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Is Trans- Pacific Partnership a Mirage for the Indian Elephant in the Desert?

Abstract

The Trans-Pacific Partnership was negotiated in October 2015 between 12 countries - New Zealand, Peru, Singapore, United States, Vietnam, Australia, Brunei, Canada, Chile, Japan, Malaysia and Mexico. Research shows that TPP will eminently benefit its partner countries by adding $285 billion to their combined GDP and increase exports to $440bn by 2025. With the growing word in the media about such large gains, many developing countries such as India, which have significant trade relations with the participatory nations is under pressure to join it. Therefore, it becomes important analyze India's position from two perspectives in the current scenario– to remain outside the TPP or if it decides to be a part of the TPP, and debate over- its potential gain and loss.

Keywords: TPP, India, Trade

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Introduction

Globalization and liberalization have pushed market access to ravenous countries to innovate trade agreements. Until 1990's, countries witnessed only few types of agreement such bilateral or multilateral agreement, however, with liberalization of Asian economies in the late 1990's, especially the United States, engaged expeditiously in a new form of agreement called 'trade and investment framework agreement (TIFA)'. What started as small step towards negotiations towards as TIFA among Brunei, Chile, New Zealand and Singapore in 2006 was ultimately intervened by the dominating United States, restating its power in the domain and subdomains of international trade. Trade negotiations got complex and argumentative as more interested, developed and dominant countries joined for their share of pie in 2006 TIFA talks. Consequently, after a decade of contentious negotiations, the United States, Japan, Australia, Canada and eight other -Pacific Rim countries finally concluded and established a new form of agreement, the Mega FTA, which was widely referred to as Trans-Pacific Partnership (TPP).

The mega FTA, unlike normal FTAs, established trading relationship between developed and developing nations, irrespective of regions and continents. TPP was negotiated in October 2015 between 12 countries - New Zealand, Peru, Singapore, United States, Vietnam, Australia, Brunei, Canada, Chile, Japan, Malaysia and Mexico. Of the 12, half of them are developed nations whereas others are developing nations, but rich in minerals and natural resources. What makes Mega FTAs or the TPP more interesting is that it not only includes countries with unequal characteristics or GDPs/size, but also includes new provisions which go beyond bilateral or multilateral trade. The participating countries intend to promote economic growth and international trade by stretching past WTO liberalization, focusing on regulatory and border issues. The TPP agreement aims to create a free trade zone with common labor and environmental standards, and also to protect data and intellectual property rights.

As per Eurasia group, a research firm, the TPP will eminently benefit its partner countries by adding $285 billion to their combined GDP and increase exports to $440bn by 2025. The report predicts that Vietnam (a developing nation) will gain the most in percentage terms, whereas Japan will gain the most in absolute terms. As a result of these figures, there is a growing word in the media and among the policymakers of developing nations to join the TPP. Many Asian countries such as South Korea, Taiwan, Thailand and Philippines have conveyed their interests in associating themselves with the TPP. Most of these countries are important trade partners of India. Therefore, it becomes important analyze India's position from two perspectives in the current scenario– to remain outside the TPP or if it decides to be a part of the TPP.

Aim of the Study

The present paper attempts study of two contra factual and debates over the potential gain and loss. This study shall give a clear picture about the future scenario. The paper is organized into three sections, where the first section focuses on the expected text or provisions of the TPP. The second section studies the trade impact if India shall remain outside the TPP. Then the third section shall forecast the impact upon the trade in India if it accepts the TPP.

Sections 1

Understanding the Provisions of the TPP

Although the Trans-pacific agreement aims for detailed transparency, it is ironical that it was negotiated in considerable secrecy. The final texts of the trans– pacific agreement is not yet available in the public domain, however we can get an approximation of the agreement from different sources such as United States Trade Representative (USTR), past FTAs and various leaked texts. The text of the agreement is established on 29 chapters, of which only 8 deal with traditional free trade issues. The traditional chapters cover technical barriers to trade, rule of origin, market access, rules of origin, customs cooperation, services and legal and institutional aspects of the negotiations and custom cooperation, whereas the new provisions include competition, labor and environmental issues, protection of foreign investors, intellectual property rights and government procurement. (Banga and Sahu, 2015)

