The Trans–Pacific Partnership Agreement: The Stakes for Mexico and the United States

Joe Barnes, Bonner Means Baker Fellow

EXECUTIVE SUMMARY

The Trans–Pacific Partnership Agreement (TPP) is an ambitious trade and investment agreement currently being negotiated among 12 countries of the Asia–Pacific region. Both the United States and Mexico are party to the talks. The leaders of each believe that the TPP will bolster domestic economic growth. In addition, the agreement is seen by the United States as reinforcing its strategic “pivot” to the Asia–Pacific. Mexico, for its part, fears that the TPP will strengthen competitors’ share of the giant U.S. import market. For both countries, the TPP offers an opportunity to deepen U.S.–Mexico economic ties without reopening the still–contentious North American Free Trade Agreement (NAFTA) for negotiation. It may also serve as a vehicle for advancing the current Mexican government’s economic reform agenda.

BACKGROUND

The TPP is a free trade agreement (FTA) being hammered out by 12 parties: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. The origins of the TPP date back to 2005, with the beginning of talks aimed at a Trans–Pacific Strategic Partnership Agreement (TPSEP) among Chile, New Zealand, Singapore and, later, Brunei. The talks gained new salience in 2008 when the United States joined them. Australia, Vietnam, and Peru entered negotiations the same year; Malaysia joined in 2010. Canada and Mexico entered the talks in 2012, followed by Japan in 2013. Both the Republic of Korea and Taiwan have shown interest in joining TPP negotiations.

Notably absent from TPP talks is China. While formally welcome to join, the comprehensive nature of the TPP makes China’s participation questionable. Beijing would have to undertake significant domestic reforms in such areas as regulatory transparency, production subsidies, and state-owned enterprises—all subjects currently being negotiated in TPP negotiations.¹

The TPP is a so-called “mega–regional agreement.” If successfully concluded, the agreement would include economies representing roughly 40 percent of world output and about 25 percent of global exports. Countries party to the TPP negotiations are extremely varied by population, GDP, and level of economic development. The United States has a population and GDP over twice as large as Japan, the next highest TPP party in both categories. In 2012, per capita GDP ranged from $60,000 in Singapore to $3,500 in Vietnam; U.S. per capita GDP
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The United States is, by any standard, the most important party in the TPP negotiations. But Mexico is not a minor participant. Its population, at 115 million, is the third highest, behind the United States and Japan. With a GDP of $1.2 trillion, Mexico falls into the middle of the pack, behind the United States, Japan, Canada, and Australia, but ahead of the others.

The TPP has been under extensive negotiation since 2010, with 20 rounds of formal talks. Several deadlines for completion have come and gone. A number of key issues apparently remain unresolved. U.S. demands that Japan open up its agricultural and automotive sectors are apparently a major sticking point. Proposed investor dispute mechanisms reportedly remain a bone of contention between the United States and other countries, notably Australia. It also remains unclear whether the TPP will include a formal body—such as a secretariat—as a forum for data collection, monitoring performance of member states, and consultation. Some have suggested that the Asia-Pacific Economic Cooperation (APEC) secretariat could provide this function. The idea is problematic: a number of APEC members are not party to the TPP talks. The precise final form of any agreement is not yet known. Negotiations have largely been conducted in secret, a subject of controversy in itself.

It is nonetheless clear, from public statements, press reports, and WikiLeaks revelations, that the TPP is ambitious in scope. In particular, the TPP will move far beyond tariff reductions and tackle so-called “behind the border” barriers to foreign goods and services. Indeed, only five of the 29 chapters of the draft agreement reportedly deal with traditional tariff barriers. The TPP addresses intellectual property protection, adjudication of investment disputes, rules for government procurement, competition with state-owned enterprises, rules of origin, labor and environmental standards, regulatory harmonization, and facilitation of supply chains. How far the final agreement will reflect these goals is not yet known; given the complexity and contentiousness of the issues involved, we can expect the completed text to reflect substantial compromises. But proponents of the TPP nonetheless see it as potential template for 21st century free trade agreements.

