TPP: Shifting Up Supply and Value Chains

Dr. Deborah Elms
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elms@asiantradecentre.org
Changing Nature of Value Chains

• “Second unbundling” of global value chains
  – Drop in prices for transportation and telecomms
  – Search for appropriate labor inputs

• Locate exactly the right “slice” of chain in exactly the right geographic location

• Not just goods, but services too
  – Even manufactured goods now 30-70% services

• Not just fragmentation of parts and components, but fundamentally new way of doing business
  – Trade in tasks plus geographic dispersion
Existing Trade Rules Not GVC Friendly

• Tariffs very problematic for GVCs—compounded for every border crossing
• Embedded tariffs can be high and amplification possible even in FTAs
  – Even in sectors apparently covered by ITA
• Tariff escalation hits GVCs as well, esp food
• Trade facilitation delays also compounded
  – Time, money, extra inventory costs
• Incompatible standards increasingly problem
• Such costs can be added to each and every part or component in chain as well
FTAs Don’t Usually Solve Problems

- FTAs too small or have wrong countries
- Tariff cuts inadequate—too small, too late, not cut at all
- Rules of origin (ROOs) a hassle
- Customs problems of all sorts: paperwork challenges, rules not helpful, too complex
- Services often not included at all or barely
- Non-tariff issues usually excluded, including standards, which are often biggest problems
- Businesses not consulted (or poorly consulted) during negotiation phase
Enter TPP...

- TPP provides significant benefits for GVCs
- Tariffs to zero on EIF for 90% of goods across 12 members
  - Includes all tariff lines for all products
  - Some TPP members have even better coverage
  - Tariff cuts can be substantial and fast
- Many problematic mechanisms avoided
- Rules of origin very GVC friendly
  - ROOs the same in all 12 countries
Add in Other Goods Rules

• TPP does not just cut tariffs though
• Trade facilitation includes several specific provisions of great interest for GVC firms
  – Advance rulings
  – Self-certification
  – Better harmonization of customs across members
• Greater transparency overall, esp regulatory
• Logistics and distribution also improved
Also Key: Services and Investment

• Negative list scheduling: every single sector and subsector open (with remarkably limited exceptions)
  – GVC firms can source services inputs, move investments as needed to match demand/supply
  – Unprecedented access
• Allows large and small firms to join GVCs
• Performance requirements also banned and greater clarity on investment rules, more transparency and consistency
Sprawling TPP Agreement

• Hard to see clearly exactly all the benefits of TPP for GVC firms because deal is so big
• Benefits are scattered
  – Government procurement opened
  – E-commerce could be very big in future?
  – Baby steps towards regulatory coherence
• But TPP does not address taxes, does not get far in standards, does not address licensing or fix all non-tariff barriers that cause firms problems
TPP Will Cause Supply Chain Restructuring

• Because the benefits for GVC firms are substantial, firms will start shifting to TPP
• May be direct moves of existing operations
• May be shifting future investments into TPP
• But will also mean trade and investment diversion across region from non-TPP members into TPP member countries
  – Firms will go to wherever benefits are greatest
  – Countries that are not in the TPP will have to think hard about how to avoid “own goals” in future
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Deborah Elms
Executive Director
Asian Trade Centre
Singapore
www.asiantradecentre.org