The agreement attempts to reduce or eliminate tariff barriers gradually. Tariffs on industrial products will be eliminated immediately, whereas the tariff on agriculture products will be reduced over a long period. However, there is a heavy exemption on the US import duty on the cars and light trucks from Japan. The US has also seeks a liberal time period of 25-30 years for the import of milk powder and non dry milk products. Further, other countries have reserved the right to impose duty on dairy, rice, sugar, wheat and beef. (Das, 2015)

In the apparel sector, the TPP imposes a 'yarn forward rule', which exempts all duties (zero duty) on those products whose yarn is made in the TPP countries only. For instance, the yarn forward rule will severely harm Vietnams' export as it imports fabric from China. In the food sector, the TPP contains provisions that restrict other countries to impose restrictions on their agriculture exports to safeguard their domestic market, and therefore leaving their domestic markets vulnerable to price rise (US department of agriculture).

The TPP agreement prohibits any restriction on the flow of data over the internet. It also binds the participatory countries to open any new markets in services, especially for telecommunication and financial services. One of the most important provisions is that it mandates public enterprises or state owned enterprises to function on commercial lines i.e. transparency and regulatory fairness, so that any country cannot favor its SOE over any private firm. Any country that breaches this provision is liable to strict trade sanctions (Office of the USTR, "Ensuring Fair Competition").

The TPP mandates the participatory countries to incorporate laws on freedom of association, hours of work, the right to collective bargaining, occupational safety and health and minimum wages. These laws should be fully enforceable through a dispute settlement mechanism and failure to comply such laws will result in trade sanctions. The TPP aims to create a level playing field for American workers and firms throughout the agreed market Office of the USTR, "Protecting Workers").

The agreement sorts to commit to uniform environment standards to fight illegal fishing and logging, wildlife trafficking, and illegal fishery subsidies. It also curbs existing subsidy programs and schemes to prevent overfishing (Office of the USTR, "Preserving the Environment")

One of the most important provisions of the TPP is of protecting the rights of the foreign investors. As per this clause, the foreign investors can sue the government by the means of an Investor – state Dispute settlement (ISDS) mechanism for any step that could reduce profit or potential profits. The foreign investors have the right to acquire land, natural resources, and factories without prior government permission.TPP aims to equalize the status of individual foreign firms to sovereign nations. The TPP strictly protects Intellectual property rights (IPR), especially of drug patents. These include mandatory data transparency, ever – greening of patents and linking patent status with marketing approval of a drug (see Wiki Leaks Release 2015b for details).

Section 2

If India Remains Outside the TPP

Some researchers have attempted to quantify the trade diversion if India remains outside the TPP. Most of these researches uses Competitive General Equilibrium model (CGE) with global trade analysis project (GTAP) database. Petri (2011) has estimated using an 18 sector, 24 region competitive general equilibrium model that India would suffer trade diversions up to 0.3% of world exports in 2025. He has used 850$ billion as base figure and concluded that this shall amounted to 3$ billion in 2025. Xin (2014) took 25 regions and 41 production sectors from each country to quantify the impact of TPP using competitive general equilibrium model. His results showed that India (which remained outside TPP) would face trade diversion loss of 0.2% of gross exports from both the scenarios of TPP with or without China. Narayan and Sharma (2014) and Faruqui (2015) use the GTAP model to study TPP's impact and founded that if India remains outside the TPP, it will result in a trade diversion loss of 0.2% and 0.09% of total trade respectively.

Many researchers have critiqued competitive equilibrium model (CGE) and raised authenticity concerns on its simplistic assumptions. According to Taylor and Armin (2006), CGE models assume – constant trade deficit, fixed labor employment across the world and adjustment of flexible taxes on households. This insinuates that 'price mechanism' will always respond to liberalization in such a way that it will always increase the overall well being. Further, Pangariya and Duttagupta (2001) argue that CGE implicitly uses 'Armington assumption', which states that domestic and foreign goods are imperfect substitutes.

