Trans-Pacific Partnership Agreement:
Its Impact on India and Other Developing Nations

Dr. Harsha Vardhana Singh

Senior Fellow, IISD and Senior Associate, ICTSD

Background Paper for Conference in Delhi, 12 August, 2014

Supported by

Department for International Development, UK

Under Its Knowledge Partnership Programme

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(Organized by CII and IISD, with support from DFID India)

"*When you jump for joy, beware that no one moves the ground from beneath your feet.*" (Stanislaw Lec)

"*The 2008 global financial crisis and subsequent slowdown in the world economy has clearly demonstrated that tremors originating in one corner of the world can quickly reach other parts, among others via the trade channel.*" (Government of India's Economic Survey 2013-14, page 120).

Today's world is changing rapidly, with major technological changes, large increase in the middle class, growing trade and development inter-linkages, emergence of countries with greater economic prominence, and even changes in the composition of the largest firms in the world. According to McKinsey, the emerging economies had 24 companies in the Fortune top 500 companies in 2000, which increased to 85 in 2010, and by 2025, almost half (229) of the Fortune 500 companies are expected to be from emerging economies; of these, 120 companies are likely to be from China. Since multinationals account for a large portion of international trade and investment, this by itself will change the patterns of trade and investment and the competitive pressures faced by producers in different countries. [2]

These developments will further intensify the competition faced by nations and firms which are losing their market shares to new entrants in an increasingly multipolar world. Greater attention will be given by these entities to the operational conditions which affect competitiveness, including those arising due to different standards, regulatory criteria and conditions, commercial codes of conduct, and moral or social concerns. New emerging economies with the largest economic presence are likely to face the greatest scrutiny. Their policies and strategies will

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[1]Senior Fellow, IISD and Senior Associate, ICTSD. The views expressed in this paper are those of the author, and should not be attributed to any other person or any organization. The purpose of the paper is to generate discussion on the topic.

[2]For a large share of transnational corporations in international trade, see UNCTAD, World Investment Report 2013, page 135.

become a focus of attention for developing new sets of trade and investment disciplines, both to develop responses to their increasing economic significance and to learn from their experience.

1. Major economies, major traders: present and future

The rapid economic growth achieved by several developing nations has led to a number of these countries become amongst the largest economies in the world. In the top ten global economies, with GDP calculated at markets exchange rate, we have China (at number 2), Brazil (number 8) and India (number 10). By 2020, Buiter and Rahbari[3] estimate that China will be at number one, India at number four, and Brazil at number six. In 2030, China remains at the top, India becomes number three, Brazil number five and Indonesia is expected to be at number seven. Another forecast has Mexico instead of Indonesia among the top ten economies over time.

Irrespective of likely differences in ranks or to some extent the composition of the top ten economies over time, the important point is that these developing economies are among the largest economies and their rankings are rising even within the top ten in the world. Thus, they will now be seen by other major economies as not being vulnerable nor requiring significant flexibilities within a trade Agreement, while other large economies (developed nations) take on much more onerous obligations.

The rising economic significance of large developing countries also reflects their progress in terms of becoming important performers in terms of merchandise trade. In 2012, China was the largest exporter and second largest importer of merchandise products; in 2000, China's rankings were respectively 7th and 8th largest exporter and importer. India is not among the top ten exporters of merchandise, but is the tenth largest importer (in 2000, it's rank was 26th largest importer). However, for commercial services, in 2012 India was the seventh largest exporter and eighth largest importer in the world (2000 rankings from exports and imports being respectively 22nd and 19th). China ranks above India in both exports and imports of commercial services. An interesting feature about China and India is that by 2030, while China will maintain its top position as merchandise trader, India is expected to become the third largest trading nation.

Therefore, in terms of international trade and competitiveness in global markets, emerging economies are going to become more intense and effective competitors. Thus, specific attention is being given by other key trading nations to the conditions of competition and trade applicable to these emerging economies as well as to devise new disciplines which would keep pace with the ongoing developments relating to technologies, increasing importance and tradability of services, the growing complexity and interdependence through trade and investment, and the growth in

[3] http://www.econ.uzh.ch/faculty/groupzilibotti/Conferences/2011Nov21Demo/E_Rahbari.pdf

global value chains. In a rapidly evolving world, this has meant a felt need for trade and investment regulations to also evolve.

2. Multilateral efforts at WTO and countries seeking plurilateral options

The Doha Round of trade negotiations at WTO has failed to move ahead largely because of differences in positions of the major developed economies and the large developing economies. For reasons mentioned above, the developed nations expect greater levels of obligations to be accepted by large developing economies, but these developing economies are of the view that they are being asked to bear too onerous a level of obligations without due consideration of their poverty and development needs. This gap of perception and aspiration has meant a lack of consensus and progress in the negotiations of the trade agreement at the multilateral level.

In this situation, as would be evident from the evolving views mentioned above, progress in relevant trade policies is being sought outside the WTO, through plurilateral negotiations. Those parties which could not get consensus amongst themselves have expectedly focused on different plurilaterals, making separate and perhaps disparate efforts to generate new rules and regulations for the evolving trade and investment regimes.

The US and EU have begun negotiations on the Trans-Atlantic Trade and Investment Partnership (TTIP), and US and eleven other nations have begun negotiations under the Trans-Pacific Partnership (TPP). India, China, Brazil and other large emerging economies are not in any of them. Instead, India and China together with ASEAN and four others have initiated negotiations to establish Regional Comprehensive Economic Partnership (RCEP). However, seven out of the sixteen partners in RCEP are also negotiating TPP and at least one other (South Korea) has expressed a desire to become part of TPP. None of the African economies are part of these mega-FTAs; the African nations are focusing on enhancing their regional market linkages.

Of these three mega-negotiations, the likely standards arising from the first two will be higher than those from RCEP in most areas. The impact of TPP standards within RCEP nations would be strengthened also by the fact that seven out of sixteen participants in RCEP are also part of TPP and more countries in RCEP are considering possible TPP participation in the future. Furthermore, there is a large overlap of subject areas between TPP and TTIP, as the United States is an important part of both these negotiations. This enhances the scope and impact of TPP disciplines. In this paper, we thus focus mainly on TPP, as those negotiations will likely determine the evolving trade policy regulatory regime for developing countries. A consideration of TPP will give a good indication of how those outside these negotiations should prepare for the emerging trade policy regulatory systems in the not so distant future.

The focus of this paper is primarily on India. The purpose is to introduce certain relevant developments relating to international trade and the evolving trade concerns, in order to generate a discussion to get further insights on the likely impact of mega-FTAs on developing countries such as India.

3. Summary look at India's present situation and evolving conditions for global trade policy regulation

Though the rise in Indian growth rate began earlier than the reforms of 1991, it was these reforms which brought India towards greater global economic interaction. Far more important than the trade reforms, however, were the internal industrial policy reforms which allowed the internal markets to enhance the multiplier effects of the opportunities from international trade and investment. Even today, trade policy and domestic policy have to go hand in hand, to prepare India for its larger role in terms of emerging as one of the poles of economic prominence in an increasingly multi-polar world.

Interestingly, while India's growth rate picked up and sustained itself for several years after its economic reform, the image has taken quite a beating within the past few years. The growth rate dipped, macroeconomic position worsened, policy reform slowed down, in some cases the policies even seen as deterring investment, and questions were raised about the effectiveness of governance mechanisms. From an emerging economy with strong growth prospects, India was in recent times considered as being one among fragile developing economies. Within India, like many other nations, there was increasing skepticism about the potential of international trade and investment to provide dynamic stimulus and momentum for its economic and social goals.

However, the positive role of trade and opportunities through the external sector are recognized by policy makers. For instance, the Government of India's Economic Survey 2013-2014 states that: "*the Indian economy can recover only gradually with the GDP at factor cost at constant prices expected to grow in the range of 5.4 – 5.9 per cent in 2014-15. ... Growth in the above range implies a pick-up, **aided by an improved external economic situation** characterized by a stable current account and steady capital inflows, improved fiscal situation and, on the supply side, robust electricity generation and some recovery in manufacturing and non-government services*". (Page 22, emphasis added)

India is one of the large trading nations, but its overall share of international trade is still small at 1.7 per cent of world merchandise trade. Nonetheless, it is acknowledged as an important presence in services trade, has become increasingly significant recipient of FDI (globally ranked

16th in 2013), and is presently the tenth largest economy, with immense potential. India aspires to become the third largest economy within less than a couple of decades. International trade and conditions of market access, combined with appropriate policies will play a major role in paving the way for India to achieve this aspiration.

