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Signed Trans-Pacific Partnership kicks off further trade liberalisation in the Asia Pacific region

What is the TPP?

After years of negotiations, the 12 countries involved in the Trans-Pacific Partnership (TPP) have signed the historic trade deal on 5 October. Together, the countries span across large swathes of the Americas and the Asia Pacific, accounting for nearly 40 percent of global GDP.

The TPP is an off-shoot of the Trans-Pacific Strategic Economic Partnership signed in 2006 between Singapore, Chile, New Zealand and Brunei. In 2008, the United States, Australia and Peru expressed interest in negotiating a free-trade agreement with the original four nations, and this agreement became known as the TPP.

Malaysia and Vietnam formally joined the talks in 2010, followed by Canada and Mexico in 2012, and Japan in 2013.

What is next?

Although the TPP is expected to bring greater growth in the Asia Pacific region, it will take a few years for all ratifications to be completed. Information available so far suggests that TPP can enter into force with at least six signatories that represent at least 85% of the total GDP of the 12 original signatories.

The fine print in the legal text will have to be examined carefully to understand when and what are included in the TPP. While we are waiting for the legal text of TPP to be published, the Asia Pacific countries involved will continue to benefit from their existing Free Trade Agreements (e.g. US-Singapore FTA, ASEAN-Japan FTA) which have been signed separately with members and non-members of TPP.

How will TPP affect the growth in the Asia Pacific?

Countries such as Vietnam will gain greater market access to developed markets like the US and Japan. This is especially important for Vietnam's manufacturing sector.

Special provisions on Competitiveness and Business Facilitation should support small and medium-sized enterprises to gain greater market access. The conclusion of TPP will put pressure on other trade pacts such as the Regional Comprehensive Economic Partnership (RCEP) which includes China and India to conclude more quickly. Other trade pacts may also include more aggressive market access terms so as not to lose out to the TPP.

Looking at the next 3 to 5 years, is the TPP going to significantly impact the industrial footprint and supply chain planning of companies operating in Singapore and the Asia Pacific? Although the details are not yet available, companies in Singapore and those with regional operations should consider and take full advantage of this trade liberalisation. Should there be more countries joining the TPP, this will definitely add on to the dynamics of Foreign Direct Investment (FDI) and economic growth in the Asia Pacific region.

How can KPMG assist?

Getting your supply chain ready to reap the benefits of multilateral trade pact is becoming more important. KPMG has a team of experienced Trade and Customs advisors who are able to assist you in reviewing your supply chain in this region. Our professionals can provide the necessary guidance including automated tools to cut through the complexity of rules of origin in qualifying for multilateral trade pacts.

About Tax Alert

KPMG's Tax Alerts highlight the latest tax developments, impending change to laws or regulations, current practices and potential problem areas that may impact you or your company. As certain issues discussed herein are time sensitive it is advisable to make plans accordingly.

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