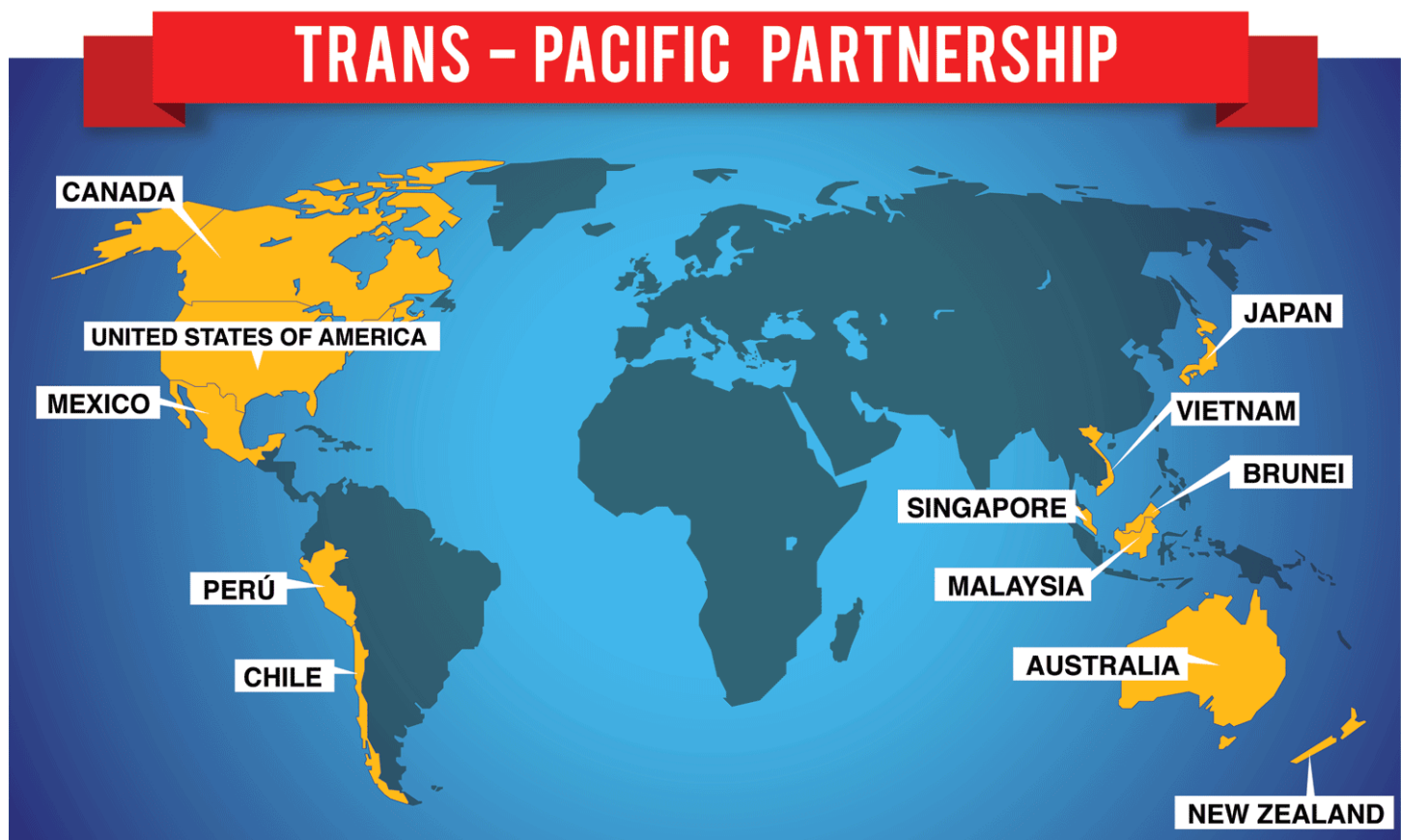


Bridging the Gap: Understanding the impact of TPP on Australia, and the future of Free Trade.



Free Trade: No Disputes

“Economists have the least influence on policy where they know the most and are most agreed; they have the most influence on policy where they know the least and disagree most vehemently.”¹

While economists are infamous for disagreeing on almost every topic, international free trade isn't one of them. With the President's Council of Economic Advisors unanimously supporting two endeavours back in April of 2015– the Trans-Pacific Partnership and the Trans-Atlantic Trade and Investment Partnership.²

The long-held debate on Free-Trade dates back to Adam Smith's response to mercantilism and the subsequent idea that exports increased gold deposits and imports drained them. While this argument has somewhat advanced with the redundancy of gold, the premise is now jobs – imports destroy domestic job creation. This is the modern political line.

The fact is that booming employment is possible with multiple trade patterns, the issue at hand is not quantity but quality – to be specific, *which* jobs a country has. Australia should promote job-creation in areas it thrives in and export those goods and services, while importing goods from countries that would have produced it more cheaply.

So if free trade makes sense, why the debate?

The answer lies within an article in the New York Times,³ and a book titled ‘The Myth of the rational voter: Why democracies choose bad policies’ by Bryan Caplan.⁴

It's not just that people hold mistaken ideas, or are ignorant to the government's policy choices, argued Caplan, it's that the people in politics do not always challenge those beliefs. Those views are often cemented, and fears manipulated, by politicians relying on re-election. Caplan identifies the three main areas of misunderstanding in trade.

The first is the us-them perspective – an anti-foreign spin on competitive trade where the competition produces a loser and a winner, rather than the win-win situation that international trade is *designed* to produce.

The second comes from a lack of trust – that the market mechanism is ineffective. Yet the ability of the market to distribute and allocate resources is infallible, and the alternative of planning is historically self-destructive. Let the market *be* – is the conclusion.

¹ Gregory N. Mankiw, ‘Economists Actually Agree on This Point: The Wisdom of Free Trade’ *The New York Times* (24 April 2015) Accessed via: http://www.nytimes.com/2015/04/26/upshot/economists-actually-agree-on-this-point-the-wisdom-of-free-trade.html?_r=0&abt=0002&abg=0 Accessed: 2 August 2015.

² Ibid.

³ Ibid.