Similar to the early 1990s, once again the nation is at a cross-road where it has to decide the path ahead. This path has to be based on a careful consideration of the evolving external situation, especially conditions of access to markets in key large economies. These market conditions determine not only the extent of trade opportunities. Trade policy agreements now are much deeper in their scope and policy coverage and include several regulatory disciplines which span domestic and foreign markets. The impact today of changes in the market conditions due to ongoing trade agreements is magnified compared to earlier also because of greater international inter-linkages and growing competition in markets. The rise in global economic inter-linkages has taken place on account of several factors that include *inter alia* the growing importance of global value chains in trade, combination of services and goods in these chains, the growing role of new technologies, internationally aware private enterprises, search for resources and growing markets, the increasing contribution of global expertise and investment, and an enhanced ability of international business and investors to assess relative commercial attractiveness among a larger number of countries.

In the inter-linked world of today, no country whether India, China, the United States, or a least developed country, can hope to achieve rapid progress, without gaining an increasing presence in regional/global markets. The significance of international trade and investment has become much higher today with both the prominent presence of trade in domestic economic activity and the potential growth of international trade that could occur during the next five to ten years. The opportunity costs of being unprepared for changing external market conditions through mega-FTAs are thus high, and the window of time required to respond and adequately prepare oneself is short, both because of the likely changes in trade regulatory regimes and the intense competition in global markets.

For some time now, many in India have felt that a new policy direction is needed, returning to the path of renewed reform combined with improved governance, efficient institutions and better infrastructure. Aspirations for such change were also reflected during the Indian elections which brought in a new central government in May 2014 with a parliamentary majority for any ruling party after three decades. This is also shown, for instance, by the Address of the Indian President to Parliament on 9th July 2014, when he said that: "*We will work together to usher our economy* *into a high growth path, rein in inflation, reignite the investment cycle, accelerate job creation and restore the confidence of the domestic as well as international community in our economy*."

The Indian President emphasized the objective of raising India's share in global trade and said, for instance: "*To strengthen our share in global trade, procedures will be simplified and trade infrastructure strengthened so as to reduce transaction time and costs*."

In this context, it is significant that Indian policy makers have begun to be aware of the large extent of changes that may be required in India's trade policy. For example, India's topmost trade bureaucrat clearly stated in a statement mid-April that India could not remain an island in the evolving world where many trade policy regulations will reflect this arising from the TPP and TTIP.

Such awareness and follow-up action is required to achieve the aspirations of growth in the external sector. The Economic Survey 2013-2014 states that: "*India should aim to increase its share in world merchandise exports from 1.7 per cent in 2013 to a respectable ballpark figure of at least 4 per cent in the next five years for which exports should grow by a CAGR of around 30 per cent. ... Achieving this in the medium term is the big challenge for which some basic steps need to be taken like product diversification, building export infrastructure, focusing on useful FTAs/regional trade agreements (RTAs)/CECAs, addressing the inverted duty structure, rationalizing export promotion schemes, and taking steps for trade facilitation*". (Page 134)

In discussing these steps, the Economic Survey recognizes the need to prepare for major changes arising through large FTA negotiations. It states, for instance, the : "*India should also ready itself to face new threats like the Transatlantic Free Trade Agreement (TAFTA) between the US and EU which intends to create the world's largest free trade area, protect investment, and remove unnecessary regulatory barriers*." (Page 135)

It is important to note that the removal of unnecessary regulatory barriers under TTIP (referred to as TAFTA in the quote action above) will primarily be for bilateral trade among the US and EU. For those outside the TTIP, and significantly also for those outside the TPP, the change in regulatory disciplines will in many instances, result in higher standards for getting access to the markets of countries negotiating these Agreements. Together, the nations under these two Agreements (TPP and TTIP) account for about half of world trade and also global FDI. The standards that will evolve through these Agreements will thus have important implications for global trade opportunities. And in several areas the results of these Agreements will be linked or overlap with each other because one key participant, the United States, is part of both these Agreements.

Since international trade plays an important role in a nation's growth opportunities, it is essential to understand and prepare for the likely evolution of international trade policy regulation and conditions that will affect access to the key markets covered by these mega-FTAs. For that, we need to take a closer look at the ongoing mega-FTA negotiations such as the TPP and TTIP; their standards in most cases are likely to be higher than those developed under RCEP.

Of these two negotiations, results are expected earlier for the TPP, despite doubts on its feasibility being expressed from time to time. This negotiation may be given a final form within two to five years; optimistic forecasts place it even earlier. The special concern expressed in India's Economic Survey quoted above regarding TTIP is equally valid for TPP. In one sense they are even more relevant because the results of TPP negotiations have advanced much more than TTIP, the two negotiations address similar issues and would affect each other's negotiating focus. Since TPP includes a number of developing countries, it provides a stronger basis for extending the scope of those disciplines to other countries, both developing and developed. Additional countries, i.e. those outside the TPP, have started taking an interest in the evolving disciplines and preparing for a post-TPP world through possible membership request or policy changes. The scope of future global market opportunities affected through TPP would thus be far more than indicated by its present membership.

An important aspect about India's concerns mentioned in the above quote regarding TAFTA (or TTIP) is that it does not mention adverse market access conditions arising for non-participants due to higher standards that will prevail in the post-mega FTA world. Such standards will be developed through disciplines relating to both trade and investment, both of which are part of these large negotiations. For adequately preparing to address the emerging market access conditions, it would be important for India to examine the likely results of TPP and have a deeper understanding of the evolution of international trade and investment disciplines due to this mega-FTA.

Of significant importance in this context are the disciplines affecting standards: both, standards with a generic impact on various production sector (such as environment and labour), and others which are more product-specific standards. Such an understanding is crucial for both business and policy makers: it provides a basis to develop appropriate policy steps for upgrading capacity of Indian producers to enable their effective access to key markets abroad. It would also clarify some significant aspects to keep in mind when devising future contours of India's trade policy and upgrading Indian policy institutions

To get better insights into why and how future contours of trade policy regulations are likely to evolve, it is important to consider the basis or the deeper reasons for the developments which are driving the discussions and issues covered by mega-FTAs such as TPP. These FTAs reflect the new conditions affecting trade and competition in a multi-polar world. They are efforts to address new trade-related concerns and issues as well as to develop methods which allow policy makers to better accommodate or keep track of the complexity introduced by trade policy increasingly being made in multiple fora. We explain these points in summary below, because the purpose of this short paper is to generate discussion and seek further views on the topic of the session on implications of TPP for India.

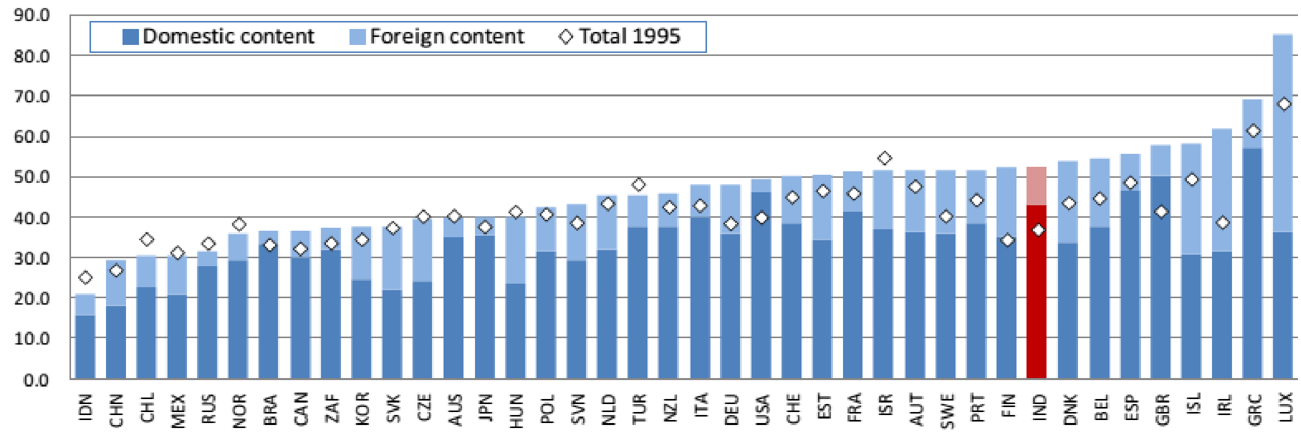
4. Global value chains, importance of services in these chains, and increasing role of FDI

Three inter-related developments in world trade have been important for changing the focus of policy makers and business in several countries. These are the increasing prominence of global value chains (GVCs) in trade, importance of services in these value chains (including through greater "servicification" of products), and the growing inter-linkages of these chains and trade relations through Foreign Direct Investment (FDI).

