

The TPP

Origins and outcomes¹

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The Trans-Pacific Partnership (TPP) was an international commercial agreement among 12 nations in the Asia-Pacific region representing about 38 per cent of the global economy. It included wide-ranging obligations to eliminate almost all tariffs and reduce other barriers to trade and investment in goods and services, new rules governing domestic policies that affect international commerce, and enforcement and dispute resolution procedures to promote compliance with the TPP provisions. In terms of the breadth and depth of the reforms agreed by the partner countries, the TPP was more comprehensive than any commercial accord since the ill-fated 1948 Charter for an International Trade Organization (ITO).

The USA was the lead architect of the TPP; the pact closely resembled and augmented previous US free trade agreements (FTAs) and required relatively minor changes in existing US law and practice. After almost six years of negotiations, the TPP agreement was signed on 4 February 2016. But despite the preponderant US influence on the treaty text, there still was strong opposition in the US Congress to specific provisions of the TPP, which delayed congressional action on the trade pact. As with the ITO, Congress never considered that the TPP would be implementing legislation in 2016. The new Trump Administration subsequently withdrew the US signature in late January 2017 for unspecified but largely political reasons.

Interestingly, the US withdrawal from the TPP did not kill the deal. Instead, the remaining signatories decided to go forward with a slightly revised pact, renamed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The basic deal was kept intact with only minor revisions to the original substantive obligations and entry into force provisions. On 23 January 2018, the 11 remaining TPP signatories agreed to finalize work on the CPTPP provisions and to sign the revised deal in Chile on 8 March 2018.

The TPP: origins

The TPP can be best understood as the culmination of the long-standing pursuit of economic integration among Pacific Basin nations. The initial impetus for the TPP dates back more than two decades when leaders of the Asia-Pacific Economic Cooperation (APEC) forum committed to the long-term goal of free trade and investment in the Asia-Pacific region at their historic summit in Bogor, Indonesia, in November 1994. After a decade of limited progress in APEC

and other forums, four small countries (Singapore, Chile, Brunei and New Zealand), known as the P4, reinvigorated efforts by developing a new free trade pact – the Trans-Pacific Strategic Economic Partnership – that entered into force in 2006.

But the P4 had bigger goals. True to the strategic vision of Singapore's founding father, Lee Kwan Yew, the P4 wanted their pact to be the core of a broader regional initiative that included the USA. The P4 recognized that sustained US engagement was needed in the Asia-Pacific region to support economic development and deter the type of military adventurism that caused so much devastation in East and South-East Asia in the past century.² Accordingly, the deal had to be expanded to include the USA and accommodate its priority interests and concerns in the region.

In late September 2008, on the outskirts of the United Nations meetings in New York, the USA, Australia, Peru and Viet Nam agreed to join with the P4 to build on that pact and establish a more comprehensive deal called the TPP.³ But late 2008 was not a propitious time to start new trade talks. The world economy was suffering from a major financial meltdown. Following the US election in November, the new Obama Administration focused first and foremost on domestic policies to reverse the sharp recession caused by the deepening crisis in world financial markets. Trade talks were shelved indefinitely.

Once the US economy had stabilized in the second half of 2009, US officials began to refocus, for both strategic and economic reasons, on the Asia-Pacific region. During his first official trip to Asia in December 2009 President Obama pledged that the USA would participate in new TPP negotiations. At the time, with low capacity utilization in US industry and high US unemployment, the TPP offered the prospect of increased US exports to the region producing the world's most dynamic growth. The TPP fit well into an emerging US trade policy response to the global financial crisis, the 'National Export Initiative', that Lawrence Summers (then Obama's chief economic adviser as head of the National Economic Council), and Michael Froman (then Summers' deputy and subsequently US Trade Representative), cogently argued could contribute to the US economic recovery.

