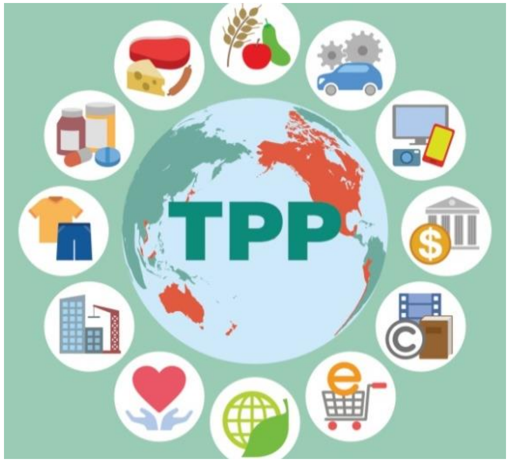
SCB Economic Intelligence Center

Trans-Pacific Partnership (TPP)



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Veerawan Chayanon

Outline

- Background
- Agreement Scope and Highlight Issues
- How About Thailand?
- Who Gain? Who Loss?

TPP – Milestones

2006 Original TPP joined by 4 nations (Brunei, Chile, Singapore and New Zealand)

2008 US joined TPP

2010 First round of negotiation and many after until 2015

2015 June: Trade Promotion Authority (Fast Track) was enacted in the US

October: Agreement of text of TPP

November: Release of authentic texts

2016 Each country's ratification process

2017/18 TPP comes into effect

Source: EIC analysis based on data from News Release

TPP – Key Facts

	RCEP (Regional Comprehensive Economic Partnership)	TPP (Trans-Pacific Partnership)	TTIP (Transatlantic Trade and Investment Partnership)
Start	2012	2008	2013
Current Members	**16 nations**	**12 nations**	**29 nations**
	ASEAN (10) + China, India, Japan, Korea, Australia and New Zealand	US, Canada, Mexico, Japan, Peru, Chile, Australia, New Zealand, ASEAN (4) Singapore, Malaysia, Vietnam and Brunei	US + EU (28)
GDP	22.5 Trillion USD (**29%** of World GDP)	28 Trillion USD (**36%** of World GDP)	36 Trillion USD (**46%** of World GDP)
Population	3.5 Billion People (**48%** of World Population)	0.8 Billion People (**11%** of World Population)	0.8 Billion People (**11%** of World Population)
Trade Value	10.7 Trillion USD (**28%** of World Trade)	9.6 Trillion USD (**26%** of World Trade)	15.9 Trillion USD (**42%** of World Trade)

Source: EIC analysis based on data from World Bank, IMF

TPP – Negotiation Issues go beyond trade

Goods

- Trade in Goods
- Trade Remedies
- Customs Cooperation
- Rules of Origin
- Sanitary and Phytosanitary Measures
- Technical Barriers to Trade
- Market Access

Service

- Cross Border Trade in Services
- Financial Services
- E-Commerce
- Telecommunications
- Temporary Entry for Business Persons

Others

- Investment
- Intellectual Property
- Environment
- Labour
- Government Procurement
- Legal and Institutional Issues
- Competition and State Owned Enterprises
- Capacity Building

Regulatory Coherence, Regional Integration, Transparency and Development

Source: EIC analysis based on data from Australian Government

TPP – Theoretical Benefits to State Members

Commercial Benefits

- Improve supply chain
- Access to new markets
- Fewer trade barriers
- Better trade and investment environment

Social Benefits

- Support the creation / retention of jobs
- Higher living standard
- Reduce poverty
- Lever guard for labor / environment

Strategic Benefits

- Promote economic development
- Enhance innovation, productivity and competitiveness
- Extend benefits to SMEs

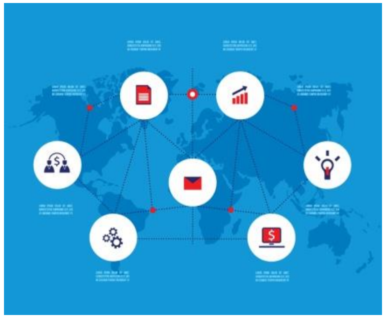
Other Benefits

- Strengthen regulatory coherence
- Promote transparency of laws and regulations
- Increase regional integration

Source: EIC analysis based on data from Australian Government

TPP – Highlight Issues (1)

Rule of Origin and Accumulation



To promote regional supply chains

Inputs from one member state are treated the same as materials from any other member states, if used to produce a product in any TPP Party.