⁴ Bryan Caplan, *The myth of the rational voter: why democracies choose bad policies* (Princeton: Princeton University press, 2007)

Finally, there is the job fear. When it comes to import-competing industries, a fear emerges that these imports will result in mass job loss, but ‘long-run economic progress comes from finding ways to reduce labour input and redeploying workers to new, growing industries’.⁵ Put simply, a change in the supply and demand of jobs is part of a healthy economy. A study by MIT economist David H. Autor on the contribution of Chinese imports to the decline in American manufacturing employment between 1990 and 2007 found such an argument implausible. The lack of any bilateral trade deal meant that it was ‘globalization, technology and flawed educational and tax systems’ that were ‘driving this trend, not trade pacts’.⁶

Recently, union and political reactions to the China-Australia FTA exemplify Caplan’s argument. The Australian Labour Party backed demands made by Australian unions to insert amendments to the China-Australia FTA to safeguard Australian jobs.⁷ Many of the statements and attacks from the unions in question were predicated on dividing foreign and Australian workers with protectionist discourse, with claims that the FTA was essentially ‘selling off our sovereignty’, and labelling Chinese investment in Australia as an ‘invasion’.⁸ To illustrate the extremity of the rhetoric, Australian Workers Union (AWU) State secretary Russ Collison responded to the statement ‘Chinese terrorist dogs!’ with;

‘Absolutely. Unless you work in a warehouse or a tourist guide, there’ll be no work in this country’.⁹

Ultimately this example highlights three areas of ignorance exploited by political parties and institutions – anti-foreigners, job loss and mistrust in the market. These three factors prompt a desire for the government to intervene.

Through an analysis of the misconceptions underpinning resistance to the Transpacific Partnership (and in extension many of the issues underlying the Transatlantic Investment and Trade Partnership), the gap between public knowledge and political misuse will hopefully be bridged. An examination of the exclusion of China, copyright laws, intellectual property clauses and ISDS will debunk popular fears fuelling contemporary debate. In addition, the potential gains to be made from reaching an agreement, and the consequence of failing to do so, will illustrate that the TPP represents a paramount step for international trade. Furthermore, in confronting controversial areas of the treaty, recommendations from the Australian perspective of maximising profit and capitalising on what was supposed to be the biggest free trade agreement of the century, will be suggested. Ultimately, considering the

⁵ Gregory N. Mankiw, ‘Economists Actually Agree on This Point: The Wisdom of Free Trade’ *The New York Times* (24 April 2015) Accessed via: http://www.nytimes.com/2015/04/26/upshot/economists-actually-agree-on-this-point-the-wisdom-of-free-trade.html?_r=0&abt=0002&abg=0 Accessed: 2 August 2015.

⁶ Roger C. Altman & Richard N. Haass, ‘Why the Trans-Pacific Partnership Matters’ *The New York Times* (3 April 2015): Accessed via: http://www.nytimes.com/2015/04/04/opinion/why-the-trans-pacific-partnership-matters.html?_r=0 Accessed on: 20 July 2015

⁷ Stefanie Balogh & Joe Kelly, ‘Bill Shorten backs unions on China free-trade agreement’ *The Australian* (22 July 2015): Accessed via: <http://www.theaustralian.com.au/national-affairs/bill-shorten-backs-unions-on-china-free-trade-agreement/story-fn59niix-1227451637022> Accessed on: 29 July 2015.

⁸ ‘Australian unions promote anti-Chinese nationalism’ *World Socialist Web Site* (1 August 2015) <https://www.wsws.org/en/articles/2015/08/01/chin-a01.html> Accessed: 2 August 2015

⁹ Ibid.

duration of negotiations, it is apparent that greater transparency between negotiators and the public would assist the passage of this treaty.

10 *"If it weren't so dangerously wrong, it could almost be humorous...All those protections exist and to pretend they don't because we have signed a free trade agreement is being misleading and irresponsible about Australia's economic future." – Fortescue Chairman, Andrew Forrest at the Boao Forum*

How Much of a Difference does the TPP make to a system that has already embraced Free Trade?

Negotiations on Australia's participation in the Transpacific Partnership began in 2010, however in recent years the proliferation of newspapers with headlines warning the public that the impact of TPP on international trade will be minimal has generated confusion on the duration of the talks. Critics involved in this commentary argue that the lowering of tariffs and barriers in previous trade agreements, and therefore the benefits of free trade, have already been realised.¹¹

Yet, the release of IMF's 'Review of the Role of Trade in the Work of the Fund' in February of 2015,¹² revealed that trade growth has slowed down substantially over the last few years. The International Monetary Fund has staunchly contended that 'trade is an essential component of the global policy agenda to bolster growth' and that 'there are potentially important gains to be made from further trade integration and expansion of global supply chains'.¹³

Arguably much of the scepticism among economist as to the gains of FTA are as a result of the form traditional FTAs adopted; the hub-and-spoke model. Whereby the 'hub' is able to provide most of the potential benefits and operates the 'negotiating template'. The TPP proposes a much different negotiating platform and partnership, altering the framework of previous FTAs.

¹⁰ Jennifer, Hewett, 'No logic in anti free trade talk' *Financial Review* (30 July 2015): Accessed via: <http://www.afr.com/opinion/columnists/no-logic-in-anti-free-trade-talk-20150730-ginyg3> Accessed: 1 August 2015.

¹¹ Paul Krugman, 'Trade and Trust' *The New York Times* (22 May 2015): Accessed via: http://www.nytimes.com/2015/05/22/opinion/paul-krugman-trade-and-trust.html?_r=0 Accessed: 24 July 2015.

¹² 'Review of the Role of Trade in the Work of the Fund' *The International Monetary Fund* (February 2015) Accessed via: <http://www.imf.org/external/np/pp/eng/2015/020215.pdf> Accessed: 20 July 2015.

¹³ Ibid.

