

# The Comprehensive and Progressive TPP (CPTPP)

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In December 2017, with President Trump having disavowed the Trans Pacific Partnership (TPP) free trade agreement, the remaining eleven governments <sup>[1]</sup> who negotiated it agreed to a set of changes – mainly setting aside some key positions inserted by the US - and aimed to adopt it in Vietnam when the APEC annual Summit convened in December 2017.

But Canada's Prime Minister Trudeau had reservations and adoption was deferred. Some minor changes were made to meet Canada's concerns and the agreement was renamed the Comprehensive and Progressive TPP (CPTPP). It is now set to be signed in March 2018.

At Davos, in late January, President Trump announced the Administration might be prepared to join an amended version of the agreement, although the US would seek additional changes. They were not spelt out. The suggestion was received politely.



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After a year in government, Trump's approach to trade policy is clear. He wants all US free trade treaties revised if they do not deliver the US a surplus in trade in goods. This is not free market economics, this is mercantilism.

Both Mexico and Canada have surpluses in trade with the US. All three states have benefitted significantly from the NAFTA (North American Free Trade Agreement) but Donald Trump does not like it because the US does not have a trade surplus with those economies.

There is nothing wrong with a deficit in trade. Australia had one most of the time since Federation. Today Australia is rated by the OECD as the industrialized economy with the longest run of positive growth.

As well, the Trump negotiating technique is blunt and brutal. No one is yet prepared to say the review of the NAFTA agreement will be approved by the President. Some US trade analysts forecast that review will not be completed before the Trump term is completed. Trade agreements are usually only put before Congress in the third year of the Senate four year term. Too many other issues take priority in the first year. The House of Representatives has an election every two years. So the third year of a Senate term (which is the first year of a House term) is regarded as the most favourable time to put trade agreements before Congress.

Trade analysts are now speculating that President Trump's negative approach to trade policy means prospects to approve a review of NAFTA in the third year of his term is poor. Some contend the likelihood of a genuine Trump effort to renegotiate the TPP and bring in the US is low.

President Trump's other trade objective is challenge China. He recently observed China should never have been allowed to join the WTO. Yet China has been a responsible member since it acceded. It stands in sharp contrast to India who is not. The difference is China is a major trader in global markets. India is not.

That said, China faces major challenges. It could not meet the commitments in the CPTPP agreement because it does not have regulatory standards which protect investment and support liberalization of services. It privately tested the Obama Administration on participating in the TPP negotiations. Washington pointed out China could not provide the legal protection that commitments in the WTO and good FTAs require for liberal investment and services.

What has given the CPTPP agreement credibility is the new leading role of Shinzo Abe, Japan's Prime Minister. Japan is the world's fourth largest trading nation, but protectionist domestic interests, particularly farmers, have impeded its ability to lead. This has changed, ironically because of apprehension in Japan about China's more aggressive military activity in the South China Sea.

Japan is now the economic leader of the CPTPP. Any successful free trade agreement with broad scope needs a major economy to lead it. Already other Asian economies, such as the Philippines and Indonesia have indicated interest in joining the CPTPP agreement.

The Trump Administration recognizes it cannot upend its legal obligations as a party to the WTO agreement. The black letter law of the WTO agreements is little appreciated. It is uncommon in international agreements. This has not however prevented the US Special Trade Representative (effectively the US Trade Minister) from seeking to impede WTO processes by holding up approval of replacements to the WTO Appellate Body which adjudicates complaints by WTO members that others are in breach of WTO rules. The Appellate Body is short on judges.

The support for the CPTPP shows there is appreciation among APEC economies of the need for systematic liberalization of services and investment if economic growth is to be sustained.

The TPP is now the standard setter if the full benefits of liberalization by Asian Pacific economies is to be won. The major market economies must lead. Japan stepping up to the plate while the US looks elsewhere may be more than happenstance.

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<sup>[1]</sup> Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam.