No GVC is possible without well-functioning transport, logistics, finance, communications, and other business and professional services. In fact, without services, production and trade would not be feasible. Servicification indicates that a significant part of value added in manufactured products is actually value added due to services. This implies that policies to promote activities in the manufacturing sector should also keep in mind the composite nature of production involving both goods and services.

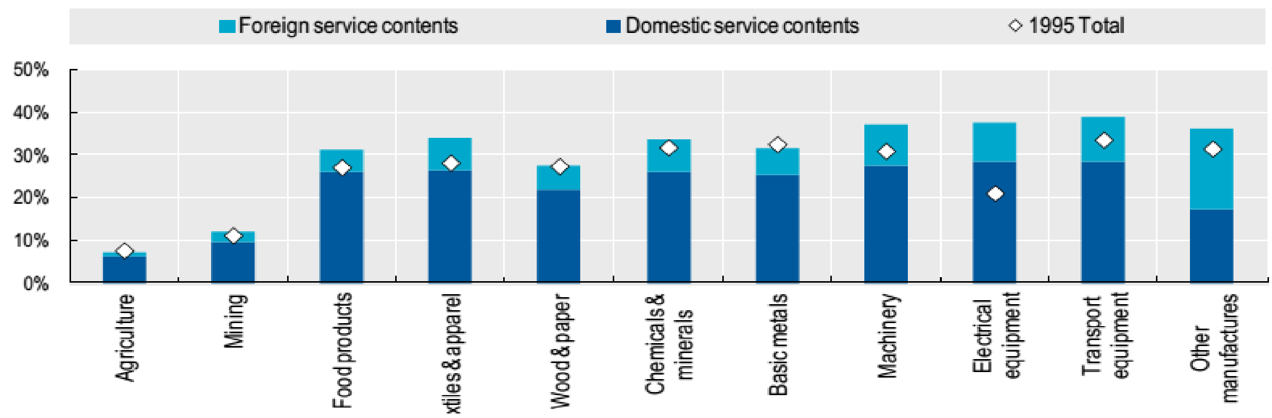
Recent data on value added trade is updated till 2009. It shows that India has increased in particular its specialisation in exports of services, with share of services in overall gross exports doubling over 1995 to 2009 from 18% to 37%. Services contributed to over half of all value added embodied in India's exports in 2009. The service content of exports has generally increased across countries over time, as shown by Figure 1 below. The content for India is highlighted in this Figure; in value added terms, more than half of India's exports were services in 2009, about 16 percentage points higher than in 1995. Services content has increased for most sectors of the Indian economy, including manufactured goods (Figure 2).

Figure 1. Services Content of Gross Exports, 2009 (%)



Source: OECD, www.oecd.org/sti/ind/TiVA_INDIA_MAY_2013.pdf,page 4.

Figure 2. India: Services Content of Gross Exports by Industry, 2009 (%)

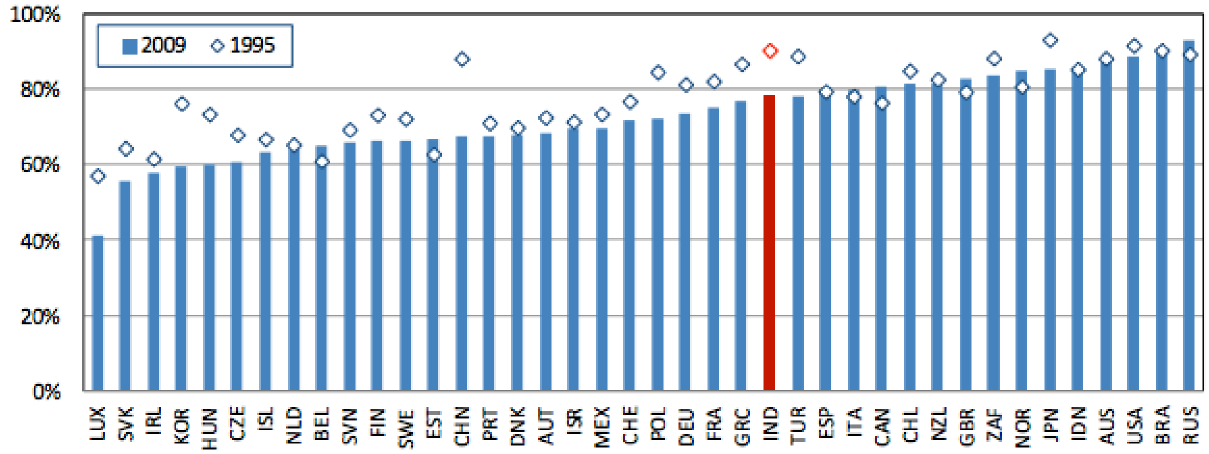


Source: OECD, www.oecd.org/sti/ind/TiVA_INDIA_MAY_2013.pdf,page 4.

(a) Global value chains

Data on value added that has begun to be collected in recent years, shows the growing share of global vale chains in international trade. Figure 3 shows that foreign content of exports has been increasing (or alternatively, domestic value added content has been decreasing) across a whole range of countries. For instance, India's domestic value added content of exports was 78% in 2009, 12 percentage points lower than the share in 1995, illustrating increasing fragmentation of production and greater integration into global value chains (Figure 3).

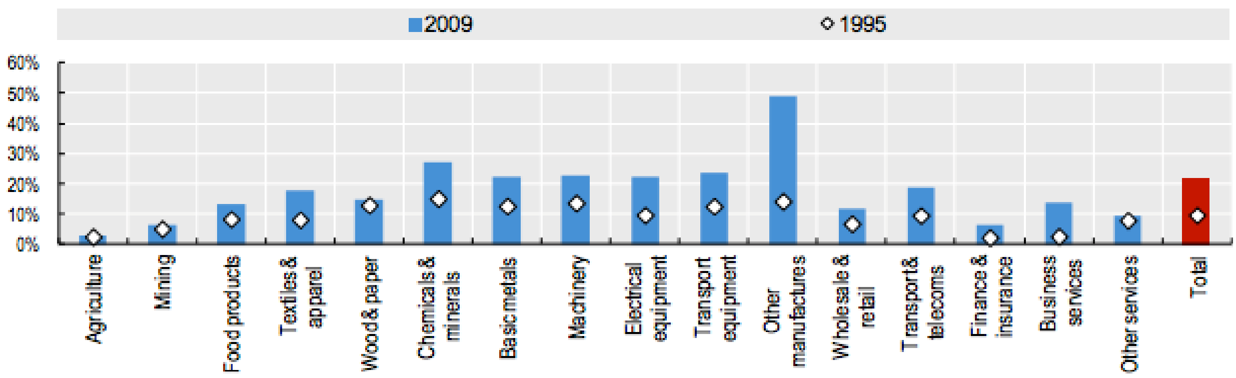
Figure 3: Domestic value added content of gross exports, %



Source: OECD, www.oecd.org/sti/ind/TiVA_INDIA_MAY_2013.pdf,page 1.

Figure 4 below shows the foreign content of India's exports across various sectors. Increases in the foreign content of exports over the period occurred in all sectors except Agriculture. It was nearly 50% for the category "Other manufacturing industry" in 2009, a fourfold increase from 1995. The foreign content of Business services also increased significantly from 3% to 14% reflecting the increasing integration of the sector into global value chains.

Figure 4: Foreign value added content of India's gross exports, by industry, %



Source: OECD, www.oecd.org/sti/ind/TiVA_INDIA_MAY_2013.pdf,page 1.

This information highlights the increasing integration of India in GVCs, a phenomena occurring in several economies. Three significant implications arise when we consider the impact of mega-FTAs such as the TPP.

One, the reduction in tariffs among member countries would make products from those countries more attractive for inclusion in value chains.

Imagine further a situation where after the conclusion of TPP and TTIP, in several areas including tariffs, the members of the two agreements decide to merge their regimes. The potential overall trade impact would be immense.

Two, as with any FTA, the TPP will also have its rule of origin which means that not just the lower tariffs but the origin rules will also favour the products from its member nations with a greater likelihood of being part of the global value chain.

Three, the important related development that key commercial parties in a value chain tend to emphasize is consistent standards being applied throughout the value chain. This increases the significance of being able to meet the relevant standards if producers have to link with international markets, particularly through value chains. Therefore, FTAs will increasingly focus on standards-related disciplines, a tendency further enhancing the importance of non-tariff measures in trade negotiations as tariffs have decreased in most large markets.