For example: Australian beef could be sent to Singapore, combined with beef from Canada, seasoning from Peru and processed in Singapore with the finished hamburger patty then being exported under preferential rates to TPP region.

To ensure that TPP member states are real beneficiaries

Determine trade preference based on the country of origin of a product.

For example, yarns and fabrics must be produced in the TPP region, except some certain yarns and fabrics that are not widely available in the region, which is so called 'short supply list'.

Source: EIC analysis based on data from the United States Trade Representative (USTR)

TPP – Highlight Issues (2)

Investment Protections

To ensure that investors from other member states are treated to the same standard as those of host states

Investor-State Dispute Settlement (ISDS) allows investors from member states to bring a claim for compensation or other relief directly against another member state where an investment in the host state has been subject to treatment that breaches the investment protections.

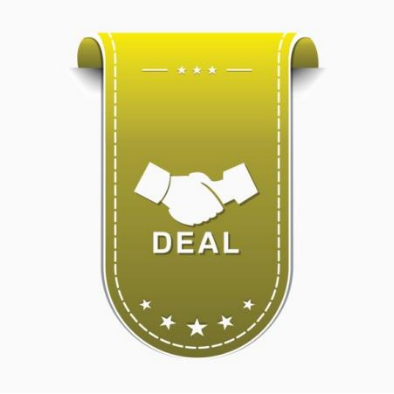
However, in some cases, member states may elect to deny complying with the ISDS

The government of member states has rights to regulate in the public interest, including on health, safety, and environmental protection. For example, a claim challenging a tobacco control measure

Source: EIC analysis based on data from Australian Government and the United States Trade Representative (USTR)

TPP – Highlight Issues (3)

Intellectual Property (IP)



To protect and promote exports of IP-intensive products and services within TPP region for the benefit of producers, including SMEs, and consumers

Establishes standards for patents, based on the WTO’s TRIPS Agreement and international best practices which covers patents, trademarks, copyrights, industrial designs, geographical indications, trade secrets, other forms of intellectual property, and enforcement of intellectual property rights

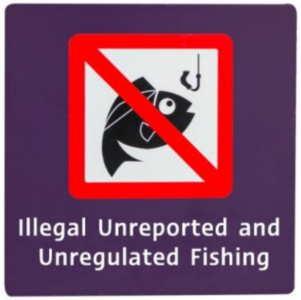
To facilitate innovative development of pharmaceutical and agricultural chemicals products

This includes the protection of undisclosed test and other data submitted to obtain marketing approval of a new pharmaceutical or agricultural chemicals product. However, member states are able to take measures to protect public health, including in the case of epidemics such as HIV/AIDS.

Source: EIC analysis based on data from USTR

TPP – Highlight Issues (4)

Environment



To protect shared natural-endowment resources

Agree on sustainable fisheries management, to promote conservation of important marine species, to combat illegal fishing, and to prohibit some of the most harmful fisheries subsidies that negatively affect overfished fish stocks, and that support illegal, unreported, or unregulated fishing.

To conserve the regional environment

Commit to work together on environmental challenges such as pollution, illegal wildlife trafficking and illegal logging.

Source: EIC analysis based on data from USTR

TPP – New Potential Members

Thailand is studying impacts of TPP and it would take around one year to confirm country's stance.

Philippines declared its intention to join TPP on 24 June 2015

Taiwan reaffirmed its interest in joining TPP on 5 October 2015

Indonesia's president announced to join TPP on 26 October 2015

South Korea's president recently expressed desire for TPP membership during a trilateral summit with China and Japan on 2 November 2015.

Q: Are benefits guaranteed if Thailand joins the pact?

A: If Thailand **joins** TPP, it will only help maintain export shares in some countries and some industries.

