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CPTPP: New Key Player in International Trade

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SYNOPSIS

Despite some concerns, the revamped CPTPP which became a reality recently is a force for good in international trade. The next steps are to expand membership and to establish a small secretariat.

COMMENTARY

AFTER PROLONGED negotiations, the 11-nation Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) became effective on 30 December 2018 when Australia, Canada, Japan, Mexico, New Zealand, and Singapore implemented the first round of tariff cuts. Vietnam implemented the cuts on 14 January 2019 and the other four members are expected to follow suit. The CPTTP members account for approximately 14% of the global economy.

The CPTPP's entry into force is a move in the right direction given today's unpredictable trade policy environment. The accord sustains and pushes forward the momentum of the trade liberalisation process when multilateralism under the World Trade Organisation (WTO) has stalled, sets regionally acceptable cutting-edge rules on many 21st century trade issues related to production networks and supply chains, and gives rise to a vibrant market of 500 million aspiring consumers across Asia, the Americas and the Pacific.

Misplaced Concerns on CPTPP

The CPTPP does so by requiring signatories to implement an unprecedented level of tariff cuts (i.e. eliminating over 95% of tariff lines for over 98% of total trade between members), services sector and investment regime opening up, alignment of technical standards, and broad policy coordination.

In addition, the CPTPP has a dedicated chapter on Small and Medium-sized Enterprises which seeks to assist these firms, that are chronically under-represented in international trade, make the most of the new business opportunities created by the CPTPP.

The CPTPP also seeks to promote high-standard disciplines on Labour, Environment, and Transparency and Anti-Corruption, to promote social justice and rule of law in its member countries.

But yet, the landmark pact's benefits are being questioned by some.

Some claim that the CPTPP without the United States (US) is meaningless. This argument is tempting because the US alone accounted for some 60% of the combined gross domestic product (GDP) of the original Trans-Pacific Partnership (TPP) which the CPTPP superseded following the withdrawal of the US under President Trump. But this argument is flawed.

Findings From RSIS Model

Our modelling exercise using an advanced computational general equilibrium model projects that the GDP gains per annum for Southeast Asian countries like Malaysia and Vietnam would be more than 1.5% in the medium term under the CPTPP. Clearly, tangible gains from the CPTPP are not as 'trivial' as some have asserted.

And politically, the US' exit from the treaty could even be a blessing for remaining members for two reasons. First, the once US-dominated TPP bloc is being transformed by 'Amerixit' into a more equitable and democratic platform where collective leadership prevails and where each member shows considerable sensitivity to other member's legitimate concerns.

Second, the American withdrawal alleviates some of the threats inherent in the pact's otherwise unsettling language on intellectual property rights and the investor-state dispute settlement (ISDS) mechanism. The CPTPP countries (except Japan) have adopted a 50-year copyright terms as against the exceedingly restrictive 70-year rule enshrined in the erstwhile TPP. This has struck a balance between protecting innovators and safeguarding the access of the poor to affordable medicine.

Similarly, the ISDS under the CPTPP is far less intrusive than under the TPP. It gives reassurances to governments about their legitimate right to regulate while preventing powerful multinationals (including those from America) from suing national governments predatorily for unwarranted financial compensations.

Another alleged deficiency of the CPTPP relates to its constraints on 'policy space'. While it is true that policymakers should be permitted to pursue policies to suit their individual country circumstances, a certain amount of policy coordination among a group of like-minded countries, as in the case of the CPTPP, could be a regional public good. It would encourage cross-border policy complementarity, minimise negative externalities, and cement a wider liberal, rules-based and pro-integration agenda.

Expansion of CPTPP Bloc

As the CPTPP gets up and running, attention is focusing on the growth of the bloc. The inaugural meeting of the CPTPP commission of ministers in Tokyo on 19 January 2019 is to discuss possible new members and the procedures to take them on board. The country most keen to sign on to the deal is Columbia, which is the only member of the Pacific Alliance outside the CPTPP and had sought permission to join the CPTPP back in June 2018.

In Asia, Korea and Thailand are outspoken about their affinity with the CPTPP, but both have not put up their hands officially. Seoul is concerned about its bilateral trade deficit with Tokyo whereas Bangkok has decided to pass on the decision to the next government to be formed later this year.

Indonesia and the Philippines are also reportedly lined up for eventual CPTPP membership. However, like Thailand, the two countries will hold a general election in 2019 and it remains to be seen if the new governments would translate the expressed interest into membership application.

A rather interesting but serious CPTPP candidate is the United Kingdom (UK), though formal accession is prohibited until London extricates itself from the European Union's Common Commercial Policy. Bringing in the world's fifth largest economy would give a massive boost to the bloc's economic and political clout. For the UK, more intimate economic exchanges with fast growing economies in the Pacific basin would lessen the disruptions of BREXIT.

CPTPP Secretariat Needed

Given the prospect of membership expansion, the creation of a standing CPTPP secretariat should be an important agenda item for the CPTPP grouping. A small standing secretariat would be helpful not only because the original negotiating teams for the CPTPP have been dissolved but also because there is demand from the potential new entrants for informational, technical and advisory support before and during their accession process.

Three possible locations for a CPTPP secretariat could be considered. The first is New Zealand. As the CPTPP "depository", New Zealand is the de facto coordinator when it comes to administrative and institutional issues. The second is Singapore which boasts many advantages like its more central geographical location and superb connectivity with CPTPP members. The third is Japan which is the anchor of the CPTPP.

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