Another implication of this focus on standards in FTAs is that the new obligations and standards related disciplines resulting from negotiations such as the TPP, could have a significant adverse impact on the possibility of global markets being accessed by non-members through value chains involving TPP markets.

With respect to standards two inter-related conditions are relevant in the context of FTAs such as the TPP. One is the content of the standard, and second is the criteria which determine the conformity of the product's standard with the requirements for that market. Therefore, the system which determines the conformity of standards becomes equally significant for market access, and special attention must be given to emphasize that these criteria in any FTA are not exclusionary. This would be relevant also for TPP, and those nations which are outside the negotiations have a crucial interest in focusing attention to this aspect. India would need to play a major role in this context.

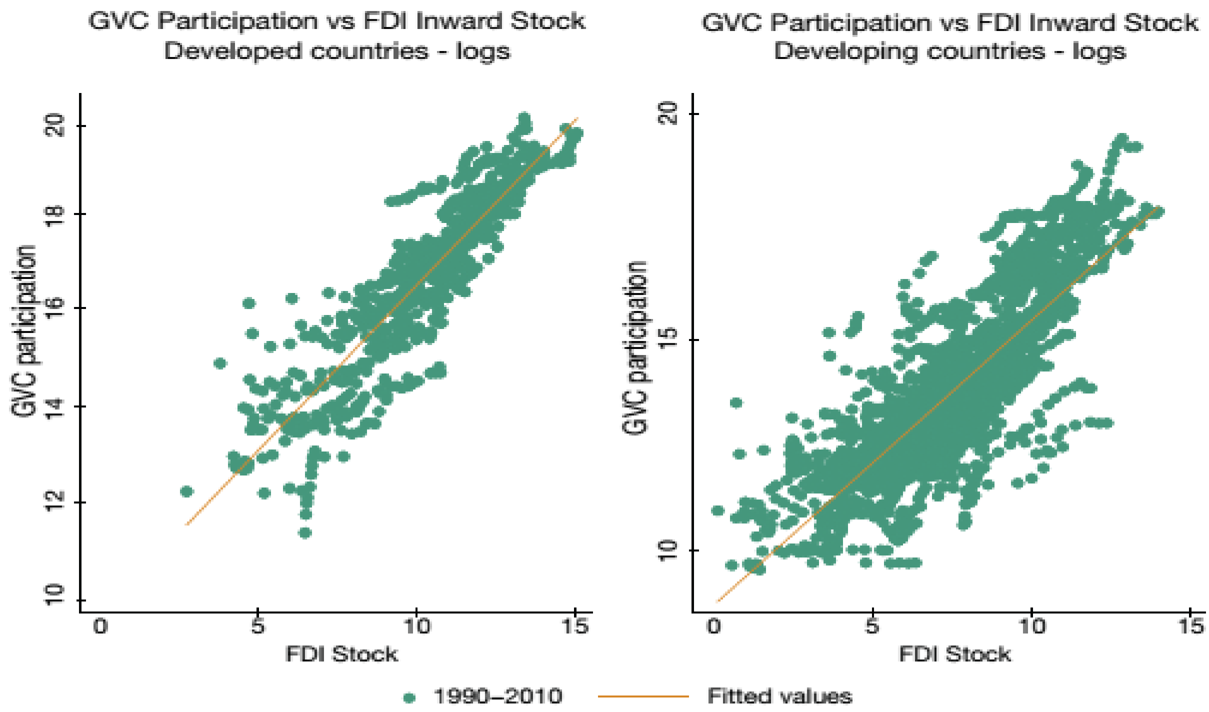
Another implication of TPP would be that it will give wider acceptance for including social standards in legal frameworks of trade agreements among developed and developing nations. This will also provide greater policy justification to such standards, which at present are prominent largely as part of private standards or GSP schemes. This validity has additional spillover implications in trade transactions in the medium term, for instance, the impact on discussions that banks which fund enterprises should include social criteria in their lending policies and should monitor whether these standards are being implemented through value chains. Such a focus among certain key private financial institutions in Europe has already begun to take shape, similar to the emphasis on social factors in projects funded by multilateral development/funding organizations, for instance the World Bank.

(b) Link between investment and global value chains

FDI inflows into developing countries have been steadily increasing, and their share is now over 50% of global FDI inflows. Ten out of top twenty countries in terms of FDI inflows in 2013 were developing countries and transition economies. India's rank was 16th amongst these, with an FDI inflow of US $28 billion. With economic reform in Indian economy, FDI inflows are likely to pick up. These developments again show an increasing inter-linkage through FDI in developing countries, including India, with the international economy.

Another noteworthy development has been the increasing links between trade and investment, These are emerging as two sides of the same coin, and enhance the rising potential of trade occurring through GVCs. There is some evidence to show that as investment links grow across nations, they also propel GVC links (see Figure 5 below).

Figure 5. Correlation Between Levels of Inward FDI Stock and GVC Participation



Source: UNCTAD, World Investment Report 2013, page 138.

A recent analysis of India by Jean-Pierre Lehmann and Deepali Fernandes in the context of TPP suggests that if India does not become a part of that system, then the link between value chains and foreign investment implies that investment and business opportunities will start moving away from India.[4]Likewise, the authors say that India will over time lose its advantage even in the area of services to other competitors who would be part of the mega-FTA system and be meeting the relevant standards and upgrading their policies. For instance, in the case of Global Supply Chains (GSCs) they say that: *"Some 80% of global trade is linked to GSCs, making them important sources of investment, technology and job creation, all of which are important for India. GSCs are likely to be enhanced as the TPP rules potentially provide for seamless cross-border operations connecting production/service centers across TPP countries and markets. If this is the case, there is the possibility that the GSCs will gradually shift away from large emerging economies such as India, China, and Brazil. This could potentially isolate India from GSCs in services and manufacturing or it could require India to incorporate TPP terms in order to operate within TPP countries.*"

In my view, application for membership to TPP by India will not see much progress on account of TPP partners seeking specific commitments prior to approving participation. A case in point is the application of China to Trade in International Services Agreement (TISA) negotiations, where China is yet to be admitted several months after applying. Nonetheless, India should prepare itself in a way that it remains an active part of the markets, global value chains and FDI links with the large global trade and investment hubs. This would require upgrading standards, policy reform and improving infrastructure and taking timely actions within business and policy initiatives.

This means also a focus on developing domestic value chains because policies which promote global value chains (GVCs) overlap in a big way with policies which promote domestic value chains. Further, policies which create conducive conditions for investment include to a large extent domestic policies that improve domestic conditions of doing business. With the growing links between FDI, trade and GVCs, such an overlap will increase significantly, and the policies to promote the two value chains, domestic and international, become more and more complementary.

In fact, the link between trade and investment implies that the distinction between trade policies and domestic policies is eroding, and that constraints in one area usually limit effective operations in the other area more than earlier.

This increases the importance of a combination of policies which facilitate business conditions, reduce restrictions in trade (domestic and international), and create domestic capacities to meet

[4]http://www.imd.org/research/challenges/TC090-13-india-mega-regional-trade-deals-lehmann-fernandes.cfm

the increasing standards required to access major markets and be viable parts of GVCs. Understanding and preparing for the results of TPP become crucial in this context.

As we mentioned earlier, these developments are occurring within the context of an emerging multi-polar world and further enhance that tendency. This has an important effect on the perception and focus of international business about trade and investment policies relevant for the evolving economic situation.

5. Emerging multi-polar world, increasing global competition, and level playing field concerns

In today's significantly interconnected world, we see major changes in global economic inter-relations and emergence of some developing countries as prominent economies in the world. With such changes, several other developing economies as well aspire to grow faster and better address their problems of poverty and institutional shortcomings.

The other side of this coin is that established countries and businesses see the emergence of such a multipolar world as losing their erstwhile economic prominence and dominant market presence in several areas, with an erosion of market shares even in some new technology areas. This intensified competition is not merely a North-South phenomena but South-South as well. In this multi-polar world, we thus see two different and inherently conflicting developments. One is the intensification of economic inter-linkages through GVCs and FDI growth, providing greater complementarity; and the other is the greater tension arising due to intensified competition in global markets as the multi-polar world emerges with a number of developing economies becoming significant economic presence in every continent. The likely trends indicate that such changes will continue and only get intensified.