- For a large part, Thailand's sluggish exports suffer from ***structural problems*** such as outdated products and production-base relocation.
- We already have ***FTAs with 9 countries*** except the US, Canada and Mexico, which account for 12% of Thai exports. Our existing FTAs generally cover most goods categories except for country-specific sensitive industries, while majority of exports to these 3 countries are already ***exempted from taxes.***
- In TPP, some of these industries remain protected but to a lesser extent. Tariff elimination for ***sensitive goods*** are typically faded in over the next 5-11 years; while some still have import quotas.
- In the future, if there are more members joining, benefits could rise. Currently, South Korea, Indonesia, the Philippines and Taiwan have already declared their intention to join.

Q: Are benefits guaranteed if Thailand joins the pact?

North America makes up 12% of Thailand exports and half of these goods get tax exemption.

Products	Thailand Exports		NA's share in Thailand exports	Base Tariff	Competitors
	Value (USD billion)	Share			
Data processing machines	6.8	**25%**	18%	0%	-
Electronic components	5.8	**21%**	19%	0%	-
Rubber tires	2.0	7%	14%	5%	China, Malaysia
Gems and jewelry	1.4	5%	14%	0% - 15%	Vietnam
Prepared seafood	1.4	5%	21%	10% - 35%	Vietnam
Cars and parts	1.3	5%	5%	2.5%	Japan
Petroleum/chemicals	0.9	3%	4%	5%	Vietnam, Malaysia
Optical parts	0.9	3%	19%	0%	-
Textile	0.8	3%	41%	15% - 30%	Vietnam
Preserved fruits	0.7	3%	34%	0.5 cents /kg or litre	Vietnam

Source: EIC analysis based on data from Trademap

Q: Is it cost a lot if Thailand does not join?

A: If Thailand **<u>does not join</u>** the TPP, varied effects may incurred in following sectors

Sector	Sub-sector	Impact Level		Comments
Food and Agriculture	**Rice**	Low	Yellow	Lose market share in Japan to the US and Australia, but impact to Thai rice would be minimal because Japan still protect this sector by using import quota, and Thai rice is different from that of the US and Australia.
	Sugar	Low	Yellow	Lose market share in Japan to Australia, but Australia sugar is made from beet whose price is higher than Thai cane sugar around 10%, and Australia will target the US instead of Japan.
	Seafood	High	Red	Lose market share of canned tuna and frozen shrimp in the US to Vietnam as Thailand's processed seafood are taxed around 10%-35%. However, the effect will not be immediate as the US tariff elimination for Vietnam's prepared seafood will be delayed for 5 years.
	Chicken	Low	Yellow	Lose market share in Japan (our largest poultry export market) to the US as Thai chicken are taxed at 3% (processed) and 8.5% (frozen). However, effects are not immediate because Japan will delay poultry's tariff cut for 11 years, and Thailand mostly exports processed chicken which are different from US frozen dumps. But recent increase of Thailand's frozen chicken export to Japan raises competition concerns over US poultry in medium and long terms.

Q: Is it cost a lot if Thailand does not join?

A: If Thailand **does not join** the TPP, varied effects may incurred in following sectors

Sector	Sub-sector	Impact Level	Comments
Manufacturing	**Electronics**	No Impact	E&E parts get tax exemption under ITA*
	Electrical appliances	High	Lose market share in the US to Vietnam and Malaysia as Thai electrical appliances are taxed around 4%-10%
	Textile	High	Lose market share in the US to Vietnam as Thai textile and garment are taxed around 15%-30%
	Automotive	Low	Lose eco-car's market share in the US to Japan, but effects will not be immediate because US delays Japan cars' tax elimination for 25 years. Moreover, North America is only accounted for 5% of Thailand's total auto export, and Thai eco-cars currently face a low tariff at 2.5% in the US, so effects to Thai auto industry will be minimal. For concerns over parts' local content, effects vary at company level depending on supply chain of individual firm.
	Rubber products	Low	Lose tire's market share in the US to Malaysia as Thai tires are taxed at 5%, but the effect will not be immediate as the US will delay tariff cut for 10 years. However, latex and rubber sheets that we supplies to Malaysia may be affected from rule of origin requiring 40% of local content in some rubber products. On the other hand, TPP may raise demand for Malaysia's rubber goods, and boost demand for raw materials from Thailand.