While the scale of gains from the TPP are divergent and at best just estimates, members of TPP account for 40% of the global GDP and hence increased liberalisation and changes to trading rules will have a fruitful impact on all members. The proposed deal promises serious advantages for low-income countries and emerging market economies. The IMF has noted that in such countries and markets, applied and bound tariffs ‘remain about five times higher than advanced economies’.¹⁴ However, even for the larger countries, the fact that further lowering of trade barriers would have small gains is misinformed. As was stated by Luisa Santos, Director of International Affairs, Business Europe ‘Tariffs of even 4 to 6 percent impose a major cost when exporting large quantities, just like different standards of regulations of exports...’¹⁵ These costs are not just to companies or corporations but to consumers in Australia and elsewhere who pay for the discrimination on public procurement in a number of sectors. Additionally, low tariff rates (while now common) are not universal, and in some categories of goods such tariffs are relatively high.¹⁶ The impact of non-tariff barriers to costs of goods have received less attention from critics of TTIP and TPP, yet these barriers can substantially push rates up. For example, the World Bank estimated that American tariff restrictions on agricultural imports rested at 2.2%, yet taking into account non-tariff barriers the all-in rate is 17%, with Japan’s all-in tariff on agricultural imports sitting at 39.3%, South Korea’s at 48.9% and of course, Australia’s at 29.5%.¹⁷ Reducing non-tariff barriers on trade is a field all signatories to the TPP and TTIP stand to gain from.

Furthermore, the inclusion of countries like Japan (joining the TPP in March of 2013) acted as a virtual game-changer to the FTA, doubling the economic value of the agreement, especially as Japan isn’t currently engaged with the majority of TPP parties in comprehensive free trade agreements, maintaining considerable tariff (and non-tariff) barriers to both trade and investment.¹⁸ The changes that the TPP and TTIP can make in reinvigorating international trade by encouraging the exploitation of new networks would be profound.

While critics have lamented the advantages for Australia in the TPP deal are minimal, the harm inflicted upon Australia’s current access to markets would be profound if it abstained from membership to the negotiation. The interconnectedness of markets and US hegemony would mean ‘If you don’t sign the deal it will be harder for countries’ that ‘want access to US markets’.¹⁹ It’s not just that Australian consumers and businesses would gain from signing the TPP – it’s that it would be at a substantial loss from failing to do so.

¹⁴ Ibid.

¹⁵ ‘TTIP: Addressing the Criticism, Looking Ahead: Event Summary’ *Open Europe* (11 December 2014): Accessed via: openeurope.org.uk/event/ttip Accessed on: 4 August 2015.

¹⁶ R.A. ‘More homework, please’ *The Economist* (28 February 2014): Accessed via: <http://www.economist.com/blogs/freeexchange/2014/02/trade> Accessed on: 1 August 2015.

¹⁷ Ibid.

¹⁸ Bryan Mercurio, ‘The Trans-Pacific Partnership: Suddenly a ‘Game Changer’ *The World Economy* 37:11 (2014): 1559.

¹⁹ Chang, Charis. ‘The Trans-Pacific Partnership Agreement: What’s in it for Australia?’ *Australian News* (31 July 2015): Accessed via: <http://www.news.com.au/finance/economy/the-trans-pacific-partnership-agreement-whats-in-it-for-australia/story-e6frflo9-1227464446728> Accessed on: 1 August 2015.

The suggestion that TPP is redundant to Australia due to pre-existing trading relationships doesn't take into account how the TPP has the potential of improving current trade deals.

Trade Diversion

While global free trade boosts prosperity, some critics have argued that regional deals complicate matters by encouraging the phenomena of trade diversion. A study conducted by Germany's IFO Institute found that the TTIP – the sister deal to TPP – will 'boost America's GDP by 13.4. But it would leave the economy of Canada, which is not part of the pact, 9.5% smaller.'²⁰ Additional studies of TPP have come to similar, albeit less extreme, conclusions.²¹

Evidence of the trade diversion argument is considerably lacking. One of the most prominent indications of its validity would have been the expansion of preferential tariffs that follow regional agreements. The exclusive lowering of barriers within regional deals has not occurred, with 2008 showing that:

'Less than 17% of global trade flows were subject to any preferential treatment. Instead, there has been a spectacular decline in tariffs in general.'²²

Furthermore, applying the arguments levelled at the AUSFTA to the current discussion on TPP sheds light on the controversial issue of trade diversion. . The existing bilateral AUSFTA concluded between Australia and the United States in 2005 has been the subject of critique over the years. There were fears that the trade deal would divert Australian trade away from East Asia, and an analysis conducted by Shiro Armstrong found that AUSFTA had been associated with a reduction in trade.²³ Despite this, two strong cases by Stoler²⁴ and Farrell²⁵ dismissed this possibility, showing that Australian trade to East Asia continued to grow after 2005.

While membership within FTAs guarantees benefits, states engaged with such trading blocs benefit from the deal, as an article in the Economist suggests, 'regional deals have a good record in practice, almost all have boosted trade for non-members...'²⁶

Furthermore, although the biggest concern for Australia is the exclusion of China from the regional agreement, the proposal of a separate treaty with China under the Regional Comprehensive Economic Partnership (RCEP) will ensure that Australia does not alienate surrounding countries and markets, linking it to both its home-base and the Atlantic.

²⁰ 'Game of Zones' *The Economist* (21 May 2015) Accessed via: <http://www.economist.com/news/finance-and-economics/21646772-regional-trade-deals-arent-good-global-ones-they-are-still> Accessed: 21 July 2015

²¹ Ibid.

²² Ibid.

²³ Armstrong, Shiro . 'The Economic Impact of the Australian-US Free Trade Agreement' *Australian Journal of International Affairs* (30 July 2015): Accessed via: DOI:10.1080/10357718.2015.1048777 page.5

²⁴ A. Stoler, 'Australia-USA Free Trade: Competitive Liberalisation at Work in 2003' *Agenda* 10:4 (2003):291-306.

²⁵ A. Farrell, *Australia-United States Trade, Investment and AUSFTA* (Sydney: United States Study Centre, November 2012)

²⁶ Ibid.