We saw earlier that three developing economies are presently amongst the top ten economies (GDP at current prices) in the world: China at number two, Brazil at seven and India at ten. In the group of top twenty economies, we have a number of other developing economies as well, and several of these will improve their rankings over time with their relatively higher rates of growth. In the next decade or so, these rankings are going to change and more developing economies will become part of this group. For instance, one estimate suggests that by 2030 China would be number one, India number three, Brazil number five and Mexico number ten in the world. According to this forecast, the top twenty economies will also have Indonesia (12th), Turkey (15th), South Korea (16th), Saudi Arabia (18th), Argentina (19th), and South Africa (20th) by 2030.[5]

[5] http://www.pwc.com/en_GX/gx/world-2050/assets/pwc-world-in-2050-report-january-2013.pdf

Without going into the accuracy of such forecasts, the main lesson as we mentioned earlier is that the economic fulcrum is changing and will continue to change in the world. This will generate both greater trade and investment inter-linkages and competitive pressures. Established producers in the present large economies which face increasing competition have begun to focus on a number of policy areas which in their view create a non-level playing field for competition with the new emerging economies. This generates both defensive and offensive (in trade negotiations terms) pressures from them.

The defensive focus is to create a new set of trade and investment regulatory disciplines, and the new mega-FTAs are one such effort to address these concerns. Within this context, the offensive negotiating stance is to seek greater market access in the emerging economies as they become increasingly larger markets. Producers in developed economies see that their own tariffs are relatively lower than in these other markets (see Table 1 below), and want to address such differential access. They consider this also as a non-level playing field, and seek more access to the growing markets of large emerging economies.

Table 1. WTO Bound and Applied Average Tariff Rates (simple means, percent)

	Bound Rate, Manufactured Products	Applied MFN Rate for Manufactures	Bound Rate, All Products	Applied MFN Rate, All Products
OECD members	10.22	4.16	11.85	6.29
Indonesia	35.49	6.91	37.45	6.81
South Africa	17.12	8.29	19.36	7.75
Malaysia	15.48	8.92	14.58	8.6
Russian Federation	NA	8.63	NA	8.7
China	9.63	9.25	10.04	9.68
Thailand	25.8	8.78	26.08	10.42
Korea, Rep.	11.55	7.46	16.1	12.21
Argentina	31.51	14.66	31.86	13.41
Brazil	30.61	15.16	31.43	13.65
India	35.62	11.38	50.18	14.03

Source: Table 1 of J. Roy and P. Banerjee, "Why Isn't India a Major Global Player? The Political Economy of Trade Liberalization", EUI Working Paper RSCAS 2013/84

One indication of the huge potential increase in developing country markets is provided by the estimates of growth of middle class during this decade. In 2010, the middle class was estimated to be about 1.8 billion. By 2020, it is expected to reach about 3 million. A large part of this increase in middle class will be in developing nations, particularly Asia. The resultant immense growth in demand, and the need for resources to meet the increased demand, will further intensify market inter-linkages and generate additional sources of competition as well.

Thus, this increasing economic prominence of a number of large developing economies, the so called emerging economies, has generated at least six different thoughts amongst developed economies which are losing market share to them.

One, that these economies are now large enough to be able to provide greater markets access through opening their markets in the process of trade negotiations.

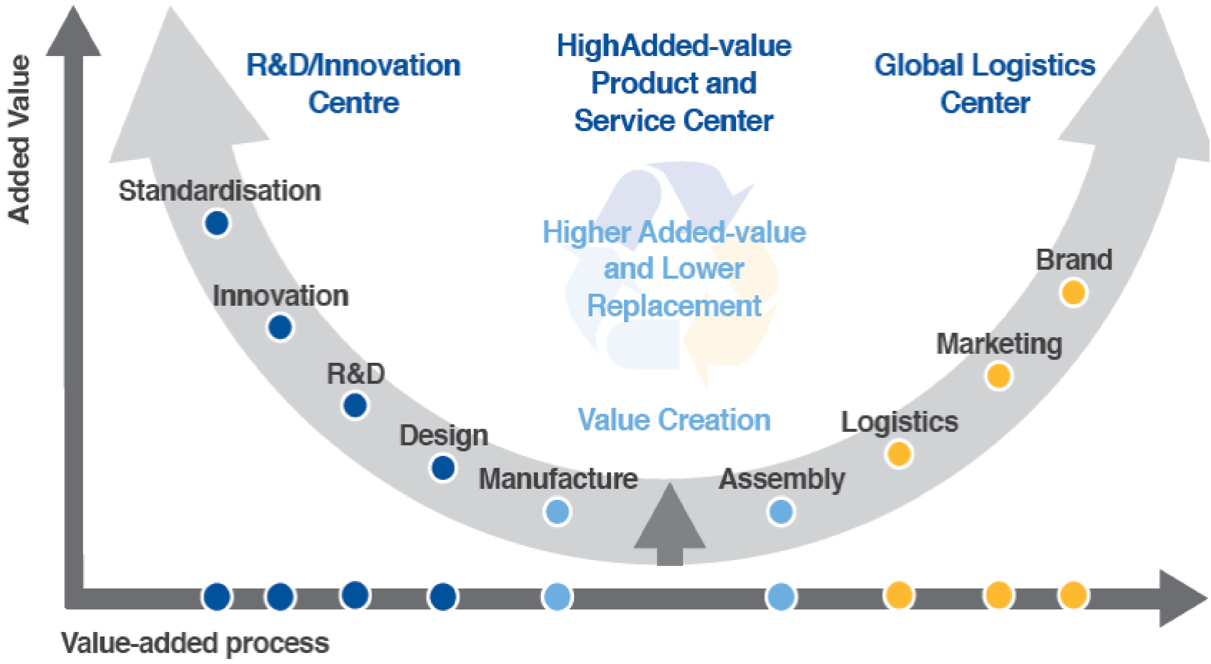
Two, over time the markets of emerging economies will become potentially very much deeper and larger, and better commercial opportunities now will anchor a stronger presence in these huge markets of the future. Hence, several major economies consider the opening of markets by the large developing economies as fair, necessary and desirable. This would lead to pressurizing the emerging economies to accept more market opening obligations in trade negotiations, and to bring their tariffs closer the developed country tariff levels.

Three, a need to take a closer look at the prevailing commercial operating conditions in emerging economies in comparison to those in major developed economies, to consider whether some of these conditions create dis-advantages or adverse non-level playing field for industrialized country producers.

Four, social and moral concerns have become more and more part of the mainstream trade-related standards in developed economies, and public perception in these economies increasingly considers non-adherence to such standards in other economies as an attempt to create (unfair) competitive advantage and non-level playing field.

Five, an increasing part of the commercial benefits from external economies now occurs through investment links and growing value chains. This aspect leads to an emphasis on assessing the regulatory conditions for investment and the steps required to facilitate supply chains.

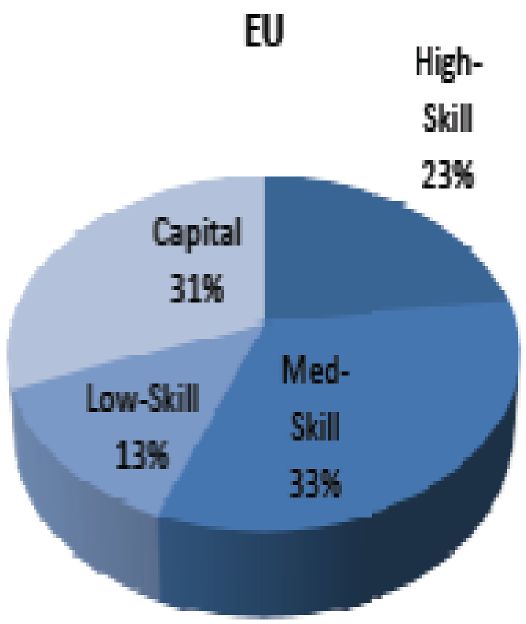
Six, the focus of enterprises and policy makers is more and more on the areas of their advantage in the value chain, i.e. knowledge based activities and thus on intellectual property rights (IPRs), and disciplines which expand the ambit of IPRs further. Significantly, these are the activities which provide the basis for higher value added activities in the supply chain (see smiley figure below).