The eight countries launched the TPP talks in Australia in March 2010.⁴ Their vision was to craft a high-quality, 21st-century trade pact among a small group of like-minded countries that over time could attract participation by a larger number of Asia-Pacific nations. In the event, enlargement occurred even before the initial deal was struck. Unlike other trade negotiations, TPP membership changed and expanded over the course of the negotiations: Malaysia joined the talks during the third round of TPP negotiations in October 2010, Canada and Mexico began participating in late 2012, and Japan started negotiating in July 2013. After the US Congress passed legislation renewing trade promotion authority (according to expedited procedures for the passage of implementing legislation for US trade pacts) in mid-2015, US officials could proceed to finalize and accept the Asia-Pacific pact. The TPP negotiations concluded in October 2015 and the pact was signed by the 12 participating countries on 4 February 2016.

The TPP: like-minded but diverse participants

The TPP negotiations brought together countries with like-minded interests in building a comprehensive Asia-Pacific FTA. But the like-minded countries were not alike in terms of the size of their countries and economies and the level of their economic development. Finding common ground among countries as diverse as the TPP participants was a notable achievement.

Table 34.1 provides a snapshot of the key economic indicators of the countries that initially signed the TPP accord. Their diverse levels of development challenged the TPP negotiators in constructing a high-quality agreement that all countries could faithfully implement and enforce.

Table 34.1 Indicators of diversity, TPP-12, 2016

Country	GDP (billions of US \$) ^a	Total population (millions)	Human Development Index ^b	RCEP member
Australia	1,204.6	24.1	0.939	Yes
Brunei	11.4	0.4	0.865	Yes
Canada	1,529.8	36.3	0.920	No
Chile	247.0	17.9	0.847	No
Japan	4,939.4	127.0	0.903	Yes
Malaysia	296.4	31.2	0.789	Yes
Mexico	1,046.0	127.5	0.762	No
New Zealand	185.0	4.7	0.915	Yes
Peru	192.1	31.8	0.740	No
Singapore	297.0	5.6	0.925	Yes
USA	18,569.1	323.1	0.920	No
Viet Nam	202.6	92.7	0.683	Yes
Total	28,720.3	822.4		

Sources: World Bank, available at <https://data.worldbank.org/>, and Human Development Report 2016, available at http://hdr.undp.org/sites/default/files/2016_human_development_report.pdf (accessed on 18 December 2017).

Notes: *a* measured in current US dollars; *b* the United Nations Human Development Index (HDI) is a summary measure of achievements in key dimensions of human development: a long and healthy life, access to knowledge, and a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions. Data is for 2015.

The TPP-12 include large economies like the USA (US \$18.6 trillion) and Japan (\$4.9 trillion) but seven of the 12 have gross domestic products (GDPs) under \$300 billion; three TPP members have populations of more than 100 million; and three have less than six million inhabitants. Most TPP participants are high-income or upper-middle-income countries.⁵ In stark contrast, Viet Nam is the only lower-middle-income country; its Human Development Index (HDI), which measures relative levels of income and development, is significantly lower than that of the other developing country participants such as Malaysia, Mexico and Peru. These factors raise concerns about Viet Nam's ability to undertake and enforce domestic reforms required by TPP obligations, particularly disciplines on state-owned enterprises (SOEs), as well as rule-making obligations in sensitive areas such as labour, environment and the protection of intellectual property rights (IPRs).

Despite the wide diversity in size and level of development of the TPP countries, the pact requires signatories to accept common obligations with only limited exceptions for certain 'non-conforming measures' to be excluded from TPP disciplines in each detailed national schedule. But the pact recognizes that poorer countries face difficult challenges in implementing and enforcing TPP obligations, so the TPP sets out asymmetric implementation schedules that enable poorer countries to adopt TPP-mandated reforms during an extended but fixed transition period.

Unlike traditional trade pacts of the early post-war era, the TPP does not exempt poorer countries from most obligations through provisions on special and differential treatment for less developed countries (LDCs). The reason is straightforward: the more LDCs get a 'free pass' from undertaking critical domestic economic reforms, the harder it will be for them to compete for foreign investment. LDC negotiators argue that they need policy space or flexibility to

manage adjustment in their economies, especially in the face of staunch competition from the People's Republic of China in labour-intensive manufactures; however, history is replete with examples where special and differential treatment has abetted corruption and effectively impeded development prospects.