Between Asia and the Atlantic: The TPP and Australia's awkward love triangle

For at least the last 15 years the Asia-Pacific region has laid host to bilateral and minilateral trade agreements, and a key objective to TPP is the multilateralization of these existing treaties. Therefore, despite calls that the TPP will disrupt Asian regional cooperation, the negotiations of the agreement are premised on seeking increased integration.²⁷

Australia's tenuous position between the two larger powers and their respective spheres of influence has bifurcated Canberra's foreign policy over the last decade. Characterized in different terms, this relationship has relied upon a balancing act by successive governments, ensuring continued strength in our economic ties to our geopolitical giant – China, while pursuing a friendship with the United States. As a middle power, Australia's position can both be leveraged and exploited by both external powers and domestic incentives. The TPP, along with the FTA with China (currently enduring negotiations), have the potential to act as a stabilizing force on this relationship. From the Chinese perspective, Australia belongs to the country's 'Greater Periphery',²⁸ and is of strategic importance to Beijing.²⁹ In addition to this, the trading relationship between the two 'is largely complementary' with Australian iron ore and concentrates exported, and manufactured goods imported, to and from China.³⁰ The conclusion of the TPP will strengthen the position of Australia in trading terms, enable outside powers (like China) to engage with the bloc where standardisation and clarity of rules provide for easy transaction. Furthermore, Washington has been vocal about the role of TPP as a crucial pillar of Obama's foreign policy agenda, in the so-called 'pivot to Asia'.³¹ While statements of 'encirclement' and 'containment' have plagued some Western media outlets, this is counter-factual to the origins of the agreement³². The United States joined a pre-existing agreement that was fostered by four of the current negotiating powers- Brunei, Singapore, Chile and New Zealand. In any case, the increased presence of the US in the Asia Pacific would promote ties between the two blocs, encouraging engagement and free competition rather than confrontation and protectionism.

Furthermore, there is nothing preventing China from joining the agreement as one of the founding ideas of TPP is 'open regionalism' whereby any Asia-Pacific state that is able to commit to the high standards of the TPP may apply to join.³³ In addition, while the Chinese response to the treaty may have been initially frosty, it coincided with the height of tension surrounding the state of the East/South China sea and Chinese rhetoric has drastically changed since.³⁴ In any case, the increased presence of the US in the Asia Pacific would promote ties

²⁷ Ann Capling & J. Ravenhill, 'Symposium: Australia-US Economic Relations and the Regional Balance of Power: Australia, the United States and the Trans-Pacific Partnership: Diverging Interests and Unintended Consequences' *Australian Journal of Political Science* 48:2 (2013): 184.

²⁸ Baogang, He. 'A Critical Overview of Australian, Chinese, and American Perceptions of Trilateralism' 2011 Fullbright Symposium, 'Australia-U.S. Relations and the Rise of China: From Bilateralism to Trilateralism?' Deakin University, Australia, August 11-12, 2011.

²⁹ Wihua Liu & Yugan Hao, 'Australia in China's Grand Strategy' *Asian Survey* 54:2 (2014): 373.

³⁰ Ibid. 384.

³¹ Ellen Frost, 'Strategic Implications of TPP: Answering the Critics' *Asia Pacific Bulletin* 220 (2013) 1-2

³² Ibid.

³³ Ibid.1

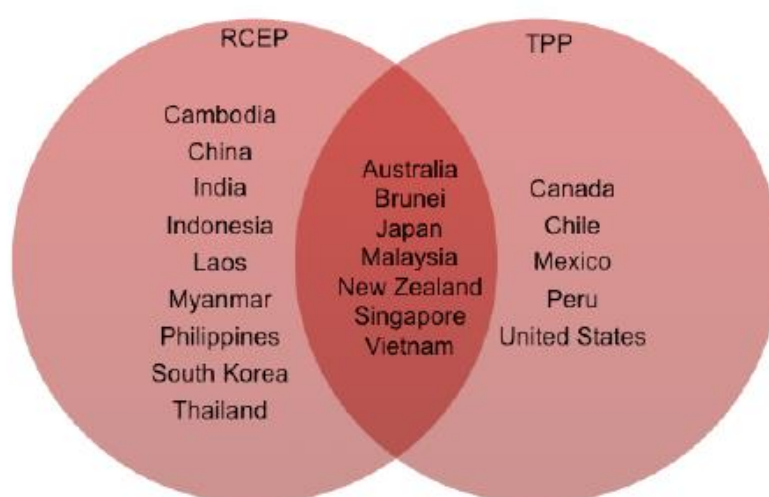
³⁴ Ibid.1

between the two blocs, encouraging engagement and free competition rather than confrontation and protectionism.

A complementary FTA with China is crucial to the success of TPP. Any slowing down in the growth of China negatively impacts upon surrounding Asian countries. An interview with International Monetary Fund's chief of regional studies for Asia Pacific Rachel van Elkan revealed that if growth in China were to slow by one percentage point Asian countries would see a mirrored decline in their growth of .3% on average.³⁵ China is Australia's top trading partner and accounts for around 23% of trade, with Japan ranking second at 11% and the US coming in third at 8%.³⁶ With the top two of these powers involved in the TPP, an FTA with China will reinvigorate the Australian economy. In addition, the Regional Comprehensive Economic Partnership involving

Some pre-existing regional treaties – notable the preference of China towards trade agreements between ASEAN and China, Japan and Korea (plus three) – exclude Australian involvement.³⁷ TPP will expand the scope of Australian trade involvement in the region, encouraging mass-Asia Pacific trade. For example, TPP countries account for 12 of the 21 countries belonging to the Asia-Pacific Economic Cooperation (APEC) forum; APEC accounts for around 45% of the world population and just over half of global production.³⁸ The leaders of TPP countries have clearly states that the TPP should expand to involve more of the APEC countries.

Figure 1: TPP and RCEP's Overlapping Membership



³⁵ Finbarr Bermingham, 'IMF Welcomes AIIB, warns of TPP trade diversion' Global Trade Review (20 May 2015): Accessed via: <http://www.gtreview.com/news/asia/imf-welcomes-aiib-warns-of-tpp-trade-diversion/>

³⁶ Elizabeth Thurbon (2015): 10 years after the Australia-US free trade agreement: where to for Australia's trade policy?' *Australian Journal of International Affairs*, DOI:10.1080/10357718.2015.1048784: 1-5.

³⁷ Ann Capling, John Ravenhill, 'The Trans-Pacific Partnership: An Australian Perspective' *Alliance 21: Trade and Investment* (2012): 1-12.