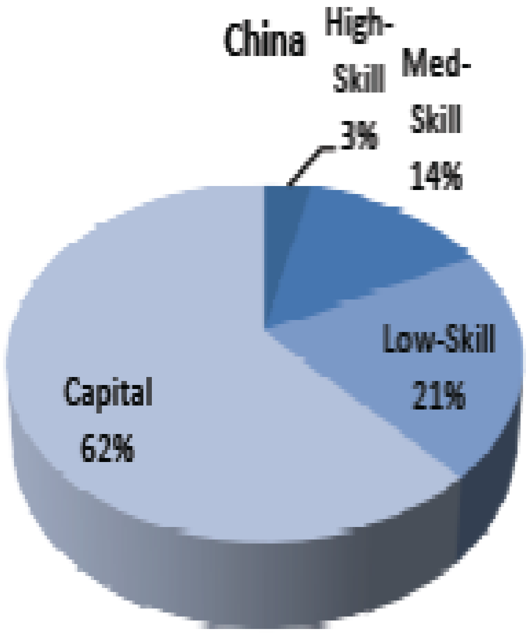


Thus, both business and policy makers in nations losing global market shares take account of the changes in economic geography and GVCs, and in this background seek what they perceive to be a level playing field and "fair" competition. This has generated their interest in addressing such concerns, *inter alia*, through trade and investment regulations, which include for example regulations with respect to environmental and labour related standards, and operations of state enterprises. Likewise, greater emphasis is being given to policies relating to new technology areas, particularly the ICT sector.

Interestingly, the large developing economies are amongst the group of nations which seem to be facing a middle-income trap in their development process. To escape from this situation, they need high value and knowledge intensive investments, in addition to improving their innovative capability and developing infrastructure and skills to support new technologies. Their aspiration to move towards higher skill and value added activities can be illustrated by comparing the shares of high skill production in the value added by activities in China and the EU (please see figure below).

EU and China Value Added By Types of Inputs (2009 Data)





In this background, those subject to greater demands for opening their markets and being asked to impose greater domestic disciplines in areas of their interest, see such pressures as inequitable and unfair for them. Therein lies the gap in perceptions, which makes it difficult to get consensus in WTO negotiations. With the WTO process not moving ahead to address such concerns, the focus has now moved on to plurilateral negotiations such as in the area of services (TISA - The Trade in International Services Agreement), as well as the larger agendas embodied in negotiation under the TPP, TTIP and RCEP. As we mentioned earlier, here we focus on the TPP to consider the likely trade policy developments ahead.

6. TPP and a new package of trade policy regulations: Plurilateral agreement with potential global impact

In addition to greater market access for goods and services, the areas of negotiations covered by TPP include intellectual property rights, foreign investment, competition policy, environment, labour, state owned enterprises, e-commerce, competitiveness and supply chains, government procurement, technical barriers to trade, transparency in health care technology and pharmaceuticals, and regulatory coherence.

These various TPP issues being negotiated include some areas covered by the WTO (including in the Doha Round negotiations), as well as others which are not yet part of the initiatives under the multilateral trading system. For both these categories, the effort will be to come up with WTO+ regulatory disciplines.

Market access negotiations for goods focus on tariffs and for services on regulatory regimes. Tariffs in some areas of interest for India, such as textiles and clothing, will be reduced under TPP, this creating trade diversion towards TPP members such as Vietnam. Furthermore, as mentioned earlier, the rules of origin for such preferential tariffs will also create diversionary effects, especially through making intra-partner products more attractive in global value chains.

The view of most experts, however, is that overall a much larger impact of TPP would be through standards or non-tariff measures. We mention below a few points to consider in this context.

The emphasis on creating a level playing field is shown by several areas under the negotiations, such as environment, labour, state enterprise reform, regulatory coherence, transparency and e-commerce. Interestingly, the Members of US Congress have been emphasizing a number of additional issues for emphasis in TPP, such as US Buy America law, currency manipulation, workers' rights, access to medicines for poor countries, enforcement of environmental rules, human rights issues, "fast track", intellectual property rights, financial regulations and food safety, among others (Washington Trade Daily, 10 July 2014).

The TPP negotiations are being carried out within the background of TISA and TTIP, and the direction of disciplines agreed there will to varying degrees be reflected in TPP. Given the importance of supply chains and services being an integral part of these chains, the relevant services disciplines will impinge upon goods as well. Likewise, there will be some focus on greater disciplines on product standards, including to the content of standards or equivalence of standards in the markets of participating nations.

This issue gets complicated because of using the technique of incorporating standards by reference, which includes the possibility of incorporating private standards that keep evolving. This is happening for instance in the case of voluntary sustainability standards which include standards relating to areas such as maximum residue levels in products, testing requirements, child labour, conditions of work, human rights, animal health, relating to quality and management practices, and so on.[6]

The impact of the rise in standards could take place in two different ways, one which affects production at a general level across many product categories (through environment and labour standards), and the other through product specific standards.

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[6]See, for example, the Standards Map of the International Trade Centre, Geneva; or IISD's "The State of Sustainability Initiatives Review 2014: Standards and the Green Economy

An increase in standards, or application of exclusionary mechanisms to determine equivalence of standards, will change the conditions of market access in the countries negotiating/applying the relevant trade policy regulations. To the extent that higher standards become relevant in the markets covered by TPP and TTIP, and later also in markets of some others who are looking at possibility of joining TPP or are connected through GVCs, we will have a substantial part of the world market subject to higher standards than those prevalent today. The large coverage of such markets and inclusion of two of the largest economic markets in this group implies that these standards will effectively become global standards. In this situation, to adequately benefit from international markets, other countries such as India will have to improve their capacities both for developing policies and the capabilities of their producers to upgrade the standards in line with the higher requirements. Some other countries have already begun to do so.

South Korea announced last year its intention to join the TPP. Its seriousness is reflected, for instance, in the news item that: "*The South Korean government has taken steps to resolve all four key bilateral trade irritants flagged by U.S. officials as determining factors in whether the United States would eventually be willing to support a future bid by Seoul to join the Trans-Pacific Partnership (TPP), according to official and private-sector sources.*" (Inside US Trade, 1st August 2014).

Reportedly, China has begun evolving its policies in several areas to address a number of concerns relating to the level playing field. In addition to making policy changes domestically, it is negotiating bilateral investment agreements with the EU and US. These efforts would help China prepare for the likely world of the new standards and the related disciplines that may come through the mega-FTAs. Since China usually implements reform in a step-wise manner, it is interesting to see changes being introduced in some of its main areas linked to international trade. For example, a visit to the Tianjin Economic Zone with its various areas of operation shows that China is going to increase its IPR standards, dramatically improve its environmental performance by reducing carbon emissions in certain zones by about 90 per cent, improve social standards (especially relevant with the trend of higher wages), focus on investment in the Zone by about two hundred Fortune 500 companies in high value industries, and address infrastructural, transport and housing constraints in a major way. Accompanying this is the reform which has begun in the state enterprise sector, and policy focus on skill development, innovation, and greater exposure to market forces. With this combination of policies, China is preparing itself for the requirements that will become incumbent for doing business in a post-TPP world.

The effect of such reform would also be to give rise to higher standards within the Chinese market segments for several products. In that situation, an even larger part of the global market would be characterized by higher standards for traded products because higher standards will prevail in all the three main hubs of global value chains: China, EU and the United States.

These developments in standards are not mere anticipation of an event without much basis on the ground in terms of commercial practices or legal agreements. Such changes have already taken place in the context of private standards, some smaller FTAs and within bilateral Investment treaties. It is instructive to see the changes in Investment agreements which portray the developments we have discussed here; it is noteworthy that topics of investment, supply chains, and services are all part of TPP and TTIP.

7. Emerging regulatory regime encompassed in Investment Agreements as a guide to future emphasis by policy makers

It is interesting to consider that while the relevant focus of trade policy is usually on trade regulatory regimes, these policies can effectively change also through investment agreements. Many of the issues we have discussed above are already part of the emphasis in Investment agreements.

An illustrative example is the main thrust evident in the EU and the US joint statement on shared principles for international investment.[7] Among others, they emphasize a level playing field, stating for example: "*To this end, the European Union and the United States support the work of the Organization for Economic Cooperation and Development (OECD) in the area of **"competitive neutrality"**, which focuses on the importance of state-owned entities and private commercial enterprises being subject to the same external environment and competing on a **level playing field** in a given market.*" (emphasis added)

This validates the point made earlier about level playing field being a major concern. In fact, most key changes in the regulatory regime emanate from, and reflect, this concern. One such step is the emphasis given to responsible business conduct. In this regard, the joint statement of EU and US states: "*Governments should urge that multinational enterprises operate in a **socially responsible manner**. To this end, the European Union and the United States intend to promote responsible business conduct, in general, and adherence by third countries to the OECD Guidelines for Multinational Enterprises, in particular.*" (Emphasis added)

[7] http://trade.ec.europa.eu/doclib/docs/2012/april/tradoc_149331.pdf

The reference to the OECD Guidelines for Multinational Enterprises,[8] is an example of including standards by reference. These Guidelines include a number of social principles, including human rights, employment and industrial relations, environment, and others.