Although the TPP countries shared the same objectives of crafting a 21st-century trade pact, each approached the negotiations with different perspectives and priorities on product and sector specific liberalization, and on the desired scope of new rule-making obligations. Each country had 'no go' areas where attempts to change long-standing policies and practices, many of which discriminate against outsiders, would complicate or derail political support for the overall agreement. Such political economy considerations almost always drive negotiators to seek special treatment for their most politically sensitive products via long phase-outs for existing restrictions, partial liberalization, or even outright exemption from reform commitments. Almost all trade pacts contain exceptions in various forms. General Agreement on Tariffs and Trade (GATT) Article XXIV requires that customs unions and regional trade agreements cover 'substantially all' trade but most trade pacts are replete with exceptions in various forms. Compared to other FTAs, however, the TPP is the most consistent with the spirit and the letter of the legal obligations of GATT Article XXIV.

The TPP: broad objectives

While each TPP country entered the negotiations with different priorities and political constraints, they shared five broad policy objectives driven by both economic and strategic interests in deepening regional integration. These goals are comparable to those that underpinned the creation of APEC in the late 1980s and inspired the pursuit of deeper trade and investment relations among developed and developing economies in the region that has helped Asia-Pacific countries to modernize and to accelerate the pace of their economic growth.

First, as in any commercial accord, the partner countries sought to strengthen economic growth through policy reforms that would encourage trade and investment and spur innovation and productivity gains in each economy across the region. For some countries, the impetus to implement the necessary structural economic reforms at home was the real prize of the TPP initiative; indeed, Japanese Prime Minister Shinzo Abe justified TPP participation as critical to the successful achievement of structural policy reforms such as labour included in the 'third arrow' of 'Abenomics'.⁶

In retrospect, the TPP negotiators did a good job in meeting this core objective. According to the widely cited econometric analysis of the final TPP provisions by Petri *et al.*,⁷ TPP reforms would contribute importantly to economic growth, raising the real income of TPP members by almost US \$500 billion or 1.1 per cent of GDP once the deal was fully implemented (see Table 32.2). On average, non-TPP countries would benefit modestly as well because of higher growth in the TPP region and the fact that many TPP-mandated reforms would be implemented in a non-discriminatory manner.

Second, TPP members used the regional negotiations to efficiently upgrade existing bilateral FTAs with other TPP participants. While several FTAs among TPP members cover both goods and services and contain extensive obligations to reform domestic policies and regulations that can distort trade and investment, many of these pacts merely reference existing World Trade Organization (WTO) obligations in these rule-making areas and include only shallow commitments in key areas like investment, services, transparency and the movement of labour. The TPP substantially updated and augmented less comprehensive pacts between pairs of TPP countries, including most importantly the vintage North American Free Trade Agreement

Table 34.2 TPP-12 vs TPP-11: real income gains

	TPP-12		TPP-11	
	%	billions in 2015 dollars	%	billions in 2015 dollars
World	0.4	492	0.1	147
TPP-12	1.1	465	n.a.	n.a.
TPP-11	2.2	334	1.0	158
USA	0.5	131	0.0	-2
ROW (non TPP-12)	n.a.	27	n.a.	-8

Source: Petri *et al.*

Notes: n.a. = not applicable/available; ROW = rest of world.

(NAFTA) between the USA, Canada and Mexico, as well as other more recent US FTAs such as the Korea-US or KORUS FTA. In addition, the TPP established new free trade obligations with countries where bilateral talks had not been successful in the past. Cementing US-Japan trade reforms was the most prominent example. Overall, the TPP effectively improved the quality, scope and economic pay-off of the FTAs of the TPP signatories.