Remark: ITA is Information Technology Agreement that eliminates duties on IT products

Q: Is it cost a lot if Thailand does not join?

A: If Thailand **<u>does not join</u>** the TPP, varied effects may incurred in following sectors

Sector	Sub-sector	Impact Level	Comments
Petroleum and Petrochemicals	**Oil and gas**	Low	North America held about 3% share of Thailand's total petroleum exports, so the impact will be minimal. However, we may lose market share in the US to Vietnam and Brunei as our crude oils are taxed 5-10 cents/barrel.
	Chemicals	Low	Although North America is only accounted for 3% of Thailand's chemical exports, the US is a main market for Silicon (55% share) and Antimony Oxides (90% share). However, effects are minimal for Antimony Oxides as it is tax-free goods. But we may lose market share of Silicon, which is taxed 5%, to Australia.
	Plastics	Low	Only 4% of Thailand's exported plastics goes to North America. However, some products such as plastic bags, Cellulose nitrate and doors/windows parts are somehow significant to Thailand's export portfolio (NA's share is 20% each) and they are taxed around 5%. However, our main competitor is China which is non-TPP country, so effects should be minimal. But in the long run, we are at risk to compete with Vietnam and Malaysia.

Q: Is it cost a lot if Thailand does not join?

A: If Thailand **does not join** the TPP, varied effects may incurred in following sectors

Sector	Sub-sector	Impact Level	Comments
Others	**Gems and Jewelry**	Low	Lose market share in the US (our 2nd largest jewelry market) to Vietnam as Thai gems and jewelry are taxed around 5%-15%. But quality of Thai craftsmanship is considerably higher than Vietnam, so the impact might be seen in the long run if Vietnam can improve its quality of works.
Investment	**FDI**	High	US and Japan investors (48% of Thailand's FDI in 2014) and other potential investors from Singapore, Hong Kong and China (15% of Thailand's FDI) may divert their investment to Vietnam and Malaysia.

Q: Is it easy for Thailand to join?

A: <u>**Conditions of entry**</u> might obstruct Thailand to join the TPP

- Acceptance of a new member requires the ***unanimous approval*** from current state members.
- New member accession will occur ***after ratification process*** by all current members, which may be in 1-2 years from now on.
- The US's fast-track deal cannot be done with any countries ranked on the Tier 3 list in TIP report, therefore, Thailand has to solve ***human trafficking problems*** before entering the pack.

Q: How much does it cost to join?

A: If Thailand decide to join the TPP, new rules will post many **challenges**

- ***Intellectual Property (IP)*** protection would limit competition and reduce access to generic biological medicines. This will create tremendous costs to Thai public health system.

- ***Investor-State Dispute Settlement (ISDS)*** may obstruct Thai government to protect people from polluting or health-hazardous businesses.

- ***Conditions of government procurement*** challenge Thai government to have fair bids between domestic and TPP investors as well as include technical specification into evaluation criteria.

- Thai government has to implement competition law to ensure that ***Thai State-Owned Enterprises (SOEs)*** or monopolies will not discriminate against other parties.

Q: What are other alternatives for Thailand?

A: There are several choices for Thailand if we do not join TPP

- ***RCEP*** is a viable alternative as the group combined makes up 50% of the world's population. However, the ongoing territorial dispute among potential members will make it difficult for the deal to go through.

- ***Bilateral FTAs with the EU and the US*** will continue to stall until Thailand resolves the human rights and political issues. The end of US-GSP privileges on the last day of 2017 even pressure Thailand to search for strategic instruments to maintain its market presence.

- ***FTAAP*** has been around in APEC meetings since 2006. It comprises of APEC's 21 members accounting for 50% of global GDP. Just a month after TPP deal, China declared its intention to push forward FTAAP in order to encompass the US-led pact and other regional frameworks.

Who Gain? Who Loss?

The United States of America

- TPP countries are US's largest export market accounted for 45% of US goods export in 2014.
- Exports to TPP countries support 4 million US jobs (or 8,500 jobs every billion USD of exports)

Gain	Loss
• Increase exports of American products because TPP will eliminate taxes on 18,000 US goods exported to TPP countries such as cars and parts, meats and dairy products. • Help US SMEs to penetrate foreign markets. • Facilitate American businesses and boost a number of US workers in TPP region. • Expand market to 'new FTA' TPP countries (Japan, New Zealand, Brunei, Malaysia and Vietnam) which currently accounts for 6% of US export in goods and services	• Inflow of cheaper goods may raise US unemployment rate, and wages might remain stagnant or even lower.