Effect on Indian Exports

Keeping the critique in hand, the findings of (Petri et all, 2001), (Xin, 2014), (Narayan et all, 2014) and (Faruqui, 2015) confirm to a careful analysis of India's exports. India's dependence on the TPP countries has declined from 33.2% in 2000 to 24.8 % in 2014. During this course, India's trade with the developed nations has declined against that of developing countries. India provides maximum exports to Vietnam (31%), followed by Peru (28%) and Brunei (27%). Among the developed TPP nations, India deals the with Singapore (25%), followed by Australia (16%) and US (14%) (Banga and Sahu, 2015).

India's Share of Exports with TPP Countries.

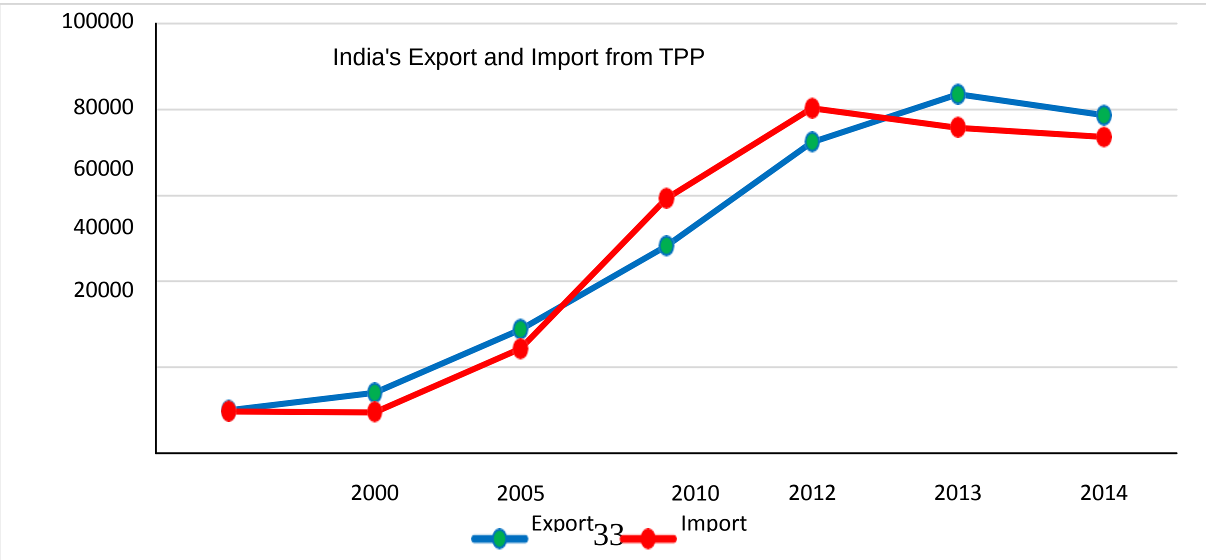
TPP parties	Total Exports (1991-00)	Total Exports (2001-05)	Total Exports (2006-10)	Total Exports (2011-13)	Total exports 2014
United States	48.9	49.1	41.1	39.8	41.4
Singapore	8.6	13.2	15.5	14.6	11.0
Japan	20.9	12.7	11.2	11.7	10.3
Malaysia	7.2	7.7	9.2	9.2	10.2
Australia	7.5	9.1	11.8	9.7	8.2
Vietnam	0.7	1.3	2.3	4.3	6.1
Mexico	0.9	1.1	1.8	3.3	4.2
Canada	3.9	4.1	3.5	3.1	3.9
Chile	0.6	0.9	2.0	2.1	2.5
Peru	0.2	0.2	0.5	0.8	0.9
Brunei	0.0	0.0	0.3	0.7	0.6
New Zealand	0.7	0.6	0.7	0.6	0.6

Source: Estimated from Wits Database

Despite declining trend, the TPP countries constitute one fourth of total exports and hence are important. With the TPP, there will not be much trade diversions because India already has FTAs with Japan and ASEAN , and it already enjoys zero duty on its major trading TPP partners such as Brunei (27% of TPP share), Malaysia(10.2 % of TPP share), Singapore(25% of TPP share) and Vietnam(30% of TPP share). India is also in the process of signing FTAs with Canada and Australia. Thus the only major trade diversion loss will be to the United States. Also, India would lose market share in apparel sector to Vietnam because of the zero duty provision on TPP.