Third, the TPP was designed to modernize the trade rulebook. It established new trade rights and disciplines that fill important holes in the WTO rulebook and that update and expand WTO obligations in other areas. Advances in TPP rule-making establish precedents for other regional and multilateral negotiations (covering issues such as the environment, e-commerce and disciplines on SOEs), and help to inform ongoing plurilateral talks like those on trade in services. Some TPP provisions already have been transplanted into the current negotiations on a Regional Comprehensive Economic Partnership (RCEP).

Fourth, with its open-ended accession clause, TPP members sought to build an agreement that could set out a comprehensive template for broader Asia-Pacific economic integration and create the most viable pathway toward a Free Trade Area of the Asia Pacific (FTAAP) that APEC members have been pursuing for the past decade. Importantly, any country can join the pact, not just APEC members or other nations in the Asia-Pacific region.

Finally, as envisaged by Lee Kwan Yew, the TPP was designed to reinforce foreign policy and national security relations in the Asia-Pacific region. For Asia-Pacific nations that depend on open and secure sea lanes for their commercial prosperity, and those that face the threat of North Korean missiles and adventurism, the TPP was regarded as critically important to ensure strong US economic engagement and ongoing military presence in the region. US withdrawal from the pact in 2017 has had the opposite effect, raising questions about whether the USA can be considered a reliable partner.

The TPP: scope and coverage

The TPP is by far the most comprehensive trade accord involving developed and developing countries that has ever been negotiated in terms of scope of coverage and depth of commitments to trade liberalization and policy reform. Together, the 12 TPP countries accounted for almost 40 per cent of global output and one-quarter of world exports. The deal opened new opportunities for increased trade and investment in goods and services, including farm trade

barriers that had long been resistant to reform. It upgraded the bilateral trade deals among individual members, deepened trade reforms at and behind borders, and limited exceptions so common in other FTAs. In so doing, the TPP architects created a cohesive and comprehensive template for trade reform that could be applied in other regional and multilateral negotiations.

The TPP participants committed to crafting a comprehensive agreement that dismantles barriers to trade in goods and services, breaks new ground on issues like labour, the environment, investment, competition policy, and SOEs, and develops a more coherent approach across sectors regarding regulatory policies that affect flows of trade and investment. TPP obligations also encourage good governance by promoting greater transparency of government policies and improvements in the quality of economic institutions in member countries. The goal was to create a trade regime that is ‘state of the art’ and sets a precedent for future trade negotiations.

As the ‘gold standard’ in terms of content and coverage, the KORUS FTA offered important precedents for the TPP negotiations. Provisions in the KORUS agreement in areas like IPRs, services and investment, labour, and the environment provided a detailed template for the elaboration of TPP obligations. For example, the KORUS agreement secured high levels of protection for copyright holders and trademarks by extending protection beyond the minimum requirements in the WTO’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Similarly, the KORUS FTA included precedent-setting provisions on the environment, including a list of multilateral environmental agreements whose obligations are enforceable under the FTA’s general dispute settlement procedures.

Contrary to the Trump Administration critique, the TPP negotiators produced a noteworthy agreement and one that was favourable to US trading interests. The deal largely reflected US standards and practices, and would not have required Congress to legislate significant changes in US laws and regulations. The following summarizes key results of the trade agreement in terms of market access reforms and new rules that augment WTO disciplines.⁸

FTAs traditionally focus on improving market access for goods. In this area, the TPP negotiators had good results but left some distortionary practices on the table. The TPP required the quick elimination of most tariffs with very few exceptions. Most tariffs on autos and clothing were eliminated after a decade. The TPP made limited progress regarding non-discriminatory access to bidding on subnational public contracts but contained the first major opening of bidding on national government procurement by Viet Nam and Malaysia.