³⁸ 'Trans-Pacific Partnership Overview' Business Roundtable (26 September 2013): accessed via: <http://businessroundtable.org/studies-and-reports/trans-pacific-partnership-overview/>

³⁹Obvious gains for Australia:

The Australian government has published numerous articles and features on websites on the immediate, and large, gains to be made by Australia through the vehicle of TPP. This report will briefly sum those up:

- Tariffs will be dropped to 0 (i.e. duty free) on around 90% of all foods traded between members.⁴⁰
- Australia will gain from increased productivity and access for Australian industry to areas in Asia that currently remain closed
- Professional service firms will find it easier to set up operations overseas.
- Access to markets is critical, with Japanese agriculture sitting at the centre
- Members of TPP account for 40% of the global GDP and Australia would benefit from being a part of the regional supply chain – Brown looked to the example of the iPhone where it was manufactured and assembled in multiple countries, low trade barriers would cheapen and increase the efficiency of this process.
- The slump and end of the mining boom in Australia has been the focal point of public fear on the prospects of Australia's continued economic prosperity, Canberra has announced that TPP will 'offer expanded markets abroad for the country's huge exports of... mining products'.⁴¹
- Trade between participating countries is already worth around £223 billion to Australia. The new TPP framework also addresses modern trade and investment topics like e-commerce, the minefield of state-owned enterprises versus private business.
- TPP will benefit a number of diverse industries, with key gains predicted to be made by the agricultural sector, education, mining, legal and financial services.
- By 2025 the TPP will make the world around \$220 billion a year richer.⁴²

⁴³ See table

³⁹ Deborah Elms 'The Trans-Pacific Partnership (TPP) as a Pathway to Asian Integration The Goal: Free-Trade Area of the Asia Pacific (FTAAP)' *Conference paper* (July 2014):

http://www.researchgate.net/profile/Deborah_Elms/publication/270823903_The_Trans-Pacific_Partnership_%28TPP%29_as_a_Pathway_to_Asian_Integration_The_Goal_Free-Trade_Area_of_the_Asia_Pacific_%28FTAAP%29/links/54b5fe0d0cf2318f0f9a0707.pdf

⁴⁰ http://www.researchgate.net/profile/Deborah_Elms/publication/270823903_The_Trans-Pacific_Partnership_%28TPP%29_as_a_Pathway_to_Asian_Integration_The_Goal_Free-Trade_Area_of_the_Asia_Pacific_%28FTAAP%29/links/54b5fe0d0cf2318f0f9a0707.pdf: 6.

⁴¹ 'Key Facts About the TPP Trade Alliance' 7 news <https://au.news.yahoo.com/a/29113788/key-facts-about-the-tpp-trade-alliance/>

⁴² 'Fighting the secret plot to make the world richer' *The Economist* (25 April 2015): Accessed via: <http://www.economist.com/news/united-states/21649613-america-inches-towards-big-trade-deal-asia-barack-obama-faces-showdown> Accessed on: 4 August 2015

⁴³ 'Why everyone is so keen to agree new trade deals' *The Economist* (24 June 2015): accessed via: <http://www.economist.com/blogs/graphicdetail/2015/06/global-trade-graphics> Accessed: 3 August 2015

Standardisation and Rules

One of the key myths spread by critics is the assertion that TPP will contribute to the

‘Negotiators dream of a world in which pharmaceuticals are subject to the same testing regimes, standards on everything from car design to chemical labelling are harmonised or mutually recognised.

degradation of labour and environmental standards, as well as raising the relative cost of drugs. In terms of Labor, the accord involves protections that have been stringently copied from the International Labor Organization and include tough enforcement mechanisms.

Economists, politicians and interest groups are right to highlight that the TPP is not just about Free Trade

– It’s also about imposing a set of consistent rules on the 12 participants. The ‘behind the border’ rules that have been speculated to be included are part of this:

‘The TPP will provide one set of rules across a third of world trade...It will see a far more seamless and lower-cost trade environment created’.⁴⁴

The simplification of customs procedures would assist the passage of free-trade. Rather than undermine health and safety standards, countries with strong regulations act as an incentive for weaker countries to improve their customs.

The big winners out of TPP negotiations will also be small businesses and companies. Small business in Australia accounts for approximately just under half of the private sector industry employment, and around one third of private sector industry value (2010-11).⁴⁵ Small business therefore contributes significantly to the Australian economy. Unfortunately, these companies can’t cope as well with licenses and suffer from barriers to a greater extent than their larger counterparts. Standardisation into a ‘one-stop website’ with clear and unitary rules and regulations will empower these parties.⁴⁶ For other investors,

For services, which account for a substantial portion of economic output in Australia, opening up this under-traded sector necessitates the updating of rules on services trade so that key industries, for example the selling of insurance, consulting services, or IT, can expand across the border. Such rules have changed only slightly in the past two decades.⁴⁷ The concern of Australians on the push by corporate powers in the states for stringent and stronger standards on service trade, are ultimately to the benefit of the many.

⁴⁴ David Uren & Sid Maher, ‘Freedom’ not at risk in TPP trade deal’ *The Australian* (25 June 2015) Accessed via: <http://www.theaustralian.com.au/national-affairs/foreign-affairs/freedom-not-at-risk-in-tpp-trade-deal/story-fn59nm2j-1227413629238> Accessed on: 20 July 2015

⁴⁵ Megan Clark, Melissa Eaton, David Meek, Emily Pye & Razib Tuhin, ‘Australian Small Business: Key Statistics and Analysis’ *Commonwealth Australia* (2012) Accessed via: <http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2012/Australian%20Small%20Business%20-%20Key%20Statistics%20and%20Analysis/downloads/PDF/AustralianSmallBusinessKeyStatisticsAndAnalysis.aspx> Accessed on: 5 August 2015.

⁴⁶ ‘TTIP: Addressing the Criticism, Looking Ahead: Event Summary’ *Open Europe* (11 December 2014): Accessed via: openeurope.org.uk/event/ttip Accessed on: 4 August 2015.

⁴⁷ R.A. ‘More homework, please’ *The Economist* (28 February 2014): Accessed via: <http://www.economist.com/blogs/freeexchange/2014/02/trade> Accessed on: 1 August 2015.