Researchers have also expressed concern over TPP resulting in upward harmonization of product standards that could impose stringent regulations on compliance for Indian products entering TPP countries (Palit 2015 and Rajagopalan 2015). However, such a concern is magnified, as the usual US FTAs do not contain provision on harmonization of standards and US stands unlikely to withdraw from such a stand. Moreover, assuming that US mandates compliance to such standards, it is unlikely that it will change its own standards and thereby ask the remaining TPP partners to comply with theirs. This will hardly affect India's exports to TPP markets as its 80% exports to the TPP countries are in product lines that India also exports to the United States, which amounts to more than 1$ million. (Das, 2015)

Effect on India's Imports



Unlike exports, India is a huge importer for the TPP countries. India's imports have timely immensely increased over the years, depicting the dominance of developing nations on imports. In total, TPP countries share in India's import accounted for approximately 70% in the 2014. Of which, the United states accounted for 34% of the TPP import share whereas the developing countries together accounted for 30% of the TPP import share. Machinery and electronics, animal products, stone and glass and metals are the imported products from TPP countries (Banga and Sahu, 2015).

India's Import from TPP Countries (in cr.)

TPP Partners	(1991- 00)	(2001-05)	(2006-10)	(2011-13)	2014
United States	31,040	26,368	85,110	69,280	20,440
Malaysia	9,700	9,028	28,829	28,931	10,929
Japan	20,528	12,902	33,315	34,071	9,964
Australia	10,468	13,076	47,830	37,217	9,935
Singapore	8,823	10,207	33,796	22,979	7,069
Canada	3,505	3,418	9,952	7,864	3,748
Mexico	669	367	5,369	9,960	3,446
Chile	548	1,063	7,628	7,567	3,184
Vietnam	254	280	2,121	6,326	2,782
Brunei	1	2	1,482	2,410	943
New Zealand	783	539	2,111	2,115	598
Peru	144	140	813	1,543	564
All	86,463	77,389	258,355	230,264	73,600

Source: Wits Database supplied by World Bank

TPP will lower the trade tariffs to zero duty, thus empowering the producer to cheaper imported goods from their TPP partners. This in turn would give advantage to the producing firms by having a cost advantage in the domestic markets of non TPP countries, and thus increasing their share of export and competition in these (non TPP) countries such as India. Due to this, India's import of goods may increase and hence remaining outside the TPP may hinder domestic manufacturing.

Effect on Foreign Direct Investments

India received FDI of 60$ billion while invested FDI around 30$ billion in 2014 in TPP countries. Singapore, Japan and United States are the top TPP investing (26% of the total FDI) countries whereas United States and Singapore are also the top receivers of investments (39% of the total outward FDI). However India has no Bilateral Investment Promotion and Protection Agreement (BPPA) with them, and hence India is vulnerable to lose a lot of investments to other developing countries that protect investor's interest (Banga and Sahu, 2015). However, no empirical study at present proves that FDI increases with international investment agreements (IIAs) (Das, 2015).

Section 3

If India joins the TPP

Not much research has been done in the perspective of reflecting on the possibility of India joining the TPP. According to Petri (2014), India shall benefit to the extent of 500$ billion if it joins an expanded TPP, including China, Korea, Thailand, Indonesia etc. This expansive gain shall be 60% more than any other country. While this figure has been widely used by analysts and media to force India to accept the TPP, what remain in question is the CGE assumptions such as constant trade deficit and fixed labor employment across the world. These assumptions are critical to the base of the model. According to Bertam and Terry (2014), the results of (Petri et all, 2014) do not come out with strong analytical foundations. This study does not account for the negative effects of TPP on India such as pharmaceutical drug prices.

