DON’T KNOW

The implementation plans for each member
• Implementation plans of each TPP11 country will be based on their ability, the existing gaps and the support they receive. This means plans could deviate significantly among TPP countries

How effectively the implementation plans will be followed
• Even after having finalized the implementation plans, each country will have their own pace and ability to follow their plans and deliver on their promises
• Many factors will affect the TPP implementation including elections, internal resources, the amount of training and global economic performance
**WHAT WE KNOW**

**More opportunities**
- Better benefits and conditions for cross-border trade will encourage companies to expand overseas to reach more customers, suppliers and markets
- Higher motivation for companies to change, adjust and upgrade to be more productive and competitive
- More opportunities to learn from competitors including business models, technologies and strategies
- Improved business environment means more confidence from foreign investors to invest in local companies

**Growth in intra-TPP11 trade volume and quality**
- Better trade rules will encourage TPP11 companies to trade more with other TPP11 partners
- Tougher competition with foreign competitors will motivate companies to improve their own goods and services

**Improved trade rules and business environment in the region**
- Advanced and relevant trade rules under the TPP11 will help to improve the regional trade regulatory environment and business environment
- Strong enforcement will ensure TPP11 countries follow commitments

**Significant changes in some member countries**
- Developing TPP11 member countries like Vietnam, Malaysia, Mexico, Peru and Chile have to make significant positive changes to meet TPP standards
- These positive changes will help these countries to improve their business environment, strengthen their economy and attract more investment

**More countries to join TPP11**
- TPP11 benefits are only available to member countries. Non-TPP countries will be at disadvantage, especially those who are neighbouring TPP11 members
- To gain these benefits, non-TPP countries will face pressure to join TPP. Countries like Taiwan, Thailand and South Korea have already expressed interest
- To become TPP members, non-TPP countries need to meet a certain level of standards. The later they join, likely, the higher the requirements
- Eventually, these will help to enhance trade environment and landscape in a much bigger region and at the global level

**WHAT WE DON’T KNOW**

**How strong the enforcement mechanism will be**
- The enforcement mechanism plays an important role in deciding how well and effectively each member’s implementation of the TPP11 will be. The stronger the mechanism, the better implementation works
- This depends on leading countries including Japan and New Zealand

**Who will provide and fund necessary capacity building**
- High standards of the TPP11 rules will require a lot of training for both government officials and businesses in order to better implement and take advantage of the trade deal
- Without a Secretariat, it is unclear who will lead these trainings and who will provide support for these trainings (both financially and technically)

**What will happen if a member country cannot keep up with their commitments**
- In the event some member countries like Vietnam, Malaysia, Chile or Peru cannot keep up with their implementation plans, it is unclear what will happen to them, which kind of support they will receive and whether they can modify their commitments

**What will happen if the US wants to come back to the TPP**
- In the event the US wants to come back to the deal in the next few years, it is unclear what will be required for the US and what procedures will need to happen
- The US’s decision to come back will be welcomed. However, it is unclear after that how, exactly, suspended rules will be resumed and where the US will start on their committed schedules

**When the TPP rules will be upgraded and updated**
- Even though the TPP rules are considered as high quality and advanced, the fast pace of technology development might make some of these rules outdated, unsuitable and irrelevant in the next five to ten years. If this is the case, the TPP member countries will need to sit down together to negotiate an upgrade for the TPP
SUGGESTED ACTIONS

- Companies in both TPP countries and non-TPP countries will need to closely monitor the progress of TPP in all member countries to keep themselves updated and adjust their business strategies if necessary.
- Companies will need to equip themselves with more knowledge on trade and better understanding of the TPP rules so that they are better-prepared for the new challenges and opportunities under the TPP.
- Companies will need to communicate more closely with their governments, especially their trade officials, so that their governments can understand better what is happening at the ground level to have the most suitable plans to implement the TPP and to provide the most effective support.
- Even non-TPP members will be affected by the agreement, as companies will increasingly “vote with their feet” and shift investments to locations that favour businesses, especially TPP members.

TPP11: GLOBAL LINKAGES

Global and Regional Value Chains Will Transfer the Impacts of TPP11 to Non-TPP Countries and to other Parts of the World

ATC View

TPP11 will impact member countries. These impacts will be transferred to other countries who are trading with TPP11 members, who are competitors with TPP11 members and who are connected to TPP11 members through the existing global and regional value chains that involve their key businesses and industries. These mechanisms will amplify TPP11 effects on a much bigger area and in unexpected ways.

TPP11 EFFECTS WILL BE AMPLIFIED THROUGH THREE MAIN MECHANISMS

Direct trading partners
- Countries that are trading with TPP11 members will see more competitive prices, higher quality goods and services, as well as a wider range of choices.
- TPP11’s trading partners might also see an improvement in the business environment, logistics performance and trade regulations when trading with TPP11 countries.
- Better quality and more affordable goods and services imported from TPP11 countries will benefit TPP11’s trading partners’ consumers. Competition will should drive TPP11 domestic sectors to improve their productivity and competitiveness.
Competitors

- Non-TPP countries will not have the benefits that TPP11 provides to their members. This can directly harm the competitiveness of these countries, especially those that are:
  - Neighbouring TPP11 countries who share the advantage of similar location; or
  - Specializing in some goods and services that are offered by TPP11 member countries; or
  - Trading with TPP11 members;
  - At the same stage of economic development, with the same direction to grow their economy (e.g.: export-oriented), or targeting at the same sources of foreign investment.

- The negative effects of TPP11 on these countries include:
  - Higher chance to be excluded from the regional and global value chains that are formed among TPP11 members;
  - Less competitive than other TPP11 members when trading with TPP11 members;
  - Becoming less attractive to investors compared to TPP11 member countries.