The TPP talks may yet fail. As noted, a number of difficult subjects remain to be ironed out. And there are important domestic constituencies, in countries like Mexico and the United States, that will oppose ratification. Opponents will likely include businesspeople and workers in sectors that will see more competition under the TPP. Regulatory harmonization and investment dispute mechanisms will also likely be controversial. Many, particularly on the political Left, worry that these provisions will undermine democracy by tilting the playing field in favor of corporations.

Nonetheless, the momentum toward a final accord, though slower than proponents have hoped, is strong. Given the huge high-level effort already dedicated to negotiate an agreement, inability to strike a final agreement would be a very public failure for the governments involved. Moreover, there exists substantial support for an agreement among governmental and business elites in countries party to the talks. In the United States, for example, the initial decision to join the TPP talks was made by the Republican administration of George W. Bush; negotiations have continued under his Democratic successor, Barack Obama. Mexico shows a similar continuity: PRI President Enrique Peña Nieto has strongly supported his country’s participation, a policy initiated by his predecessor, PAN President Felipe Calderón. More generally, support by elites stretching from center-left to center-right in both countries reflect a shared belief in the advantages of free trade in bolstering economic growth.

WHY NOW?

The drive to conclude the TPP—like the effort to conclude a Transatlantic Trade and Investment Partnership (TTIP) between the United States and the European Union (EU)—in part reflects disenchantment with the World Trade Organization (WTO) as a vehicle for substantial trade and
investment liberalization. Despite a decade of negotiations, the WTO’s so-called “Doha Round” has thus far yielded no comprehensive agreement, largely because of disagreements between developed and emerging economies.6

The TPP also reflects the growing importance of the Asia-Pacific region in the global economy. The region—defined here by 21 Pacific Rim countries currently members of APEC7—represents 40 percent of world population, over 50 percent of global GDP, and the world’s two largest economies, the United States and China.

The United States and Mexico already have substantial trade relationships with Asia. In 2012, roughly 25 percent of U.S. exports went to East and Southeast Asia; about 35 percent of U.S. imports came from the region.8 Mexico’s trade with the region is relatively smaller and more highly skewed: less than 5 percent of the country’s exports went to East and Southeast Asia but about 25 percent of its imports originated there.9

Neither the United States nor Mexico is a stranger to free trade agreements. Indeed, the North American Free Trade Agreement, which includes the two countries and Canada, is now 20 years old. NAFTA may remain controversial in both the United States and Mexico, but it still represents the cornerstone of U.S.–Mexico economic relations and, indeed, is a model for other regional free trade agreements, including the TPP. (It should be noted here that the TPP is almost certain to go beyond NAFTA in a number of areas, including intellectual property right (IPR) protection, environmental and labor standards, and “leveling the playing field” with state-owned enterprises.)

In addition, both the United States and Mexico have concluded a number of free trade agreements in the past 25 years. The United States has free trade agreements with 19 countries other than Mexico. It is also a party to the Dominican Republic–Central America–United States Free Trade Agreement, a regional grouping.10 For its part, Mexico currently has FTAs with the European Union, the European Free Trade Association (EFTA),11 Chile, Uruguay, Colombia, Peru, Israel, and Japan. In 2011, the Mexico–Central America FTA was created to replace smaller regional (Mexico–Northern Triangle) and bilateral FTAs (Mexico–Costa Rica and Mexico–Nicaragua). When it enters into force, the new Mexico–Central America FTA will connect Mexico with all five countries: El Salvador, Costa Rica, Guatemala, Honduras, and Nicaragua.

