

Implications for NAFTA of the Asia-Pacific and Trans-Atlantic Trade Partnerships

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Overview: TPP, TTIP and NAFTA

- The slow pace of the Doha Round has led key trading nations to pursue “mega-regional” free trade initiatives.
 - Trans-Pacific Partnership (TPP), under negotiation since March 2010.
 - Trans-Atlantic Trade and Investment Partnership (TTIP), which began in July 2013.
- US, Canada, and Mexico negotiating TPP; each has separate initiatives with Europe.
- TPP and TTIP aim to (1) deepen trade/investment ties with partner countries, (2) create new trade rules in areas not yet covered by WTO obligations, and (3) set precedents for broader multilateral negotiations.
- Both have important implications for NAFTA and North American economic integration.

TPP talks in 2014: ready to close?

- TPP-12 committed to comprehensive liberalization of barriers to trade in agriculture, manufactures, and services.
- Ministers engaged in intensive talks to craft final deal – next session in Singapore later in February.
- Major bottleneck on market access reforms (especially agriculture and services).
- Other key “sticking points” nearing resolution:
 - IPRs in pharmaceuticals and new digital economy
 - Investor-state dispute procedures
 - Rules/enforcement on environment and labor
 - Disciplines on state-owned enterprises
- Deal possible in Spring 2014. Other countries consulting/considering future membership (Korea, Indonesia, Thailand, the Philippines) that could create TPP-16 later this decade.

Will the US Congress pass new Trade Promotion Authority (TPA) for the TPP?

- TPA last voted by Congress in 2002; expired in 2007.
- Draft TPA legislation tabled January 2014 by leaders of both parties; strongly supported by farm and service sector interests.
- But partisan differences about sensitive issues (labor, environment, and IP; currency manipulation) could delay passage.
- Departure of Senator Baucus and opposition by Senate Majority Leader Reid means TPA will not move quickly in Congress in coming months.
- TPA passage desired but not required before TPP deal closes; TPA “fast track” provisions would apply to TPP and other current US trade initiatives retroactively.

Why TPP is important for NAFTA countries

- TPP-12 countries represent almost 40% of global output and 25% of global exports.
- NAFTA is core of TPP: 68% of combined output and almost 60% of population.
- Developing comprehensive new 21st century rulebook for trade and investment.
- Adds new FTA partners, plus updates existing pacts with other TPP countries.
- Reinforces economic and political ties among Asia-Pacific countries; stepping stone to broader Asia-Pacific and multilateral trade accords.
- TPP would generate significant income/trade gains for each country.

NAFTA and TPP, 2025

Country	Income gains						Export gains					
	TPP-12		TPP-16		TPP-17		TPP-12		TPP-16		TPP-17	
	US\$	%	US\$	%	US\$	%	US%	%	US\$	%	US\$	%
US	76.6	0.4	108.2	0.5	327.6	1.6	123.5	4.4	190.5	6.8	634.4	22.5
Canada	8.7	0.4	12.4	0.6	33.2	1.7	13.8	2.3	17.7	3.0	34.8	5.8
Mexico	9.9	0.5	31.2	1.6	91.1	4.5	19.1	3.8	40.1	7.9	108.4	21.4

US\$ = billions of 2007 US dollars

% = percent change from 2025 baseline

Note: TPP-16 scenario based on membership of Indonesia, Korea, Philippines, and Thailand; TPP-17 scenario includes China.

Source: Petri, Plummer and Zhai (2014), asiapacifictrade.org.

How TPP will affect the NAFTA provisions

- TPP will update and augment NAFTA without renegotiating NAFTA.
- Regional rules of origin will help integrate North American firms in global supply chains and increase import competition in the North American market.
- Expansion of environment and labor provisions and integration into core agreement.
- Added coverage of government procurement; new disciplines on state-owned enterprises and e-commerce.
- No new disciplines on contingent protection policies.

What to expect from the TTIP

- US-EU trade in goods and services totals >\$1 trillion annually.
- US-EU cross-border stock of direct investment is about \$4 trillion.
- TTIP seeks to eliminate tariffs and substantially reduce non-tariff barriers to trade and investment.
- Plus ambitious goals re coordinating and/or harmonizing regulatory policies affecting trade in goods and services.

TTIP negotiators face key challenges

- Strong political opposition from independent regulatory bodies.
- Sharp US/EU differences on dealing with financial regulatory policies in TTIP.
- Cutting farms tariffs without also addressing farm subsidy reductions.
- Extending access to public procurement tenders covering state/local governments and public utilities in Europe.
- Public concerns about investor-state dispute settlement (ISDS) and data/privacy issues.

Implications of TTIP

- TPP talks involve the 3 NAFTA trading partners; talks with EU are separate bilateral efforts: TTIP, Canada-EU CETA (signed in 2013), and EU-Mexico FTA (entry into force in 2000).
- TTIP's novel contribution will be regulatory convergence; higher TTIP standards/regulations could affect access to US/EU markets for Canada and Mexico.
- CETA includes some enhanced provisions on agriculture (e.g., market access through TRQ and GI protection) and procurement (e.g., sub-federal level), but less advanced agenda on regulatory issues compared to TTIP agenda.
- EU-Mexico pact relatively less comprehensive; concerns that advantages gained through EU FTA could easily be eroded by US and Canadian deeper liberalization.
- TTIP membership procedures will limit third country accession until after deal is concluded, despite interest of Mexico and Turkey.

Can TPP and TTIP spur new multilateral trade talks?

- US and EU don't seem to have a strategy yet for using mega-regional pacts to re-engage multilateral negotiations.
- New provisions on services, disciplines on the use of state-owned enterprises, environment and labor, and competition policy could set precedents for future WTO negotiations.
- Committing to new disciplines on farm subsidies would be the most effective leverage to encourage other WTO members to accept a broader negotiating agenda.
- Progress on services also is essential for any revival of WTO talks; TTIP can help coordinate US-EU approach on Trade in Services Agreement (TISA) now under negotiation.

Conclusions

- TPP will update and augment NAFTA without renegotiating NAFTA, and thus contribute to a deepening of North American economic integration.
- TPP should strengthen North American competitiveness and significantly boost output and exports of each country.
- TTIP could produce additional advantages for the NAFTA countries; however, its regulatory provisions could have important implications for the NAFTA region. US officials need to take care not to create new frictions in the NAFTA market as a result of the TTIP regulatory reforms.
- NAFTA countries would also benefit if TPP and TTIP inspire new plurilateral and multilateral trade initiatives that strengthen the world trading system.