Like most FTAs, the TPP contained rules of origin to govern which products would qualify for tariff preferences. Because the pact credits content sourced in any of the member countries, the rules offer more flexibility regarding sourcing components across the Pacific Basin than bilateral or neighbourhood trade deals. Beyond this ‘cumulation’ effect, origin rules for autos and parts revamp and lower regional content requirements to levels well below comparable levels in NAFTA, a key point of contention in the US debate and one of the few specific issues cited by the Trump Administration in its rejection of the pact. In contrast, the TPP maintained the NAFTA ‘yarn forward’ rule for textiles and apparel, although it provided time-limited relief from this strict content rule for a specified list of products.

Unlike many agreements among Asian countries, the TPP participants agreed to comprehensive coverage of agriculture. Substantial cuts were made in farm trade barriers, tariffs as well as non-tariff measures such as sanitary and phytosanitary standards. The TPP agreement covered substantially all goods with the more import-sensitive products subject to a protracted liberalization schedule of perhaps ten to 15 years. For a narrow range of products, the TPP allows partial liberalization through expanded tariff rate quotas. With a nod to political reality, policies protecting sensitive farm products like rice, sugar and dairy remained largely in place; US sugar

and US and Canadian dairy restrictions remained substantially intact. But no farm products were fully exempt from TPP reform, even sensitive Japanese products like rice, in contrast to the treatment of sugar in the US-Australia FTA and rice in the KORUS FTA.

The TPP also contained wide-ranging obligations on investment policy comparable or greater than those embodied in bilateral investment treaties. TPP countries applied a negative list approach to limit exceptions to commitments to accord foreign investors non-discriminatory treatment. The pact also restricted use of local content and other performance requirements and improved investor-state dispute settlement procedures (while reaffirming each country's right to issue regulations in the public interest that affect investor interests).

In services, liberalization commitments were much less demanding than in goods, although service providers will benefit from new TPP disciplines on foreign investment to ensure non-discriminatory treatment and to provide security and protection to foreign investors. In key infrastructure services like finance, insurance, telecommunications, air express delivery and other transport services, the TPP reforms targeted restrictions on commercial presence and established new disciplines on foreign investment to ensure non-discriminatory treatment, security, and greater transparency (for example, by removing or reducing limitations on foreign ownership and giving foreign individuals and firms the right to provide cross-border services without the requirement to establish a commercial presence). In financial services, for example, the pact provided greater access for portfolio management and payment/clearing services as well as partial constraints on state-run postal insurance systems.

The TPP did more than grant preferential access to member countries. New rule-making obligations constrain the use of industrial policy measures that discriminate against foreign suppliers and investors, including via government procurement preferences. Disciplines on subsidies and other preferential policies favouring SOEs go to some lengths to achieve competitive neutrality among public and private enterprises in the domestic market.

The new TPP rulebook included disciplines on issues like SOEs, competition policy, the environment and labour that incorporate and build on existing WTO commitments and FTA obligations. In brief, the TPP supplemented existing rules by extending obligations to areas not yet subject to WTO disciplines, augmenting current FTA commitments, and including development provisions to assist in enhancing human capital, technology transfer, capacity building and assistance for small and medium-sized enterprises. For example, the prevalence of significant SOEs in the economies of several TPP participants led negotiators to focus on crafting new rules in order to 'level the playing field' between private firms and SOEs, including new disciplines on the provision of public funds. The objective was not forced privatization but rather ensuring competitive neutrality between public and private firms in access to finance, factors of production, and distribution of goods and services in the marketplace.

The TPP also contained important, albeit controversial, provisions on IPRs. Perhaps most contentious were the new rules governing patents for pharmaceutical products, particularly the term for data exclusivity for certain biological products. Other TPP obligations covered patent linkages and patent term extension, and copyright protections, beyond those included in the WTO TRIPs accord. The agreement also strengthened enforcement of trade secrets, penalties for copyright infringement, including online and media products, and required criminal procedures and penalties for theft, including cyber theft.