Not least, Mexico is a member of the Pacific Alliance, a Latin American group founded in 2012. In economic terms, the alliance is committed to a) increasing trade and investment flows among members and b) expanding members’ economic ties to other countries of the Asia-Pacific. But the alliance also has a broader agenda that includes deeper financial integration, easier travel among member states, and even joint diplomatic representation. Peru, Chile, Colombia, and Mexico are founding members of the alliance; Costa Rica and Panama are in the process of joining.

For both Mexico and the United States, the TPP offers advantages over their current patchworks of bilateral trade agreements. First and importantly, the TPP talks include countries with which neither the United States nor Mexico currently has FTAs. Moreover, a mega-regional agreement moves toward common standards that will facilitate trade in an era increasingly characterized by value chains that include intermediate goods from one or more third countries. Finally, the TPP permits countries effectively to update and upgrade existing bilateral FTAs. The same is true of existing regional FTAs, notably NAFTA, a subject to be addressed later.

STAKES FOR THE UNITED STATES

The U.S. drive to conclude the TPP has clear geostrategic purposes. It reflects, in general, a recognition of the growing importance of the Asia-Pacific region. It also embodies the “pivot” — or rebalance—to Asia that is a key element of the Obama administration’s foreign policy. At its root, the pivot is an effort to shift U.S. diplomatic and military resources toward the Asia-Pacific Region and, by implication, away from the Middle East. To the extent that events in the
Middle East (and Ukraine) continue to dominate U.S. foreign policy, this shift has been only a partial success. Nonetheless, the TPP—if ratified—would be a historic accomplishment of the “pivot.” It would bolster ties to existing U.S. allies in the region—Japan, Australia, and, potentially, the Republic of Korea—and create closer links to countries, like Vietnam, that seek a closer relationship with the United States.

It is important not to view the TPP as exclusively—or even primarily—a U.S. effort to “contain” China. Liberalized international trade and investment has long been a goal of U.S. foreign policy dating back to the late 1940s and Washington’s promotion of the General Agreement on Trade and Tariffs (GATT). Moreover, the idea of “containing” China economically is highly problematic. Given its population, GDP, and robust rates of growth, China will remain an economic superpower whether it joins the TPP or not.

Nonetheless, strategic calculation surely plays a part in the U.S. drive to conclude the TPP, as it does with U.S. efforts to negotiate another mega-regional agreement—the TTIP—between the United States and the EU. TTIP talks were launched in 2013; Washington clearly sees the agreement as a complement to the TPP. Together, the TPP and TTIP would put Washington at the center of a global economic architecture stretching from East Asia to Central Europe. Concluding both agreements would reinforce Washington’s role as the dominant Atlantic and Pacific power, representing an economic complement to extensive U.S. defense ties with NATO in Europe and with Japan, the Republic of Korea, Australia, and New Zealand in Asia and Oceania.

However, economics remain a central element in the U.S. drive to conclude the TPP. Important sectors of the U.S. private sector see the agreement as a means to increase access for U.S. goods and services in the growing Asia-Pacific market through the reduction of tariff and, especially, non-tariff barriers; to provide more robust protection of IPRs; to foster a more hospitable climate for U.S. investors in the region; and to create a rules-based trade and investment regime of potentially global application, perhaps ultimately through the WTO.

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Not least, the TPP will support efforts at further economic reform in Mexico. Economic liberalization in Mexico reaches back over 20 years; NAFTA, which went into force in 1994, is an earlier centerpiece of that process. President Enrique Peña Nieto, who assumed office in late 2012, has embarked on an ambitious domestic reform program that includes labor regulation, education, telecommunications, and, perhaps most dramatically, the energy sector. Increasing Mexico’s international competitiveness in the face of challenges from relatively low-wage countries like China is an important element of Peña Nieto’s program. The TPP bolsters his
government’s agenda, first by opening the possibility of increased and more diversified exports and, second, by allowing the Mexican government to use the TPP to push through further domestic structural reforms. Under the TPP, for instance, Mexico may have to adhere to stronger and more enforceable labor and environmental provisions, stronger IPR protection, as well as some issues that were not addressed in detail in NAFTA, such as enhanced competition between private firms and state-owned enterprises.