That Investment Agreements are a path to joining mega-FTAs is shown clearly in the discussion of Taiwan preparing to join TPP. World Trade Online (12 August 2014) reports: "*Taiwanese President Ma Ying-jeou in 2012 set the goal of joining TPP within eight years, but sources say that his government is now pushing for accession as soon as possible. U.S. officials have made clear that they want to finalize the deal with the current 12 parties first, but have said that TPP should be open for others to join in the future. … In tandem with this effort,* ***some U.S. business sources have been advocating for Taiwan to also move quickly to begin exploratory talks with the U.S. toward a bilateral investment agreement (BIA), in order to create momentum toward joining TPP*** *before both countries undergo a change in government in 2016. ...* ***Unless both sides have reached a BIA, or are at least engaged in talks, it could become harder for Taiwan to make headway into joining TPP, these sources argue****." (emphasis added)*

Since investment issues are now a part of all major plurilateral agreements, these principles will ipso facto get incorporated in the emerging trade and investment regulatory principles when EU or the US have their investment agreements. The same is likely to be the case for TPP and TTIP as well.

8. Preparing for the emerging standards

We can see that trade-related standards are likely to increase and apply to significantly large parts of the global markets, especially after conclusion of TPP and TTIP. However, there is also skepticism expressed for instance in the view that these negotiations are unlikely to be concluded or if concluded would have much lower ambition than presently aimed at. Also, that the impact on Indian exports is unlikely to be large, and that insurmountable difficulties among countries negotiating TPP create problems in having high standards. Another view in certain discussions is that the Indian exporters are adept and capable enough to meet whatever standards come into place.

We address below the points relating to whether or not standards will be higher as a result of TPP, whether TPP is likely to be successfully concluded, the difficulties created in negotiations for various countries which may be insurmountable, and that Indian exporters are capable enough to meet whatever standards that may arise. Though these comments reflect the views of the author, they are provided with an objective to generate discussion rather than immutable conclusions.

[8] http://www.oecd.org/daf/inv/mne/48004323.pdf

This section also comments on the recent difficulties reported in the discussions on standards within TTIP. This could be interpreted by some as being symptomatic of the inability of the standards regimes on two sides of the Atlantic to reach any conclusion, a result which may also be considered as relevant and likely to be reflected in TPP.

(a) Standards in the TPP results will be higher/not higher

Whatever the conclusion of these negotiations, the agreement will encompass higher than present standards, and provisions that will focus on proper implementation of these higher standards in governments' domestic jurisdictions. Since legal trade/ investment Agreements are not standards-making Bodies, they will not create standards but validate certain standards by making reference to them, or reference to criteria which are today outside the realm of standards justified under the multilateral trade agreement. These criteria could include various social criteria, such as core labour standards. Further, what is today a part of private standards would get wider sanctity and application. These standards would have to be met by exports, and thus this result would affect access to markets of TPP countries for *inter alia* Indian exports.

An extremely relevant point is that the US would like to at least have its standards regime validated in the agreement. Two important aspects become pertinent in this context. One, that the prevailing US standards in several areas pose considerable difficulties for even European business (see Table 2 below). It is reasonable to consider that Indian exporters would find meeting the relevant standards more difficult than those from the EU.

Table 2. Perceived Non-Tariff Barriers index by EU Business Exporting to US (Index 0-100)

Sector	EU exports to the US
Selected Goods Sectors:	
Aerospace and Space Industry	56.0
Machinery	50.9
Medical, Measuring and Testing Appliances	49.3
Cosmetics	48.3
Biotechnology	46.1
Chemicals	45.8
Food and Beverages	45.5
Office, Information and Communication Equipment	37.9

Textiles, Clothing and Footwear	35.6
Iron, Steel and Metal Products	35.5
Automotive Industry	34.8
Electronics	30.8
Wood and Paper, Paper Products	30.0
Pharmaceuticals	23.8
Selected Services Sectors:	
Construction	45.0
Communication	44.6
Other Business Services	42.2
Transport	39.9
Personal, Cultural and Recreational Services	35.8
Financial Services	29.7
Travel	35.6
Insurance	29.5
ICT	20.0

From: Ecorys, 2009, "Non-Tariff Measures in EU-US Trade and Investment, an Economic Analysis"

Two, by including standards by reference, and these standards being based on private standards in many instances, the agreement will validate a dynamic increasing level of standards over time. Private standards keep evolving more than public ones, and in several instances these are responses to competitive pressures in the market. Thus, a combination of the method of incorporation by reference and the growth of private standards and supply chains will introduce higher standards which will keep escalating, as shown by experience till now. An example of reference to such a code of conduct is in the section above relating to Investment agreements (joint statement of EU and the US).

The combination of private standards and supply chains would have an impact across a much wider set of products than is presently applicable. In this context, it is particularly significant that the incorporation of certain environment and labour criteria which apply across the board for production and exports would have a general impact, and thus immensely expand the scope of exports subject to higher standards.

Furthermore, the overlapping issues covered by negotiations under TPP and TTIP would result in validating and magnifying the scope of such escalation of standards to a larger part of the exports markets. Therefore, business and policy makers in various jurisdictions should prepare not only for higher standards, but also equip their systems to keep evolving their standards as and when the changes take place. A dynamic perspective rather than a one-time response therefore becomes essential.

This implies that domestic capacities must be developed for continuously upgrading standards, both for the policy framework and the operational performance by business. This is a detailed and complex exercise which comprises:

- recognition of the likely standards-related requirements to be met by exports,
- updating the policy mechanism to facilitate exchange of information and developing systems which can respond quickly enough through information and co-ordination with domestic producers,
- facilitating the linkages to GVCs,
- developing domestic technical expertise or links with external experts for contributing to upgrading standards, and
- strengthening domestic capacities for the system to move in the direction of improving conformity assessment and building accreditation bodies.

(b) Conclusion of TPP negotiations: likely/unlikely

Those who consider that the negotiations will not be concluded, are of the view that many negotiating meetings have already taken place and there are still several areas of disagreement. This is always the situation in any negotiation. Political cycles also play a role in the timing. Though there are a number of undecided areas, there has been some progress as well. For instance, *"Reuters news service reported that Pacific trade talks have reached broad agreement on labor issues and sanitary and phytosanitary standards but some difficult aspects remain to be tackled, Japan's chief negotiator said on Saturday. Chief Japanese negotiator Koji Tsuruoka said the 12 member nations of the Trans-Pacific Partnership (TPP) made progress at talks in Ottawa but there was no discussion about the timing of the overall accord in the regional free trade agreement."* (Washington Trade Daily, 14 July 2014)

On July 23rd, Acting Deputy U.S. Trade Representative Wendy Cutler said that, "*other TPP countries have begun to show more flexibility on outstanding rules issues in the 12-party negotiations as a result of progress they have made in market access talks with Japan, following an April U.S.-Japan leaders' summit*." (World Trade Online, 23rd July 2014)

On August 5th 2014, after the recent negotiations meeting, Japanese Deputy TPP negotiator Hiroshi Oe said, "*It was a very tough …meeting, but we made some progress, and both sides [are] very determined to make progress. ... Continuing a metaphor he has used before, Oe said the previous phase served to clear the "fog" from the summit –or endpoint in the talks –and that now the path to the summit is visible, even though it is difficult.*" (World Trade Online, 6th August 2014)

The key criteria to consider in this context are the factors which are driving the effort to create new trade and investment regulations. These include, seeking level playing field, the importance of supply chains and increasing emphasis on various social sustainability criteria being applied to each part of the chain, growing acceptance of private standards and the extension of their scope by being incrementally being made into mandatory standards, the links between investment and trade, the expansion of investment agreements through bilateral and plurilateral negotiations, and a felt need (including geo-political considerations) by many involved in the negotiations to develop such a system within a multi-polar world. The issues are difficult, and compromises will be made, but there are strong reasons for the negotiations to move towards closing of the present gaps.