Global and regional value chains

- Non-TPP countries will be less preferred than TPP11 member countries as a location for setting up plants, subsidiaries, or branches for companies that are involved in regional or global value chains.
- This might also imply the possibility that more global value chains will be set up around the TPP11’s geographical spread which then leads to a TPP11-centered GVC system in the near future.

![Diagram of Global and Regional Value Chains](chart.png)
ATC’S CONTINGENCY PLANNING FRAMEWORK

Take advantage of TPP11 and mitigate any potential competitiveness loss caused by TPP11

ATC View

A good understanding of the TPP11, its challenges and opportunities is critical to business performance in a post TPP11 world. Technical knowledge about trade and trade deals is not a familiar topic to business community, especially smaller companies. Please contact us if you would like ATC’s support in preparing a training, analysis or evaluation for your company or for your industry.

METHODOLOGY

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<tr>
<th>Identify events</th>
<th>Prioritize events</th>
<th>Prepare contingency plans</th>
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<tr>
<td>Help your company to understand TPP11 and its impacts on your business and your industry</td>
<td>Determine which challenges and opportunities require more attention in shorter term and longer term</td>
<td>Map actions to identify concrete steps to take advantage of TPP11 and mitigate risks Build pragmatic contingency plans for the most impactful scenarios with full details of roles and actions required</td>
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IDENTIFYING EVENTS THAT MATTER

The growth of global value chain and e-commerce has made the links between businesses across borders much stronger and tighter. Companies that are involved in trading domestically or internationally are likely to see significant impact from the TPP11. The deal will be likely to change the trade structure across the Asia Pacific. However, companies with limited knowledge and understanding of trade often tend to underestimate or ignore these changes.

- ATC research shows the benefits of the TPP11 that companies often fail to recognize and harness due to limited understanding of the deal.
- ATC corporate advisory customizes the benefits of TPP11 to your industry, your business and your supply chain scenarios.
- To anticipate and plan for the future of businesses post TPP11, business leaders should focus on the following exercises:
  - Identify: What are the key challenges and opportunities that will directly and indirectly affect the business?
  - Prioritize: Which challenges and which opportunities are more important and more urgent?
  - Plan: How can we plan ahead to take advantage and mitigate risks post TPP11?
Don’t be caught off guard by TPP11

ATC VIEW IN BRIEF

• TPP11 will be significant for most businesses once it officially enters into force. The impact may also be felt by non-TPP countries. Business leaders need to seriously study the deal and assess how your business will be affected in the upcoming years.

• Official texts and schedules will be released through New Zealand website at www.tpp.mfat.govt.nz

ACTIONS TO CONSIDER

Contingency planning
• Develop a detailed plan of action that analyse the potential impacts for your business and likely changes of your industry

Prioritization
• Prioritize which challenges and opportunities are more urgent and important, and plan actions accordingly

Look for professional help
• Accurate plans and analysis require a good understanding of the TPP11 and potential scenarios. If you don’t have internal ability for this, look for professional help.
• Call ATC at (65) 6536 3415

ADDITIONAL ATC RESOURCES

Research
• ATC provides research on key trade agreements in the region including TPP11, RCEP and AEC

Analytic tools
• Contact us if you need to evaluate quantitatively how TPP11 will affect your business

Corporate advisory
• ATC provides solutions for business to take full advantage of trade agreements while mitigating risks

Training and capacity building
• With years of experience in training for trade officials, governments and businesses on trade-related topics, reach out to ATC when looking for professional help for your company today

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ABOUT ATC

The Asian Trade Centre (ATC) is the premier regional thought leader, advocate and educator for trade in Asia. The ATC works directly with governments from around the world, companies, think tanks, foundations, NGOs, aid agencies and serves as the resource for trade-related activities in Asia.

Asia Coverage
ATC’s work focuses on trade-related issues in Asia, Asia Pacific and ASEAN.

Research Focus
- Regional Trade Agreements such as the Trans-Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP), and ASEAN Economic Community (AEC)
- Global trade agreements such as the World Trade Organization (WTO)
- Digital trade and E-commerce
- Small and medium enterprises (SMEs)
- Supply chains, global value chains (GVCs) and Logistics

Services
- Research on trade-related issues
- Corporate advisory for firms on trade issues, including supply chain changes to match TPP11
- Advocacy for trade agreements that are being negotiated and implemented
- Training on trade knowledge
- Thought leaders for trade-related issues
- Advocacy in ongoing regional regulations on trade

The Asia Business Trade Association (ABTA) serves as the premier business association dedicated to the promotion of regional trade issues in cooperation with governments. The Association represents companies across Asia and advocates on trade issues to enhance their performance and ensure that our members remain globally competitive.

The ABTA brings together companies based in Asia who want to see better trade policies and more effective and efficient trade rules and regulations. The ABTA is a resource for governments and business community, acting as an advocate and thought-leader on key trade issues. ABTA brings together different sectors and firms of different sizes with governments to develop a better trade and business environment for all.

There are three working committees under the ABTA
- The Asia Pacific MSME Trade Coalition (AMTC)
- Trade Agreements
- Next Gen Trade

TPP11 is under ABTA working committee “Trade Agreements”.

As the largest voice of MSME in the Asia Pacific, the AMTC is committed to facilitating the trade of goods and services by MSME in the region, as well as serving as a bridge between government officials and small businesses. The purpose of the AMTC is to shape and influence trade policies that are MSME-friendly in collaboration with various different stakeholders.

AMTC is a working committee under ABTA.

Contact us
41A Ann Siang Road, Singapore 069717 | info@asiantradecentre.org | +65 6536 3415