In a way, the TPP allows the United States, Mexico, and Canada to renegotiate NAFTA without actually reopening the 20-year old agreement. In 2012, Arturo Sarukhán—then Mexico’s ambassador to the United States—called the TPP a way to deepen NAFTA “through the back door.” NAFTA remains a subject of fierce controversy in all three parties to the agreement; an Asia-Pacific approach allows NAFTA members to address outstanding trade and investment issues in a less sensitive political context. By shifting the debate away from narrow bilateral differences and toward broader economic opportunities around the Pacific Rim, the TPP may create political “space” for leaders in Mexico and the United States.

A NOTE OF CAUTION

It is important not to overdraw the direct, short- to-medium term economic importance of the TPP. The most cited of studies—by Peter P. Petri and Michael G. Plummer—project that, in 2025, the TPP will lead to a $78 billion increase in U.S. GDP and a $124 billion increase in exports. Their figures for Mexico are $21 billion and $32 billion, respectively. At first glance, Petri and Plummer’s projections of the economic gains from the TPP appear large. But, on inspection, they are less impressive: in the case of the United States, these numbers represent 0.4 percent of U.S. GDP in 2025 and 4.5 percent of U.S. exports. The corresponding figures for Mexico are higher at 1 percent of GDP and 6.2 percent of exports. This has led some opponents of the TPP to dismiss the gains—at least for the United States—as the equivalent of “rounding errors.” Petri and Plummer, however, project higher GDP and export effects were the TPP to expand over time to include all APEC countries, including China. In their view, the TPP should be considered a first, but necessary and achievable, step toward comprehensive trade and investment liberalization in the Asia-Pacific region.

The NAFTA debate was notoriously marked by exaggerated claims on both sides. It neither devastated labor markets in the United States nor launched Mexico on a substantially higher growth track. We may expect similar overheated arguments about the TPP. The economic future of the United States and Mexico will hinge overwhelmingly on other factors: prudent regulation of sensitive sectors (notably finance in the case of the United States), investment in infrastructure, upgrading human capital, and measures to increase domestic competition and foster technological innovation. This is not to deny that the TPP may be, on balance, a good idea for Mexico and the United States; it is merely to point out that the agreement will be merely one factor of many determining their economic futures.

ENDNOTES


2. All data in this paragraph are drawn from the Congressional Research Service’s “Trans-Pacific Partnership (TPP) Countries: Comparative Trade and Economic Analysis,” June 2013, page 3. Figures for per capita GDP reflect purchasing power parity.


4. A sense of this ambition—at least for U.S. negotiators—may be found by reading

5. A 2012 report by Centro de Investigación y Docencia Económica reveals broad support for the TPP among a sample of 535 leaders in managerial or administrative positions in government, politics, media, academia, the private sector, and the labor-social sector. When asked “How much are you in agreement or disagreement with Mexico joining this initiative?” 6 percent responded with “not at all in agreement,” 12 percent with “a little in agreement,” 46 percent with “somewhat in agreement,” and 34 percent with “very much in agreement.” Available at http://dominio1.cide.edu/documents/320058/0d79d0e8-a23d-4e30-87db-fa73ddbe579a.

6. The Doha Round is a series of negotiations launched by the WTO at Doha, Qatar, in 2001. Its goal was to lower barriers to trade through a global agreement.

7. APEC members are Australia, Brunei Darussalam, Canada, Chile, People’s Republic of China, Hong Kong, Indonesia, Japan, Republic of South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Republic of the Philippines, Russia, Singapore, Taiwan, Thailand, the United States, and Vietnam.


11. EFTA members are Iceland, Liechtenstein, Norway, and Switzerland.


14. A video containing his comments may be viewed at https://www.youtube.com/watch?v=iHV-SF6766Q.