The TPP also contained the most substantive chapter on trade-related environmental issues of any trade agreement. Among its key provisions, the environment chapter banned fish subsidies that were damaging, including those provided to illegal, unreported and unregulated fishing vessels; strengthened the enforcement of multilateral environmental agreements to which a country already is a party; promoted conservation programmes for specific marine species,

wetlands, and forest/fisheries management; and combated illegal taking and trafficking in wildlife and illegal logging. All these obligations were subject to the TPP's dispute settlement procedures.

In addition, the TPP included more explicit rules on labour practices than prior FTAs. The TPP labour chapter committed countries, *inter alia*, to maintain and enforce domestic labour laws, as well as the core labour rights of the 1998 Declaration on Fundamental Principles and Rights at Work of the International Labour Organization; called for new constraints on trade in goods made by forced labour; and mandated upgraded labour standards in export processing zones. Here again, compared to other FTAs, the TPP is notable for its significant new obligations regarding labour rights and protections, even if the negotiators did not include some far-reaching recommendations put forward by labour constituencies in various TPP countries.

The TPP also covered cross-cutting issues related to regulatory coherence, competitiveness and business facilitation. In that regard, TPP negotiators focused on streamlining supply chains, certification and regulatory processes, and improving coordination between the government and relevant stakeholders. These objectives were outlined in November 2011 by the leaders of the TPP countries, who endorsed a framework for the evolving trade pact that presaged 'a comprehensive, next-generation regional agreement that liberalizes trade and investment and addresses new and traditional trade issues and 21st-century challenges'.⁹

Finally, in parallel with the trade agreement, officials from the TPP countries adopted a Joint Declaration of the Macroeconomic Policy Authorities of Trans-Pacific Partnership Countries. The Declaration committed each TPP member to 'avoid persistent exchange rate misalignments' and 'refrain from competitive devaluation'. It also required each country to disclose foreign exchange reserves and interventions in spot and forward currency markets. Obligations under the Declaration were not subject to TPP dispute resolution procedures. The Declaration also established a new Group of TPP Macroeconomic Officials to monitor and assess exchange rate and macroeconomic policies.

While comprehensive, there still are areas that the TPP did not cover or did not cover well. For example, the TPP did not require major new services or procurement liberalization by the USA or disciplines related to global warming, particularly subsidies and other measures that distort demand for fossil fuels and renewable energy supplies. In addition, and importantly, national labour adjustment policies were not addressed. No support was given to countries struggling to manage adjustment to new competition in domestic markets.

Putting together such a comprehensive agreement among the diverse group of TPP economies seemed like a daunting task, but the negotiators did not start from scratch. In addition to the KORUS FTA, TPP countries built on the extensive network of bilateral and regional FTAs already in place among the TPP countries that included a variety of reform commitments. For example, TPP architects drew on provisions of the ASEAN (Association of Southeast Asian Nations)-Australia New Zealand FTA (AANZFTA), which incorporated valuable developmental elements such as different implementation periods for developing and advanced countries, and included provisions on FTA-plus issues like regulatory coherence, IPRs, transparency and competition policy.

Postscript: moving the TPP forwards without the USA

The Trump Administration's decision to withdraw from the TPP has had important implications for Asia-Pacific regionalism. It dealt a substantial setback to long-standing efforts towards an FTAAP, exacerbated trade frictions between the USA and its key trading partners in the region, and encouraged those countries to pursue other trade deals with regional partners, including China.

But, interestingly, after some initial hesitation when Trump took office in January 2017, the other 11 TPP signatories reassessed the value of the trade deal for their own economies and its precedential value for the world trading system. While the US withdrawal sharply reduced the economic footprint of the TPP, the other 11 signatories recognized that the deal still had considerable value even without US participation, although they all hoped that the USA would reconsider and participate in their new Asia-Pacific economic integration arrangement. Within weeks of Trump's action, the TPP-11 began working to salvage the fruits of their extensive negotiating efforts.

Why did the TPP-11 countries move forward without the USA on a deal that was largely based on the US FTA template? Three reasons should be mentioned.