The standardization of rules will also benefit the electronic commerce sector, where the conduct of negotiations will be eased by security of entitlement and standardized terms of trade.

‘The TPP represents an important opportunity to write better rules for international trade and investment.’⁴⁸

MEDICINES, HEALTH AND HOSPITALS:

A main point of contention between the United States and its counterparts of the TPP concerns intellectual property and patent protection. Pharmaceuticals occupy a controversial position in the trade of goods and services. While these products are designed and made by private companies - the public tends to regard them as a public good that should be accessible to all. The cost of manufacturing doesn't account for the cost of the drug – it's the innovation underpinning the product that does. This innovation is protected under intellectual property (IP) by major firms preventing them from being produced cheaply.⁴⁹

It's easy to see epidemics and serious illnesses such as HIV and AIDS as necessitating compulsory licensing to prevent such seriousness from spreading, as was seen when the pharmaceutical company backed down from suing the South African government for attempting to import cheap copies of patented AIDS drugs.⁵⁰ Yet there is another side of this argument that compulsory licensing undercuts innovation as well as the increasing advent of 'tiered pricing' where drugs in low-cost countries are sold on for profit in higher cost countries. Fine tuning the laws on IP is necessary to an extent.

Furthermore, much of the distress felt in Australia over the increased pricing of drugs is exaggerated. For example, Medicines Australia wrote an open letter to Parliament urging policymakers to ignore the 'alarmist and misguided' claims contained in media reports relating to the TPP.

'Nearly 10 years ago, when Australia and the United States signed a free trade agreement, critics similarly predicted the demise of PBS.' 'They argued that prices for medicines in Australia would skyrocket and that Australian patients would be denied access to new and essential medicines. They were wrong.'⁵¹

However, an examination into the previous provisions of the AUSFTA would further suggest that the fears over intellectual

"We shouldn't let the alarmists derail progress on what will truly be a trade agreement for the 21st century." Medicines Australia CEO Tim James, 2015

⁴⁸ Simon Johnson. 'Getting the Trans-Pacific Partnership Right' *Project Syndicate* (30 June 2015): Accessed via: <http://www.project-syndicate.org/commentary/tpp-labor-environmental-standards-by-simon-johnson-2015-06> Accessed on: 28 July 2015.

⁴⁹ 'The new drugs war; pharmaceutical pricing' (2014, Jan 04). *The Economist*, 410, 10. Retrieved from <http://search.proquest.com/docview/1474880432?accountid=8330>

⁵⁰ Ibid.

⁵¹ Clara Tran, '#TalkAboutIt: Five ways the Trans-Pacific Partnership (TPP) could affect you' ABC News Accessed via: <http://www.abc.net.au/news/2015-07-23/talkaboutit-five-ways-the-tpp-could-affect-you/6642230>

property are unrealistic. A study by Weatherall concluded that the impact of the highly contentious copyright clauses included in their treaty showed ‘no clear evidence that the feared financial costs to society came to pass’.⁵² Furthermore, any potential imbalance to patent policies already occurred in 2005 with the provisions of the AUSFTA and subsequent deals, with the ‘TRIPS +’ provisions, with critics suggesting that AUSFTA ‘overwhelmingly benefits producers over users of technology’.⁵³

Thus, there are strong arguments for patent protection under IP. Arguably, however, liberalising the spread of knowledge and innovation would encourage competition and manufacturing and the United States could be more lenient on the patent protection timeline.

Protectionism in Free Trade: The real problem with TPP and TTIP

The win-win principle, or ‘comparative advantage’ was articulated by David Ricardo, a 20th century economist, suggesting that ‘two nations would each benefit by letting the other export the goods at which it was more productive’⁵⁴ – this theory was subsequently dubbed by ‘the deepest and most beautiful result in all of economics’.⁵⁵

A genuine issue with the TPP and TTIP has been the protectionism seeping into the Free Trade Agreements, obscuring the harboured win-win outcomes and creating conflicts, where states have made concessions on politically sensitive areas, and other states have refused to budge. The inability of the United States to give Australian cane production access to the United States market, the reluctance of Canada to open its protected dairy sector so close to its October election, are all premised on politically sensitive topics.

One IMF spokesperson has argued that ‘to the extent that economies are open to competition in key sectors and that will improve efficiencies, some of the gains will be sizeable’.⁵⁶ It would benefit Australia greatly to have access to key sectors of agriculture in other economies – such as the United States.

Thus, the real issue with TPP is that it doesn’t go far enough – however this doesn’t justify preventing the deal from being signed whatsoever. If anything, the passing of TPP now will hopefully incentivise these countries to later open up their sectors, once they’ve realised the prosperity of liberalised trade.

⁵² Kimberlee Weatherall, ‘The Australia-US Free Trade Agreement’s impact on Australia’s copyright trade policy’ *Australian Journal of International Affairs* (9 July 2015): Accessed via: DOI: 10.1080/10357718.2015.1048778 Elizabeth Thurbon (2015): 10 years after the Australia-US free trade agreement: where to for Australia’s trade policy?’ *Australian Journal of International Affairs*, DOI:10.1080/10357718.2015.1048784: 1-5.

⁵³ Ibid.

⁵⁴ Roger Lowenstein, ‘TPP and free trade: Why Congress should listen to the world’s richest economist’ *Fortune* (22 June 2015): Accessed via: <http://fortune.com/2015/06/22/top-fast-track-david-ricardo/> Accessed: 25 July 2015

⁵⁵ Ibid.

⁵⁶ Finbarr Bermingham, ‘IMF Welcomes AIIB, warns of TPP trade diversion’ *Global Trade Review* (20 May 2015): Accessed via: <http://www.gtreview.com/news/asia/imf-welcomes-aiib-warns-of-tpp-trade-diversion/> Accessed: 25 July 2015.

Copyright Laws:

A unique critique of TPP relates to tighter copyright laws, an article in the ABC News entitled ‘#TalkAboutIt: Five ways the Trans-Pacific Partnership (TPP) could affect you’ argues ‘Under the TPP, Australia and other countries may impose criminal penalties for those found guilty of copyright infringement’.⁵⁷ Given that Australia is currently the number one location of illegal downloading in the world, reforms on copyright laws shouldn’t just be expected on any trade reform, it’s an inevitable future for Australian policymakers. Reform proposals and collaborative processes with the United Kingdom have been underway for some years now.