(c) Participating countries face immense problems, because in certain cases US demand will require change in their constitution

Important points have been made with respect to difficulties faced by different countries, Malaysia, Vietnam, etc. In fact, the US also has problems in various domestic constituencies. These are issues which will require flexibilities to be introduced. This happens in a conclusive sense mainly in the last phase of the negotiations, although discussions have been going on with respect to the extent and types of flexibilities which will help reach some type of comfort level with the result. Significantly, much of this year that has been spent in trying to seek types of flexibilities has focused on defining them to meet limited specific concerns in the negotiations, but still keep ambition levels high in general. Wherever fundamental problems will arise, such as constraints faced by constitutional requirements, the likelihood would be to treat that under flexibility provided.

An example of this is the statement by USTR Michael Froman in Malaysia that US will be sensitive to give and due importance to the constitutional requirement regarding Bumiputera in the Malaysian investment policy regime. "*We make it clear that we like to be flexible and will find ways to accommodate those interests consistent with the overall objective of the trade agreement. That is the kind of discussion we are now having whether with regard to government* *procurement or state-owned enterprises (SOEs) —to have a better understanding of how Bumiputera policies intersect with those areas and how we can address the flexibilities needed to address the sensitivities,"* Froman said, during his one-day stopover in Malaysia when returning from the recent G20 meeting in Sydney, Australia.[9] Another example is the progress made in the negotiations on agricultural products between Japan and the US, which would not have happened without addressing some key aspects balancing flexibility and ambition.

(d) Extent of impact on India: small or large

Some relevant points to consider in this context are as follows:

- The standards that come into effect are likely to be higher than the prevailing standards.
- The mechanism of incorporating standards by reference will introduce a dynamic element which will keep increasing the relevant standards over time.
- There could be a significant impact due to the combined effect of different disciplines and standards in the area of goods, services, supply chains, IPRs, data transfers, social standards, product related standards, and emphasis on putting in place domestic systems to properly implement the relevant disciplines.
- With the ongoing change by China to its own standards in the next five or so years, all the major trade hubs (China, EU and the US) would have introduced higher standards in the global value chains; TPP standards would be important determinant for this large network of markets.
- Relevant also are the points made by Lehmann and Fernandes about the investment shifting away from India and a change in competitiveness in the area of both manufacturing and services.
- In this background, studies that assess the overall impact of TPP or TTIP should take into account the effect of changes in standards and other non-tariff measures, as well as a shift in investment over time. Some initial estimates suggest that such effects are going to be significant.
- India has begun a major emphasis on improving its performance in the manufacturing sector. Given the importance of GVCs and the importance of standards in GVCs, it would be very important to have domestic capability to meet the standards evolving in large parts of the global markets.
- Pertinent in this context is the result of a recent ICRIER study on India, which shows that share of foreign inputs in value-added of Indian exports for categories in industry from code/sector number 62 to 105 range from about 20% to 30%. The exceptions are watches and clocks, and for structural clay products which are less, and petroleum products and fertilizers which have foreign inputs in their value added at respectively about 64% and 46%. Industrial products in the categories 62 to 105 are the major, growth thrust manufacturing areas for India, and their

[9] New Strait Times Online, 23 July 2014, "US. Recognises Importance of Bumiputera Policy"

exports have about one fifth to two fifths foreign content in their exports. To remain in the supply chains, India needs to meet the relevant standards in the evolving global markets.

- In the intensely linked and competitive world of today, we need to give special attention to developing competitiveness. India is not a standard-maker; it is a standard-taker. Furthermore, there are alternative options available to the hubs in the global value chains. In this situation, even if Indian products are cost-effective, competitiveness can shift quickly if these products are not consistent with the requirements of markets.
- These factors, including the increasing links between foreign and domestic supply chains, suggest that the impact of a change in conditions in global markets is unlikely to be small.

(e) The view that Indian exporters will be able to meet whatever standards are required in the market

Consider now the point that Indian export oriented firms are capable enough to meet the standards. This seems to belie the fact that India does have problems with standards in exports markets. The strong emphasis on growth of India's manufacturing and domestic capacity to produce more knowledge intensive and modern products implies a widespread need to have adequate capacity to meet standards and also to link up with. FDI and. GVCs. Recall further the Government's Economic Survey 2013-2014, which states that: "*India should aim to increase its share in world merchandise exports from 1.7 per cent in 2013 to a respectable ballpark figure of at least 4 per cent in the next five years for which exports should grow by a CAGR of around 30 per cent*." For such a momentum to be achieved and sustained, India dynamically requires to assess the requirements that will change for access to significant parts of the global market, and to upgrade its domestic capacities to be able to effectively meet these standards.

In this context, it is also worth comparing the experience of India with China. This year's Economic Survey states that, "*India's merchandise trade has been growing in importance over the years with the share in world exports and imports increasing, though gradually, from 0.7 per cent and 0.8 per cent respectively in 2000 to 1.7 per cent and 2.5 per cent respectively in 2013*."

Compare this with China's exports performance, with its share in global merchandise exports rising from 3.9 to 11.8 per cent during 2000 to 2013. And this successful, dynamic China is changing its policies ago help maintain its trade growth in a post-TPP world! The Chinese Government has begun the process of upgrading standards, including those with large impact such as environmental standards. Its negotiations of investment agreements with EU and US show that its position on labour standards is also changing, because these agreements have labour standards as part of their established framework of disciplines. There is a lesson in this for other large emerging economies: a lesson that it could be a miscalculation to be complacent about the domestic ability to meet higher standards and the possibility of remaining effectively linked to global supply chains without making adjustments to industry's capacity and government policies.

(f) Differences arising in TTIP negotiations

Recent reports show difficulties amongst US and EU standardization agencies to move ahead in a compatible manner within TTIP. Such differences are expected and immense effort will be required to overcome the sticking points. In most cases, the likely result would be based on identifying the key aspects of specific standards relating to product categories, and then reaching an agreement on what could be considered in conformity with them. This is tedious and difficult work. That is the reason for TTIP being considered as a "living negotiation" where as and when results are reached in any sector/industry, they will be harvested. At the same time, negotiators will focus on a general framework as well; results which may be built into the structure, based on some of the individual results. Since the work is not easy, TTIP negotiations are not expected to be concluded in the near term. Thus, the TPP may have some implications flowing from TTIP, but it is more likely to be concluded earlier and thus become a basis for the discussions in TPP.

(g) The market conditions are changing in any case

An important point to bear in mind is that while the mega-regional negotiations are being conducted, market conditions are changing in any case due to the impact of sustainable standards being emphasized in supply chains, the Investment Agreements being negotiated, and policy changes in major markets of the world. The TPP and TTIP are effectively efforts to incorporate and reflect such changes within trade and investment regulations. GVCs are now recognized as important conduits for trade and investment, private standards are becoming more pervasive and at least in two major GVC hubs, mandatory standards have begun to reflect such standards. Sustainable standards, including environment and labour, are now increasingly emphasized by the western economies and are becoming part of recent and new FTAs.

In this background, it is advisable to upgrade domestic capacity in any event, so as to be relevant parts of the GVCs in large parts of the global market. The developments in mega-regionals such as TPP bring these together in a more structured way, and enhance the impact in a more immediate sense.

9. Conclusions

A move towards Regional or Free Trade Agreements reflects partly the impasse in the negotiations in the multilateral trade system. Other reasons include a need for:

(a) addressing factors which are seen as causing a non-level playing field, especially as share of global trade and economic activity changes,

(b) addressing important social concerns which are increasingly seen as complimentary to economic issues,
(c) developing new disciplines in areas which are seen as essential for managing trade regulatory systems,
(d) addressing geo-political issues,
(e) introducing new mechanisms into trade agreements which convert them into dynamic agreements (not just wider or deeper agreements),
(f) consolidating developments in certain areas such as investment and services

In a post-TPP world, co-ordinated efforts would be required for meeting standards-related requirements for exporting to markets of TPP members, and subsequently also TTIP members as well as being part of the GVCs in East Asia. To adequately prepare for these eventualities, it would be important for India to examine the potential results of TPP and have a deeper understanding of the:

- likely evolution of international trade and investment disciplines, particularly through TPP
- technical and other standards that would have to be met by Indian products for accessing key foreign markets
- implications for the future contours of India's trade policy and upgrading Indian policy institutions
- steps required to upgrade capacity of Indian producers to meet the standards required for effective access in key markets abroad

As mentioned earlier in this paper, the TPP negotiations are likely to conclude within a period of two years, some say much earlier. If we take the political cycle into account, this period may not extend too long. The preparations for the kind of changes that will be required to equip the policy framework and business capability are extensive and time consuming. In this background, it is advisable to begin such preparations as early as possible. Furthermore, since all non-members of TPP will be similarly affected, there is also a basis for them to link up and provide mutual support to each other, as also to press for the systems created by TPP to be inclusive.