First, the limited concessions opening the US market to other TPP members were only part of the deal's allure. Another large objective of these countries was to bolster their own domestic economic reform to become more efficient, productive and competitive in global markets. Adopting the TPP's demanding reform commitments would require each country to implement the necessary but politically contentious economic reforms that would help to boost productivity growth across the economy and generate significant real income gains for each country. That's why Japanese Prime Minister Abe initially joined the negotiations even as the talks were nearing completion and it is why he championed moving forward with the TPP even after the USA jumped ship – he recognized that the TPP would complement and provide impetus for the implementation of crucial structural economic reforms in the Japanese economy.

Second, the prospective real income gains from the trade pact are significant, even without US participation. As shown in Table 34.2, the TPP-11 countries still achieve increases in real income of around 1 per cent of GDP or US \$158 billion above what would occur without the TPP reforms. That would be a big pay-off for any governmental action, albeit with less than half of the expected gains for TPP countries than if the USA also participated. Global income gains fall by 70 per cent without US participation but are still positive; the big loser from the US decision to withdraw from TPP is the USA, whose real income declines by \$133 billion or 0.5 per cent of GDP compared to the TPP-12 outcome.

Third, the TPP established disciplines that address the new challenges affecting international commerce in the 21st century. Since the WTO was established in 1995, new technologies have changed the way in which goods and services are produced, exchanged, financed and delivered. TPP negotiators produced new guidelines and remedies for practices that were not prominent when the trade rulebook was last augmented, and they did not want to lose the progress that they had made in updating world trading rules.

In sum, the TPP countries went forwards with the pact – without the USA but in the hope that US officials would revisit the deal in the future – because they valued the trade and investment liberalization and reforms required by TPP obligations that spur productivity gains in their own economies, open new export and investment opportunities, encourage improvements in the quality and governance of economic institutions, and set comprehensive precedents for broader regional integration. With that common foundation, the 11 TPP signatories turned to the task of putting the regional pact into force.

Chile took the initial lead and organized an ad hoc High Level Dialogue on Integration Initiatives for the Asia Pacific on the sidelines of a meeting of the Pacific Alliance countries (Chile, Colombia, Mexico and Peru plus many observer nations) in Vina del Mar, Chile, in mid-March 2017. Attending were all 11 remaining TPP signatories plus China, Colombia, the Republic of Korea (South Korea) and the USA. In addition, the TPP-11 met separately and issued a statement noting that it regards the TPP's 'principles and high standards as a key driver for regional economic integration and promoter of economic growth'.

At the same time, however, many of the TPP signatories began to hedge their bets. Soon after the abrupt US withdrawal from the regional trade pact, many of them reassessed their substantial trade and investment ties with China and began to explore new or expanded bilateral FTAs and/or investment arrangements with China. Almost half of the TPP countries were also participating in the other major regional trade initiative (see Table 34.2), RCEP that included the ten member countries in ASEAN and their FTA partners (Australia, China, Japan, India, New Zealand and South Korea). Without the TPP, the predominant framework for regional integration would be RCEP, led by ASEAN, but driven by commercial ties with China. Salvaging the TPP and implementing its comprehensive body of rights and obligations was needed as a foil to RCEP and a response to Chinese commercial pressure.

At the APEC ministerial meetings in Da Nang, Viet Nam, in November 2017, leaders of the TPP-11 countries committed to finalizing a newly branded Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) largely comprised of the original TPP text. The entry into force provisions were recast and simplified to allow the pact to take effect 60 days after six of the signatories had ratified the new agreement. Each country's market access schedules would remain substantially intact. In addition, the TPP-11 agreed to resolve four specific issues prior to signing the pact, including a Canadian request for the inclusion of new provisions regarding exceptions for public support for cultural industries and specific exceptions to Malaysian commitments on SOEs.