It’s not an unreasonable expectation for countries to protect their intellectual and innovative property by enforcing stricter regulations to prevent the sharing of such data. While some critics, such as Consumer group Choice spokesman Matt Levey has exaggerated ‘So it might be taking a selfie inside a movie theatre and having some of the film visible in the background’ as a ‘criminal offence’,⁵⁸ such a case is not only unprecedented in any other country with stricter copyright laws, it’s also incredibly unlikely to occur. These regulations relate more to the illegal downloading of movies and TV series.

While this may be represented as a new development under TPP in changing the direction of Australian copyright laws, the AUSFTA treaty and criticisms by entertainment industries witnessed a distinct shift ‘clearly in the direction of actively supporting and promoting stronger more detailed international copyright rules’ as far back as 2004.⁵⁹

The Truth about Investor State Dispute Clauses

Perhaps garnering the most amount of media attention with the release of these documents is the Investor State Dispute Clauses. ISDS arbitration systems are of increasing concern in TTIP as well, with the suit brought against the German government following the phasing out of nuclear power as a result of the Fukushima disaster by the Swedish energy firm, Vattenfall. The concerns hovering around the Investor State Dispute Clauses (ISDS) result more from the potential of this clause, rather than the reality. The lack of transparency covering the TPP negotiations blew the reactions towards this clause out of the water. While the clause may be new to the public, Australia has entered into numerous trade deals including ISDS clauses. Australia has implemented similar ISDS clauses over the past 30 years with approximately 28 countries and has only been sued on one occasion with a tobacco company over plain packaging laws, a case the company is unlikely to win. The cost of which is likely to deter companies from pursuing a similar pathway unless they have been definitively, arbitrarily treated.

ISDS themselves have been a fairly regular feature in trade agreements, particularly bilateral

⁵⁷ Clara Tran, ‘#TalkAboutIt: Five ways the Trans-Pacific Partnership (TPP) could affect you’ ABC News Accessed via: <http://www.abc.net.au/news/2015-07-23/talkaboutit-five-ways-the-tpp-could-affect-you/6642230> Accessed on: 29 June 2015.

⁵⁸ Ibid.

⁵⁹ Elizabeth Thurbon (2015): 10 years after the Australia-US free trade agreement: where to for Australia’s trade policy?, Australian Journal of International Affairs, DOI:10.1080/10357718.2015.1048784: 1-5.

agreements, since the 1950s – expanding into FTAs more recently largely as a result of a need for effective and independent mechanisms for dealing with trade disputes. There are four main areas of ignorance featuring saliently in arguments against ISDS. The first is the claim that ISDS are a method of blocking the ability of sovereign governments to regulate. This myth has been reinforced in Australia by Labor accusations levelled by a senator suggesting that renewable energy targets would be blocked by ISDS.⁶⁰ National sentiments generated by the Phillip Morris case have further obfuscated the fairness of ISDS. The often-cited case in Germany involving the Vattenfall Company illustrate this misconception. Under ISDS, there is nothing preventing a government – despite the potential damage to the interests of foreign investors – from regulating or banning commercial activity.⁶¹ Regardless of the ISDS case, Germany has continued to phase out its nuclear power program, with the goal of 2022 and maintains its ban of such commercial activity.⁶² Thus while ISDS provide compensation – they do not prevent governments from choosing to regulate or ban commercial activity – this choice ultimately remains within the decision-making power of the state. Hence the reassurance made by Spokesman for Trade Minister Andrew Robb: ‘All parties negotiating the TPP will retain their current rights under the World Trade Organisation to make policy related to human health and safety... The Australian Government is not intending to sign up to international agreements that would restrict Australia’s capacity to govern in our own interest.’⁶³

The second myth that has been voiced in the Australian parliament, and echoed in other political forums and media outlets around the world, that TTIP and TPP need to abandon ISDS – that they are unnecessary additions to the deals that empower corporations at the cost of the public. ISDS, however, are not only necessary to these FTAs, but they help create a new global trade dynamic that will shift governments into the deregulated mind-set. This is achieved through the cost incentive, as has been discovered by the Australian government and its \$50 million legal battle.⁶⁴ The fact is that government regulation comes at a cost to consumers, but this cost is hidden beneath outward benefits that are often championed (i.e. the environment, or health and safety). The disruption of business by government regulation comes at a cost of job loss, limitation of competition, higher prices and the reduction on innovation. Profit loss for investors as a result of unkept promises and changes to legislation

⁶⁰ Gareth Hutchens. ‘Chinese corporations allowed to sue Australian government under free trade agreement’ *The Sydney Morning Herald* (18 November 2014): Accessed via: <http://www.smh.com.au/business/chinese-corporations-allowed-to-sue-australian-government-under-free-trade-agreement-20141118-11p9lz.html> Accessed on: 1 July 2015.

⁶¹ Daniel Ikenson, ‘A compromise to advance the trade agenda: purge negotiations of investor-state dispute settlement’ *Free Trade Bulletin* 57 (Washington, DC: Cato Institute, 2014): 2.

⁶² Nathalie Bernasconi-Osterwalder and Rhea Tamara-Hoffmann, ‘The German nuclear phase-out put to the test in international investor arbitration? Background to the new dispute *Vattenfall v. Germany* (II)’ (Berlin: Powershift, 2013)

⁶³ Clara Tran, ‘#TalkAboutIt: Five ways the Trans-Pacific Partnership (TPP) could affect you’ ABC News Accessed via: <http://www.abc.net.au/news/2015-07-23/talkaboutit-five-ways-the-tpp-could-affect-you/6642230> Accessed on: 29 June 2015.

⁶⁴ Peter Martin. ‘Australia faces \$50m legal bill in cigarette plain packaging fight with Philip Morris’ *The Sydney Morning Herald* (28 July 2015): Accessed via: <http://www.smh.com.au/federal-politics/political-news/australia-faces-50m-legal-bill-in-cigarette-plain-packaging-fight-with-philip-morris-20150728-gim4xo.html> Accessed: 1 August 2015.

can deter future investment, or warn against potential foreign interests who view that country as an unpredictable liability.