Some researchers have given a hypothesis that TPP shall attract foreign investors because of its robust investor protection provisions (Mehta, 2015). On the other side, a rigorous empirical study by UNCTAD's trade and development report in 2014, cautions the developing economy policymakers by not signing agreements based on such unreliable hypothesis. India shall face adverse costs, if it were required to adhere to TPP provisions such as tariff, SOEs, IPR regulations, agriculture products etc. On joining the Trans- pacific partnership, India shall be exposed its domestic industry to severe competition. The domestic industries shall become very vulnerable to shutdown because of their higher cost of production and lower infrastructure facilities than those of foreign industries. The famous example of such extinction was the computer hardware industry, which was completely wiped out following India joining the zero duty WTO information technology agreement.

India shall also become vulnerable to food insecurity, especially during the high food price periods, as the agreement prevents export restriction on agriculture and food products for the benefit of domestic market. Indian agriculture shall face serious danger, as major playing developed TPP members (Australia, US, Canada) have reserved their right to subsidize billions of dollars to their agriculture, while at the same time prohibiting customs tariffs on imports. Notably, the TPP shall restrict the government to use state owned enterprise for socio-economic objectives, particularly for employment generation. As the TPP attempts to remove non trade barriers, it imposes other barriers such as labor laws and environment standards. Based on the arguments as mentioned above, joining TPP shall sorely harm 'Make in India' policy.

Distinct from the other costs mentioned above, India shall face a serious danger in the pharmaceutical industry because of the intellectual property rights provision. The IPR provision of TPP seeks for stricter protection of patents and aims at reducing or eliminating competition from cheaper generic medicines. As a result, this shall lead to amendment in the IPR Act, 1970, opening new path for ever- greening patents. With patented drugs having monopoly in the Indian market, there shall be sharp rise in prices of medicines. For instance, in the existing market the generic medicines for Renal and liver cancer costs Rs 8800, whereas the patent medicines cost Rs 2,80,428 (Natco Pharma Limited vs. Bayer Corporation). Nobel Laureate Joseph Stiglitz has criticized this by stating that "the rising medical drugs prices will only lead to worse public health and unnecessary death". This situation will certainly worsen if India joins the TPP and create monopoly of patented drugs in the medical industry.

Conclusion

The TPP has been comprehensively created by the US to push its business endeavors across its limited market, especially of its pharmaceutical industry and that of its investors. Disappointed at its inability to push its agenda in the Doha round (multilateral agreement) at the WTO, the US has utilized the TPP to make a formal standards on numerous non- trade related issues. These non trade provisions are likely to raise the cost of manufacturing of the participatory countries, thereby reducing the cost effectiveness of their export. While numerous developing nations have rejected the endeavors of the US to push a portion of the non- trade issues into the agenda of the WTO, the large expected gains may induce some of them to join the TPP agreement.

From the point of view of the participatory countries, the success of the TPP will rely on upon bringing developing economies, including India, China Thailand and Indonesia, under its blanket. The participatory countries are expected to suffer in terms of cost competition because of the strict labor and environment standards. This will harm their exports (to non TPP countries) and their share in the domestic markets, as the exports of non TPP members will have an upper hand. Further, the developing nations outside the TPP shall favor their state owned enterprises to elevate socio-economic conditions and generate employment, whereas the participatory countries will not be able to do so as per the provisions. Hence, in order to safeguard their national interest, TPP countries are likely to expand the geographical markets by attracting developing nations to participate in the agreement.

From the Indian point of view, as per the present national situation remaining outside the agreement seems to be a safer option, but joining the agreement could entail huge gains. However, these potential gains shall come at huge cost of rise in medicines, control of state owned enterprises, stricter intellectual property rights and food insecurity. The country needs to take a balanced and comprehensive approach in examining the agreement and look at it from various dimensions. It should try check it if its overall trade goals match to those of the agreement.

On the other hand, in order to alleviate potential impacts of remaining outside the TPP, India should act quickly at international and domestic frontiers. Domestically, India should try to increase the competitiveness of its exports. This can be done by boosting Indian manufacturing, easing business regulations, comprehensive goods and service tax and enhance standards in different products to match up to those of foreign products. Internationally, India needs to negotiate FTAs with partners that it can potentially gain from such as India – EU bilateral trade and Regional comprehensive Economic Partnership (RCEP). India should enhance market access to settle trade diversion loss from the agreement. Importantly, India should club with other developing countries to pressurize to resist the United states in pushing for non- trade issue in WTO.

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