Source: EIC analysis based on data from USTR

Who Gain? Who Loss?

Japan	
Gain	**Loss**
• Automotive manufacturers will gain cheaper access to the US, which is Japan's largest export market, due to following reasons – Phase-in reduction of tariffs on car and part exports – Relaxation of 'Rule of Origin' which require only 45%-55% of the vehicle to be made in the TPP region, down from 62.5% under NAFTA pact. Hence, Japan will be able to buy cheaper parts from Non-TPP countries such as China.	• Beef, pork and dairy products manufacturers will be effected by low-price goods from the US, Australia and New Zealand. • For example, Japan will reduce import tariff for chilled-frozen beef from 38.5% to 9% within 16 years. That means imported beef will be cheaper around 30%. • However, only 30% of Japan farm products will become tariff-free, while others 70% remain in sensitive lists. For instance, Japan agreed to eliminate tariff for rice imported from the US and Australia in specific quota. Therefore, the effects will slowly come in a long period of time.

Source: EIC analysis based on data from USTR

Who Gain? Who Loss?

Vietnam

Gain	Loss
• Tax elimination will benefit textile, seafood (tuna, shrimp, squid), machinery and electronic appliances, crude oils, gems and jewelry industries. • TPP is expected to boost Vietnam's GDP by 11% and exports by 28% by 2025.	• Livestock farmers will affected from cheaper import meats from the US (pork and chicken), Australia and New Zealand (beef). However, Vietnam delay tax cut up to 13 years, so effects will not be immediate. • Lift of 2.5% import tariff on pharmaceutical products will lead to tougher competition between domestic and foreign companies. IP protection will also restrict Vietnam companies to produce new drugs.

Malaysia

Gain	Loss
• Automotive parts, electronics, rubber products, chemicals and palm oil producers will benefit from the pact.	• State-owned enterprises (SOEs) may suffer from the pact which calls for equal access to government procurement.

Who Gain? Who Loss?

Canada and Mexico

Gain	Loss
• Create new markets (e.g. Japan and Vietnam) for Canadian goods such as wheat, barley, beef, fruits, forestry products, processed food and alcoholic drinks.	• Domestic manufacturers of dairy products and automotive parts will be effected by cheaper goods imported from New Zealand (dairy products) and Japan (cars and parts) due to compromise on 'Rule of Origin' which lowers local content from 60% to 40-50%

Australia and New Zealand

Gain	Loss
• Australia will improve market access to the US for sugar, and to Japan for rice and farm products. • New Zealand will gain access to North America and Japan for dairy products and will also eliminate tariffs on key export goods such as fruits, seafood and wine.	• Increase the cost of medicines and negatively impact on public health. • Allow foreign investors to challenge government on health and environment laws.

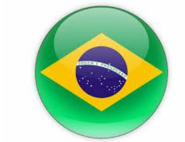
Source: EIC analysis based on data from Government of Canada, New Zealand

How about China?

Not Participate	Participate
• The People's Bank of China (PBOC) analyzed that China will miss a potential 2.2% expansion of GDP which is 'opportunity cost' around 0.5% per year for the four-year absence in the pact. • Companies will relocate their supply chains from China to TPP countries, such as Vietnam, in order to take advantage of TPP preferences.	• TPP contains very high standards with regard to labor laws, free market regulations, privatization, freedom of information requirements, stricter standards for IP rights. These will be hurdles for China to enter the pact.

Source: EIC analysis based on data from news release

TPP – How about Brazil?



Not Participate

- Loss competiveness in agro-based products such as chicken, beef, pork in Japan and Chile markets to Australia the US.
- Face more competition in the consumer goods and machinery markets in Peru, Chile and Mexico.

Participate

- Brazil government has to advocate isolationist policies that protect domestic industries and move away from global value chains (They currently set high local content and high import tariff to control inflow of cheap goods).

Source: EIC analysis based on data from news release

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