The major difference between the CPTPP and its predecessor, besides the more awkward title, is the agreement to suspend, at least temporarily, the implementation of specific TPP provisions that the USA had insisted be included in the original pact despite widespread opposition from other countries; if the USA and others want to participate in the future, those obligations could be reactivated or revised as part of the accession compact. Prominent among the provisions suspended were the data exclusivity obligations regarding patents on certain pharmaceutical products, investment obligations and enforcement procedures related to investor-state arbitration, certain prohibitions on the illegal taking and trade in wildlife, and obligations and policy reforms covering express delivery services (see Annex II of the Trans-Pacific Partnership Ministerial Statement of 11 November 2017 for the complete list of suspended TPP provisions).

Once the CPTPP is up and running, the pact will be open to accession by other economies, including the USA. Prospective new members such as South Korea, Colombia and Taiwan began consulting with TPP-11 signatories about joining the CPTPP even before the final text of the revised pact was signed. Consequently, despite the absence of the USA and China at the outset, the TPP in its new incarnation is likely to be sustained as a viable framework for building a comprehensive economic integration arrangement in the Asia-Pacific region in the coming decade.

That said, it is hard to conceive of a comprehensive Asia-Pacific trade arrangement that does not eventually include China. TPP participants already have extensive trade and investment ties with China and have long been involved in working with China towards the long-term APEC goal of free trade and investment in the Asia-Pacific region. China, in turn, has committed to the regional integration strategy and championed initiatives to accelerate progress toward the formation of an FTAAP when it was chair of APEC in 2014.

To be sure, some observers have concluded that the TPP participants intend to exclude China from their integration arrangement because the bar is set so high in terms of transparency of domestic policies and the rigor of disciplines on government interventions in the marketplace. Others take this argument further and claim that the TPP is designed to 'contain China' in order to restrain its economic and political influence in the region. Such a strategy is

implausible. However, the TPP countries do regard the reforms mandated by the trade pact as a vital part of their strategy to ‘compete’ with China, a factor overlooked by the USA in its hasty exit from the pact.

The US withdrawal from the TPP was a mixed blessing for China: it set back efforts to forge a US-China consensus on pathways to regional integration based on regional arrangements including the TPP and RCEP, but it also opened the door for China to assert a more pronounced leadership role in the region via its own bilateral trade pacts and regional investment arrangements like the Belt and Road Initiative. In the short term, however, China is more likely to prioritize deepening its ties with its Asian neighbours before engaging the TPP. Such restraint is basically due to a lack of readiness and willingness to pursue a trade accord as comprehensive as the TPP. But TPP accession is open to all countries who are willing to meet its requirements. At some point in the future, the queue for entry is likely to include the USA and China.

Notes

- 1 © Peterson Institute for International Economics (2018).
- 2 It is probably not a coincidence that Lee Kwan Yew advised President Barack Obama in November 2009 to maintain the US strategic presence in the region and to deepen economic relations by joining the TPP talks.
- 3 The US commitment to new trade talks was unusual at the end of a presidential term and amid a growing crisis in world financial markets. Given the protectionist rhetoric of the Democratic candidates for US president (Barack Obama and Hillary Clinton), the outgoing Bush Administration seemingly agreed to new trade talks to lock-in US participation before the expected victory by Barack Obama.
- 4 Viet Nam initially joined the talks as an ‘observer’. It became a full participant during the fourth round of TPP negotiations in December 2010.
- 5 Country classifications are based on the World Bank’s income classifications.
- 6 IMF (2015) ‘Can Abenomics Succeed? Overcoming the Legacy of Japan’s Lost Decades’, Washington, DC: International Monetary Fund.
- 7 Peter A. Petri, Michael G. Plummer, Shujiro Urata and Fan Zhai (2017) ‘Going it Alone in the Asia-Pacific: Regional Trade Agreements Without the United States’, Peterson Institute for International Economics, Working Paper 17-10, October.
- 8 For a more comprehensive analysis of the TPP agreement, see Cathleen Cimino-Isaacs and Jeffrey J. Schott (eds) (2016) *Trans-Pacific Partnership: An Assessment*, Washington, DC: Peterson Institute for International Economics.
- 9 See TPP Leaders’ Statement, Honolulu, 12 November 2011.