Thirdly, sympathisers to ISDS acknowledge the fairness and risk-taking of foreign companies who may face uncertainty when investing in countries that have notoriously weak judicial systems. However, many are critical of the need of ISDS between developed nations, where arbitrary legislation is supposedly less unpredictable or protectionist. Yet, as has been highlighted in recent statistics, in 2013 around 42% of ISDS cases concerned EU members and EU based investors.⁶⁵

Lastly, ISDS can depoliticize situations and prevent them from blowing out and from turning economic competition into political disputes by providing a forum for companies to act on their own behalf. The ISDS prevented the escalation of a dispute between Argentina and the Spanish YPF from an economic to a political dilemma.⁶⁶

The portrayal of ISDS tends to emphasize the ability of foreign companies to challenge states if they believe their investment has been expropriated, but the argument leaves out the other side of this mechanism – that it is as much a protection for states as it is for companies. In other words, if a state unfairly seizes an Australian company's factory, the company is able to challenge that state through an international tribunal, and receive appropriate compensation.

One suggestion that has been made by Cecilia Malmstrom, Europe's trade commissioner to protect foreign investment and risk without limiting the rights of sovereign governments to respond to public-policy matters. The recommendation involves stipulating that protection clauses 'cannot be used to undermine states right to regulate, merely to ensure fair repayment if investors are treated arbitrarily'.⁶⁷ This would simply be a formality however, as the clause's purpose is not to prevent regulation in the first place. The insertion of this change would be to reassure the misinformed.

⁶⁵ United Nations Conference on Trade and Development, 'Recent developments in investor-state dispute settlement' IIA Issues Note No. 1 (New York: UNCTAD, 2014): 2-4.

⁶⁶ 'Investor-State Dispute Settlement: Myths and Reality' *European Policy Information Centre* Accessed (20 November 2014) via: www.epicenternetwork.eu/wp-content/uploads/2014/11/Epicenter-Briefing-ISDS-20th-November-2014.pdf Accessed: 4 August 2015

⁶⁷ 'Playing Nicely: Europe suggests ways to protect governments from investors' *The Economist* (9 May 2015) Accessed via: <http://www.economist.com/news/finance-and-economics/21650592-europe-suggests-ways-protect-governments-investors-playing-nicely> Accessed on: 24 June 2015

Conclusion and Recommendations:

‘It’s reasonable to debate the merits of this major trade agreement. But the critics have exaggerated and distorted the economic costs of the accord, while all but ignoring its benefits — and the strategic costs of a rejection’⁶⁸

TPP as a purely free-trade agreement is a great initiative, *however*, there are three main areas dragging out negotiations, further entrenching the discontent of domestic populations, and threatening the adoption of a treaty that has been negotiated for five years. The lack of transparency and communication, inflexibility on intellectual property expiry dates, and the continued protectionism over key industry’s by members of TPP. The United States should be more flexible on patent protection timelines given the massive concessions that are being made by other countries, as well as allowing other countries who are competing with importers in other sectors, access to markets those countries thrive in. The real issues with TTIP and TPP are that some countries refusal to budge on protectionist measures on key industries disadvantages other economies and distorts the gains. With an informed population, and knowledgeable consumers, public discourse can focus on pushing for further deregulation under these FTAs. This leads to a key component – greater communication.

What has de-railed the TPP after years of negotiating is that during this long period of time, voters have been continuously kept in the dark over the details, so that when one detail escapes – it causes panic. Arguments for the benefit of the TPP and the marketing of the treaty to domestic populations would be enhanced if there were more transparency behind its clauses. The IMF has stated ‘it’s hard to put a figure on the benefit when we don’t know the details of the agreements’.⁶⁹ Similarly, it’s hard to pass a deal when the lack of details of the agreement is triggering distrust between business, government and the public.

It is understandable that deals like TPP and TTIP are kept behind close doors in order to easier balance the demands of competing interest groups – however – if the trade deals themselves are at risk of being abandoned, facing fierce public opposition as a result of speculation, then this position needs to be abandoned.

The fact is, governments may attempt to further regulate or compromise on TPP and TTIP in order to appease concerns from the public about aspects of the treaty that are either misinformed, or exaggerated. TPP and TTIP are already being cluttered up in some respects with regulatory rules regarding labour, environmental standards and currency stipulations. Such compromises to the Free trade frameworks dilute the prosperity they would bring.

⁶⁸ Roger C. Altman & Richard N. Haass, ‘Why the Trans-Pacific Partnership Matters’ *The New York Times* (3 April 2015): Accessed via: http://www.nytimes.com/2015/04/04/opinion/why-the-trans-pacific-partnership-matters.html?_r=0 Accessed on: 20 July 2015

⁶⁹ Finbarr Bermingham, ‘IMF Welcomes AIIIB, warns of TPP trade diversion’ *Global Trade Review* (20 May 2015): Accessed via: <http://www.gtreview.com/news/asia/imf-welcomes-aiib-warns-of-tpp-trade-diversion/> Accessed: 25 July 2015.

Constant engagement with the public on behalf of the Australian government, as well as the EU and the US to their respective populations, on the gains of both the TPP and the TTIP would massively assist the passage of both deals. Rather than pushing through propaganda; political engagement with critics, universities, and public media forums to respond to the myths this report has demonstrated would facilitate comprehensive and most importantly, informed, discussion. Just as Caplan's thesis doesn't just demonstrate the ignorance of the public, but the persistence of this as a result of miscommunication and manipulation by vested political or union interests, so too does the resistance to TTIP and TPP not just mean a lack of liberalism – political and economic. But that the lack of a liberal discourse to discuss these issues with transparency is preventing consumers from realising the massive gains to be made.

Additionally, the Australian government should maintain a focus on the conclusion of negotiations and signing of the Regional Comprehensive Economic Partnership, which will help push through negotiations for TPP, and potentially TTIP.

TPP and TTIP are ultimately twin deals, the benefit of passing one is enhanced through the other, standardisation and the harmonising of free trade rules would be almost global-reaching if both agreements are to go through. TTIP and TPP don't represent the end-game of paradigm-shifting change, but they are many to start a significant 21st century step towards a new era of liberalisation.

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